

T.J. Martell Foundation

Music's Promise for Curing Cancer



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT***

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
The T.J. Martell Foundation for
Cancer Research
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of The T.J. Martell Foundation for Cancer Research, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of The T.J. Martell Foundation for Cancer Research as of December 31, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

November 7, 2018

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,866,722	\$ 2,730,194
Investments	2,127,658	2,022,706
Accounts receivable, net	450,571	246,357
Pledges receivable, net	11,195	16,195
Other current assets	178,776	163,607
Property and equipment, net	<u>20,407</u>	<u>19,209</u>
Total assets	<u>\$ 6,655,329</u>	<u>\$ 5,198,268</u>

LIABILITIES AND NET ASSETS

Grant allocations payable	\$ 3,177,472	\$ 2,128,128
Accounts payable and accrued expenses	238,680	139,051
Deferred income	<u>204,046</u>	<u>94,572</u>
Total liabilities	<u>3,620,198</u>	<u>2,361,751</u>
Net assets:		
Unrestricted	2,709,322	2,552,080
Temporarily restricted	<u>325,809</u>	<u>284,437</u>
Total net assets	<u>3,035,131</u>	<u>2,836,517</u>
Total liabilities and net assets	<u>\$ 6,655,329</u>	<u>\$ 5,198,268</u>

The accompanying notes are an integral part
of these financial statements.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH
STATEMENTS OF ACTIVITIES

	Year ended December 31, 2017		Year ended December 31, 2016	
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted
Support and revenue:				
Grants and contributions	\$ 217,856	\$ 2,850	\$ 134,572	\$ 37,039
Donated services	860,035		841,955	
Special events:				
Contribution from special events	3,920,452	322,959	3,945,387	247,398
Revenue from special events	678,446		543,072	
Special events, direct expenses	(2,057,336)		(1,824,231)	
Special events, net	2,541,562	322,959	2,664,228	247,398
Investment income	106,131		75,329	
Total support and revenue	3,725,584	325,809	3,716,084	284,437
Net assets released from restriction	284,437	(284,437)	243,638	(243,638)
Expenses:				
Program services	4,010,021	41,372	3,959,722	40,799
Supporting services:				
Management and general	174,505		150,776	
Fundraising	1,267,971		1,127,594	
Total supporting services	1,442,476		1,278,370	
Total expenses	3,852,779		3,736,955	
Change in net assets	157,242	41,372	222,767	40,799
Net assets, beginning of year	2,552,080	284,437	2,329,313	243,638
Net assets, end of year	\$ 2,709,322	\$ 325,809	\$ 2,552,080	\$ 284,437

The accompanying notes are an integral part of these financial statements.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 198,614	\$ 263,566
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,375	3,979
Loss on disposal of property and equipment	1,594	
Realized and unrealized gain on investments	(46,434)	(10,984)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(204,214)	99,581
Pledges receivable, net	5,000	17,000
Other current assets	(15,169)	(10,706)
Increase (decrease) in:		
Grant allocations payable	1,049,344	17,846
Accounts payable and accrued expenses	99,629	57,315
Deferred income	109,474	11,912
Net cash provided by operating activities	<u>1,203,213</u>	<u>449,509</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,167)	(9,774)
Purchase of investments	(58,518)	(62,751)
Net cash used by investing activities	<u>(66,685)</u>	<u>(72,525)</u>
Net increase in cash and cash equivalents	1,136,528	376,984
Cash and cash equivalents, beginning of year	<u>2,730,194</u>	<u>2,353,210</u>
Cash and cash equivalents, end of year	<u>\$ 3,866,722</u>	<u>\$ 2,730,194</u>

The accompanying notes are an integral part of these financial statements.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2017 and 2016

