

**TOWER CANCER RESEARCH FOUNDATION, INC.
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

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, 2017, 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.

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

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, 2017, 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

The 2016 financial statements were audited by NSBN LLP, whose practice became part of CliftonLarsonAllen LLP as of January 1, 2018, and whose report dated June 19, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



CliftonLarsonAllen LLP
Los Angeles, California
April 30, 2018

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 411,788	\$ 664,907
Contributions receivable	213,434	287,279
Investments, at fair value	1,560,111	2,000,016
Deposits	74,453	61,874
TOTAL CURRENT ASSETS	2,259,786	3,014,076
Fixed assets, net	905,848	1,021,189
TOTAL ASSETS	\$ 3,165,634	\$ 4,035,265
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 57,402	\$ 109,117
Accrued expenses	28,053	28,905
Pledges payable - current portion	700,000	899,667
Deferred revenue	5,112	-
TOTAL CURRENT LIABILITIES	790,567	1,037,689
Non-Current Liabilities		
Pledges payable - long term portion	1,000,000	1,200,000
TOTAL LIABILITIES	1,790,567	2,237,689
NET ASSETS		
Unrestricted	291,395	688,928
Temporarily restricted	1,083,672	1,108,648
TOTAL NET ASSETS	1,375,067	1,797,576
TOTAL LIABILITIES AND NET ASSETS	\$ 3,165,634	\$ 4,035,265

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, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
REVENUE AND PUBLIC SUPPORT				
Public support				
Special events (net of expenses of \$637,010)	\$ 1,159,180	\$ 163,990	\$ 1,323,170	\$ 1,875,774
Contributions	659,612	369,617	1,029,229	631,121
Investment gain (loss)	159,250	-	159,250	77,878
Interest and dividend income	56,397	-	56,397	70,436
Research studies	3,640	-	3,640	46,537
Gain on sale of donated asset	-	-	-	363,636
Loss on sale of fixed assets	-	-	-	(23,613)
Net assets released from restrictions:				
Satisfaction of purpose	<u>558,583</u>	<u>(558,583)</u>	<u>-</u>	<u>-</u>
 TOTAL REVENUE AND PUBLIC SUPPORT	 <u>2,596,662</u>	 <u>(24,976)</u>	 <u>2,571,686</u>	 <u>3,041,769</u>
EXPENSES				
Program services	2,070,044	-	2,070,044	2,758,354
General and administrative	410,082	-	410,082	519,691
Fundraising	<u>514,069</u>	<u>-</u>	<u>514,069</u>	<u>581,328</u>
 TOTAL EXPENSES	 <u>2,994,195</u>	 <u>-</u>	 <u>2,994,195</u>	 <u>3,859,373</u>
 CHANGE IN NET ASSETS	 (397,533)	 (24,976)	 (422,509)	 (817,604)
 NET ASSETS AT BEGINNING OF YEAR	 <u>688,928</u>	 <u>1,108,648</u>	 <u>1,797,576</u>	 <u>2,615,180</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 291,395</u>	 <u>\$ 1,083,672</u>	 <u>\$ 1,375,067</u>	 <u>\$ 1,797,576</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, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services		2017	2016
		General and Administrative	Fundraising		
Salaries	\$ 195,023	\$ 171,848	284,040	\$ 650,911	\$ 626,337
Payroll taxes	14,925	13,152	21,738	49,815	47,617
Employee benefits	28,630	25,228	41,698	95,556	88,909
Total salary related expenses	<u>238,578</u>	<u>210,228</u>	<u>347,476</u>	<u>796,282</u>	<u>762,863</u>
Grants	1,045,443	-	-	1,045,443	1,835,000
Occupancy	348,063	69,613	46,409	464,085	476,751
Outreach programs	168,153	257	1,030	169,440	146,660
Advertising and promotion	67,651	6,258	15,969	89,878	104,762
Insurance	55,992	2,692	2,692	61,376	66,549
Information technology	24,737	12,369	12,369	49,475	49,700
Professional fees	1,076	30,729	-	31,805	69,927
Banking and investment fees	-	15,489	14,957	30,446	34,467
Meetings	7,226	3,614	18,886	29,726	28,140
Office expenses	12,968	7,385	6,485	26,838	39,015
Fundraising expenses	-	-	10,477	10,477	17,882
Office equipment	4,435	2,218	2,218	8,871	8,470
Miscellaneous expense	-	7,078	-	7,078	7,839
Printing and postage	2,154	431	1,724	4,309	11,872
Outside services	1,783	-	-	1,783	-
Settlement expenses	-	-	-	-	57,521
Expenses before depreciation	<u>1,978,259</u>	<u>368,361</u>	<u>480,692</u>	<u>2,827,312</u>	<u>3,717,418</u>
Depreciation	<u>91,785</u>	<u>41,721</u>	<u>33,377</u>	<u>166,883</u>	<u>141,955</u>
Total expenses 2017	<u>\$ 2,070,044</u>	<u>\$ 410,082</u>	<u>\$ 514,069</u>	<u>\$ 2,994,195</u>	
Total expenses 2016	<u>\$ 2,758,354</u>	<u>\$ 519,691</u>	<u>\$ 581,328</u>		<u>\$ 3,859,373</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 CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (422,509)	\$ (817,604)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	166,883	141,955
Investment (gain) loss	(159,250)	(77,878)
Loss on sale of fixed assets	-	23,613
(Increase) decrease in assets:		
Contributions receivable	73,845	29,061
Deposits	(12,579)	161,485
Increase (decrease) in liabilities:		
Accounts payable	(51,715)	66,054
Accrued expenses	(852)	9,228
Pledges payable	(399,667)	(41,333)
Deferred revenue	5,112	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(800,732)</u>	<u>(505,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	834,518	1,156,913
Purchase of investments	(235,363)	(84,325)
Purchase of property and equipment	(51,542)	(578,252)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>547,613</u>	<u>494,336</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET DECREASE IN CASH	(253,119)	(11,083)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>664,907</u>	<u>675,990</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 411,788</u>	<u>\$ 664,907</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash operating transaction:		
(Gain) on sale of donated asse	\$ -	\$ (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, 2017

