

**TOWER CANCER RESEARCH FOUNDATION, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

June 19, 2017

To the Board of Directors
Tower Cancer Research Foundation, Inc. and Subsidiary
Beverly Hills, California

We have audited the accompanying consolidated financial statements of Tower Cancer Research Foundation, Inc. (a nonprofit organization) and Subsidiary which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONT.)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tower Cancer Research Foundation, Inc. and Subsidiary as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Tower Cancer Research Foundation's 2015 financial statements, and our report dated May 3, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

NSBN LLP

NSBN LLP
Los Angeles, California

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 664,907	\$ 675,990
Program fee receivables	112,279	41,340
Contributions receivable	175,000	275,000
Investments, at fair value	2,000,016	2,994,726
Deposits	61,874	223,359
TOTAL CURRENT ASSETS	3,014,076	4,210,415
Fixed assets, net	1,021,189	608,505
TOTAL ASSETS	\$ 4,035,265	\$ 4,818,920
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 109,117	\$ 43,063
Accrued expenses	28,905	19,677
Pledges payable - current portion	899,667	1,033,000
TOTAL CURRENT LIABILITIES	1,037,689	1,095,740
Non-Current Liabilities		
Pledges payable - long term portion	1,200,000	1,108,000
TOTAL LIABILITIES	2,237,689	2,203,740
NET ASSETS		
Unrestricted	688,928	1,257,713
Temporarily restricted	1,108,648	1,357,467
TOTAL NET ASSETS	1,797,576	2,615,180
TOTAL LIABILITIES AND NET ASSETS	\$ 4,035,265	\$ 4,818,920

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
REVENUE AND PUBLIC SUPPORT				
Public support				
Special events (net of expenses of \$756,470)	\$ 951,668	\$ 924,106	\$ 1,875,774	\$ 1,224,359
Contributions	413,662	217,459	631,121	2,382,229
Gain on sale of donated asset	363,636	-	363,636	-
Investment gain (loss)	77,878	-	77,878	(21,658)
Interest and dividend income	70,436	-	70,436	87,761
Research studies	46,537	-	46,537	113,682
Loss on sale of fixed assets	(23,613)	-	(23,613)	-
Net assets released from restrictions:				
Satisfaction of purpose	1,390,384	(1,390,384)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	<u>3,290,588</u>	<u>(248,819)</u>	<u>3,041,769</u>	<u>3,786,373</u>
EXPENSES				
Program services	2,758,354	-	2,758,354	3,604,058
General and administrative	519,691	-	519,691	394,214
Fundraising	581,328	-	581,328	390,436
TOTAL EXPENSES	<u>3,859,373</u>	<u>-</u>	<u>3,859,373</u>	<u>4,388,708</u>
Write Down of Contributions Receivable	-	-	-	(399,935)
CHANGE IN NET ASSETS	(568,785)	(248,819)	(817,604)	(1,002,270)
NET ASSETS AT BEGINNING OF YEAR	<u>1,257,713</u>	<u>1,357,467</u>	<u>2,615,180</u>	<u>3,617,450</u>
NET ASSETS AT END OF YEAR	<u>\$ 688,928</u>	<u>\$ 1,108,648</u>	<u>\$ 1,797,576</u>	<u>\$ 2,615,180</u>

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services		2016	2015
		General and Administrative	Fundraising		
Salaries	\$ 150,320	\$ 212,955	263,062	\$ 626,337	\$ 575,760
Payroll taxes	11,428	16,190	19,999	47,617	45,369
Employee benefits	21,338	30,229	37,342	88,909	80,465
Total salary related expenses	183,086	259,374	320,403	762,863	701,594
Grants	1,556,667	-	-	1,556,667	2,532,125
Occupancy	358,435	51,336	66,980	476,751	95,635
Outreach programs	422,079	583	2,331	424,993	588,451
Advertising and promotion	41,807	10,476	52,479	104,762	40,721
Professional fees	325	60,102	9,500	69,927	73,782
Insurance	61,159	2,695	2,695	66,549	65,576
Settlement expenses	-	42,521	15,000	57,521	-
Information technology	24,850	12,425	12,425	49,700	60,246
Office expenses	19,907	9,554	9,554	39,015	38,832
Banking and investment fees	-	20,295	14,172	34,467	49,028
Travel	8,392	4,196	15,552	28,140	26,100
Fundraising expenses	-	-	17,882	17,882	6,570
Printing and postage	5,936	1,187	4,749	11,872	19,240
Office equipment	4,236	2,117	2,117	8,470	8,277
Miscellaneous expense	498	7,341	-	7,839	12,245
Outside services	-	-	-	-	30,813
Educational seminars	-	-	-	-	10,396
Research expenses	-	-	-	-	10,075
Expenses before depreciation	2,687,377	484,202	545,839	3,717,418	4,369,706
Depreciation	70,977	35,489	35,489	141,955	19,002
Total expenses 2016	\$ 2,758,354	\$ 519,691	\$ 581,328	\$ 3,859,373	
Total expenses 2015	\$ 3,604,058	\$ 394,214	\$ 390,436		\$ 4,388,708

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (817,604)	\$ (1,002,270)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	141,955	19,002
Investment (gain) loss	(77,878)	21,658
Loss on sale of fixed assets	23,613	-
(Increase) decrease in assets:		
Program fees receivable	(70,939)	66,177
Contributions receivable	100,000	260,115
Deposits	161,485	(177,949)
Increase (decrease) in liabilities:		
Accounts payable	66,054	(40,104)
Accrued expenses	9,228	(12,109)
Pledges payable	(41,333)	1,341,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(505,419)	475,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,156,913	692,761
Purchase of investments	(84,325)	(135,487)
Purchase of property and equipment	(578,252)	(566,537)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	494,336	(9,263)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH	(11,083)	466,257
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	675,990	209,733
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 664,907	\$ 675,990
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash operating transaction:		
(Gain) on sale of donated asset	\$ (363,636)	\$ -

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1 ORGANIZATION

Tower Cancer Research Foundation, Inc. and Subsidiary (collectively, "the Foundation") is a nonprofit corporation organized under the laws of the State of California.