	Program service expenses		Supporting service expenses				Total program and supporting service expenses	
	2017	2016	Management and general		Fundraising		2017	2016
			2017	2016	2017	2016		
Salaries	\$ 307,335	\$ 344,963	\$ 88,945	\$ 71,657	\$ 419,679	\$ 321,791	\$ 815,959	\$ 738,411
Payroll taxes and benefits	85,153	97,269	16,306	18,626	79,718	91,061	181,177	206,956
Total personnel costs	392,488	442,232	105,251	90,283	499,397	412,852	997,136	945,367
Grants	1,225,594	1,272,846					1,225,594	1,272,846
Professional fees	128,327	100,725	24,466	17,641	119,610	86,245	272,403	204,611
Office rent, telephone and supplies	112,205	121,576	21,486	23,280	105,043	113,816	238,734	258,672
Printing and postage	31,073	26,563	5,950	5,087	29,089	24,868	66,112	56,518
Public relations, education, and advertising	436,041	428,175	1,157	1,757	435,656	427,590	872,854	857,522
Bank and credit card processing fees	6,632	9,137	1,270	1,750	6,208	8,554	14,110	19,441
Insurance	11,852	12,433	2,269	2,381	11,095	11,639	25,216	26,453
Bad debt	7,050	24,276	1,350	4,649	6,600	22,726	15,000	51,661
Meetings and travel	51,335	15,971	9,830	3,058	48,059	14,951	109,224	33,980
Depreciation	2,526	1,870	484	358	2,365	1,751	5,375	3,979
Miscellaneous expenses	5,180	2,781	992	532	4,849	2,602	11,021	5,915
Total expenses	\$ 2,410,303	\$ 2,458,585	\$ 174,505	\$ 150,776	\$ 1,267,971	\$ 1,127,594	\$ 3,852,779	\$ 3,736,955

The accompanying notes are an integral part of these financial statements.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. Summary of significant accounting policies

This summary of significant accounting policies of The T.J. Martell Foundation for Cancer Research (the Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification), and have been consistently applied in the preparation of the financial statements.

Name change

In September 2017, the Foundation changed its name from The T.J. Martell Foundation for Leukemia, Cancer and Aids Research to The T.J. Martell Foundation for Cancer Research.

Objectives of the Foundation

The Foundation is dedicated to raising funds for the innovative; initial and ongoing research of the treatments and cures for cancer. The Foundation's board of directors authorizes grants to various institutions for the purpose of cancer research. All fundraising and management and general expenses are in support of the Foundation's sole mission to provide grants.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of any income earned on any related investments for general or specific purposes. There were no permanently restricted net assets as of December 31, 2017 or 2016.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. Summary of significant accounting policies (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investments that are donated are measured at the fair market value at the date of acquisition. Unrealized gains and losses are reported in the changes in net assets on the statement of activities based on the existence or absence of donor-imposed restrictions.

Allowance for doubtful accounts

Accounts receivable is stated at unpaid balances, less an allowance for doubtful accounts of \$14,165 at years ended December 31, 2017 and 2016. The Foundation provides for losses on accounts receivable using the allowance method. The allowance is based on management's knowledge of which individual receivables are likely to not be collected. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property and equipment

Property and equipment are stated at cost, or for donated items, at the fair market value of the asset on the date of the gift. Depreciation is provided principally on the straight-line method at rates based on the following estimated useful lives.

Computer equipment	5 years
Furniture and fixtures	7 years
Website costs	3 years
Leasehold improvements	3 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income except for assets traded where no cash is received. Expenditures for maintenance and repairs are charged to income as incurred; replacements and betterments in excess of \$500 that extend the useful lives, are capitalized.

Grant allocations payable

Grants are recognized at the date of a formal, unconditional promise to give commitment. Grants that are expected to be paid in future years are recorded at present value of expected future payments. At December 31, 2017 and 2016, grants were discounted using treasury rate at the time of the multi-year commitment, which was 2.18 percent.

Deferred income

Payments received for special events to be held after December 31, 2017 and 2016, are recorded as deferred income and recognized as revenue when the events occur and the funds are earned.

Contributions

Contributions, including unconditional pledges, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. Summary of significant accounting policies (continued)

Donated services

The Foundation receives donated services from specialized providers and other volunteers that create or enhance non-financial assets and allow the Foundation to fulfill its mission. Donated specialized services have been recognized on the accompanying financial statements. These donated services require professional skills, and would typically need to be purchased if not provided by donation (See Note 11).