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, 2017.

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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, 2017, 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, 2017

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, 2016, 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 2014 and 2013, 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.

Reclassification-

Certain 2016 financial information has been reclassified to conform to the 2017 presentation. The reclassifications have no impact on the previously reported changes in net assets.

Subsequent Events-

Management has evaluated subsequent events through April 30, 2018, 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, 2017

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	\$	<u>213,434</u>
Total grants and pledges receivable	\$	<u><u>213,434</u></u>

Note 4 FIXED ASSETS

Fixed assets consists of the following:

Leasehold Improvements	\$	865,279
Furniture and fixtures		247,501
Computer equipment		<u>101,907</u>
		1,214,687
Less: Accumulated depreciation		<u>(308,839)</u>
Total fixed assets, net	\$	<u><u>905,848</u></u>

Note 5 INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments as of December 31, 2017 are as follows:

Common stock	\$	885,113
Corporate bonds		474,834
Municipal bonds		110,949
Exchange-traded funds (ETFs)		<u>89,215</u>
Total investments	\$	<u><u>1,560,111</u></u>

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, 2017

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	\$ 885,113	\$ 885,113	\$ -	\$ -
Corporate bonds	474,834	474,834	-	-
Municipal bonds	110,949	110,949	-	-
ETFs	89,215	89,215	-	-
	<u>\$ 1,560,111</u>	<u>\$ 1,560,111</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 research	\$ 806,209
Exercise program	82,406
Lippin fund	75,000
Meryl Kern survivorship	69,037
Gaucher disease	33,133
Diane Suddleson fund	<u>17,887</u>
Total	<u>\$ 1,083,672</u>

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 research	\$	306,137
Lippin fund		100,000
Exercise program		67,219
Meryl Kern survivorship		50,037
Magnolia House		33,990
Lymphoma research		<u>1,200</u>
Total	\$	<u><u>558,583</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, 2017 was \$375,433. The lease expires on September 30, 2025.

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

2018	\$	367,413
2019		378,435
2020		389,788
2021		401,482
2022		413,526
Thereafter		<u>1,316,512</u>
	\$	<u><u>3,267,156</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:

2018	\$	633,333
2019		533,333
2020		333,333
2021		133,333
2022		33,334
Thereafter		<u>33,334</u>
	\$	<u><u>1,700,000</u></u>

TOWER CANCER RESEARCH FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.