The Foundation provides grants for clinical trials, innovative research, caring patient support and community education, primarily in Southern California to promote more effective treatments for cancer and blood disorders.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting-

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary. The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation-

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These standards require that the Foundation report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted -

The unrestricted class is the portion of the net assets of the Foundation that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Foundation and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

Temporarily Restricted-

The temporarily restricted class is the portion of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. The majority of contributions with restrictions are stipulated to be used as funding for specific projects.

Permanently Restricted-

The permanently restricted class is the portion used to record resources received that are permanently restricted as to use by the donor or grantor. The Foundation has no permanently restricted net assets at December 31, 2016.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Program Fees Receivable-

Represents amounts owed to the Foundation for clinical trials. For the year ended December 31, 2016, all doubtful accounts were written off.

Advertising-

Advertising costs are charged to operations when incurred and are included in the consolidated functional expenses.

Cash and Cash Equivalents-

For the purposes of the consolidated financial statement, the Foundation considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Contributions-

In accordance with accounting principles generally accepted in the United States of America, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Donated Services and Assets-

The Foundation recognizes as support only those donated services which create or enhance non-financial assets or which require specialized skills which the Foundation would otherwise have paid for. Donated assets are recognized as contributions at their fair values at the date of donation. During the year ended December 31, 2016, a condominium was donated to the Foundation. The condominium was immediately sold and the proceeds were used for the Foundation's programs.

Property and Equipment-

Property and equipment are recorded at historical cost and are being depreciated using the straight-line method over the estimated useful life of the assets. The following lives have been assigned:

Computers and equipment	3 - 7 years
Furniture and fixtures	5 years
Leasehold improvements	10 years

Expenditures for maintenance, repairs, and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations for the period.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Summarized Comparative Financial Information-

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Tax Status-

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Section 23701(d) of the State Revenue and Taxation Code.

The Foundation files IRS Form 990 and State Forms 199 and RRF-1. Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management of the Foundation does not believe the consolidated financial statements include any uncertain tax positions. With few exceptions, the Foundation is no longer subject to U.S. federal and state examinations by tax authorities for the years before 2013 and 2012, respectively.

Use of Estimates-

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses-

The costs of providing programs and supporting services have been summarized on a functional basis in the consolidated statement of activities, and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated between programs and supporting services in reasonable ratios determined by management.

Subsequent Events-

Management has evaluated subsequent events through June 19, 2017, the date the consolidated financial statements were available to be issued.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3 GRANTS AND PLEDGES RECEIVABLE

Promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are deemed to be fully collectible. Accordingly, no allowance was established.

Receivable due in less than one year	\$	100,000
Receivable in one year to five years		75,000
Total grants and pledges receivable	\$	175,000

The Foundation has not recorded a discount on contributions to be received beyond one year. The discount was not material to the consolidated financial statements.

Note 4 FIXED ASSETS

Fixed assets consists of the following:

Leasehold Improvements	\$	813,737
Furniture and fixtures		247,501
Computer equipment		101,907
		1,163,145
Less: Accumulated depreciation		(141,956)
Total fixed assets, net	\$	1,021,189

Note 5 INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments as of December 31, 2016 are as follows:

Common stock	\$	1,040,072
Corporate bonds		645,606
Exchange-traded funds (ETFs)		206,128
Municipal bonds		108,174
Mutual funds		36
Total investments	\$	2,000,016

Generally accepted accounting principles establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction, prioritizes the use of market based information over entity specific information and establishes a three level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 5 INVESTMENTS AND FAIR VALUE MEASUREMENT (CONT.)

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets. Fair values determined by level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 1,040,072	\$ 1,040,072	\$ -	\$ -
Corporate bonds	645,606	645,606		
ETFs	206,128	206,128		
Municipal bonds	108,174	108,174		
Mutual funds	36	36	-	-
	<u>\$ 2,000,016</u>	<u>\$ 2,000,016</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. There were no transfers among the investment designated levels during the year.

Note 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Breast cancer awareness	\$ 789,230
Lippin fund	175,000
Exercise Program	74,625
Gaucher disease	33,133
Diane Suddleson fund	17,887
Meryl Kern Survivorship	17,574
Lymphoma research	1,200
Total	<u>\$ 1,108,649</u>

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 7 NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors.

Purpose Restrictions Accomplished:

Breast cancer awareness		456,844
Mesothelioma cancer	\$	309,276
Lippin fund		100,000
General Research		57,576
Magnolia House		<u>26,639</u>
Total	\$	<u><u>950,335</u></u>

Note 8 COMMITMENTS AND CONTINGENCIES

The Foundation rents their office space under a 10-year lease agreement effective October 1, 2015. Rent expense paid under the agreement for the year ended December 31, 2016 was \$312,881. The lease expires on September 30, 2025.

The future minimum annual rental payments are as follows for years ending December 31:

2017	\$	355,675
2018		366,346
2019		377,336
2020		388,656
Thereafter		<u>2,010,175</u>
	\$	<u><u>3,498,188</u></u>

The Foundation has entered into various pledge agreements to provide funds for cancer research. Payments are due as follows for years ended December 31:

2017	\$	899,667
2018		566,667
2019		433,333
2020		<u>200,000</u>
	\$	<u><u>2,099,667</u></u>

Note 9 CASH IN BANK - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash and cash equivalents at a bank which may, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes that the solvency of the relevant financial institution is not of particular concern.