Non-cash donations, other than professional services, are recorded as support at their estimated fair value at the date of donation.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services based on management's best estimates.

Income taxes

The Foundation is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes.

Uncertain tax positions

As of December 31, 2017, management believes that based on evaluation of the Foundation's tax positions that any liability as a result of uncertain tax positions would not be material. Management evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the Foundation's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax provision. Income tax returns are filed in the U.S. federal jurisdiction and state jurisdictions. U.S. federal and state income tax returns prior to fiscal year 2014 are closed.

Reclassifications

Certain amounts from the 2016 financial statements have been reclassified to conform to the 2017 presentation.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

2. Risks and uncertainties

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts and pledges receivable. The Foundation maintains its cash in demand deposit accounts, the balances of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. Investments are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position. Concentration of credit risk with respect to accounts and pledges receivable is reduced due to the fact that the receivables are from prominent individuals and/or corporations.

3. Cash and cash equivalents

Cash and cash equivalents consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Operating account	\$ 3,866,722	\$ 2,423,853
Money market		306,341
	<u>\$ 3,866,722</u>	<u>\$ 2,730,194</u>

4. Fair value measurements

The Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly, including inputs that are not considered to be active;

Level 3 - Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad criteria data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation. The Foundation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

4. Fair value measurements (continued)

The classification of the investment securities at fair value as follows at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds	<u>\$2,127,658</u>	<u>\$</u>	<u>\$</u>	<u>\$2,127,658</u>

The classification of the investment securities at fair value as follows at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds	<u>\$2,022,706</u>	<u>\$</u>	<u>\$</u>	<u>\$2,022,706</u>

The following schedule summarizes the investment return for the years ended December 31, 2017 and 2016. All investment earnings are available for the unrestricted use of the Foundation.

	<u>2017</u>	<u>2016</u>
Interest income from cash accounts	\$ 1,179	\$ 1,594
Dividend and interest income from investments	58,518	62,751
Realized and unrealized gain on investments	<u>46,434</u>	<u>10,984</u>
	<u>\$ 106,131</u>	<u>\$ 75,329</u>

5. Property and equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Computer equipment	\$ 22,286	\$ 20,017
Furniture and fixtures	8,252	8,252
Leasehold improvements	4,960	4,960
Website costs	<u>70,750</u>	<u>70,750</u>
	106,248	103,979
Less accumulated depreciation	<u>85,841</u>	<u>84,770</u>
	<u>\$ 20,407</u>	<u>\$ 19,209</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$5,375 and \$3,979, respectively.

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

6. Retirement plan

The Foundation's board of directors authorizes annual contributions to a Simplified Employee Pension Individual Retirement Account (SEP IRA). The Foundation contributes an amount calculated as a percentage of an employee's annual salary. SEP IRA expense for the years ended December 31, 2017 and 2016 totaled \$23,867 and \$23,229, respectively.

7. Commitments and contingencies

The Foundation leases various office spaces under operating leases that have various expiration dates through 2019. The following is a schedule by year of future minimum rental payments required under the operating leases which have a remaining non-cancelable lease term in excess of one year at December 31, 2017:

2018	\$ 68,476
2019	<u>58,480</u>
	<u>\$ 126,956</u>

Rent expense for the years ended December 31, 2017 and 2016 was \$154,199 and \$132,120, respectively.

8. Program grants

The following grants were authorized and payable by the Foundation in support of cancer research as of and for the years ended December 31:

	2017		2016	
	Grant authorized	Payable	Grant authorized	Payable
Grantee:				
Mount Sinai School of Medicine	\$ 100,000	\$ 150,000	\$ 150,000	\$ 175,000
Vanderbilt University Medical Center	500,000	900,000	400,000	450,000
Children's Hospital Los Angeles	250,000	450,000	200,000	225,000
Memorial Sloan-Kettering	125,000	246,000	121,000	141,000
Columbia University	250,000	500,000	250,000	275,000
Emory		700,000		750,000
University of California, San Francisco	50,000	50,000		
MD Anderson	86,582	172,582	86,000	112,250
Young Researchers		50,000	50,000	50,000
Harvard School of Public Health				5,000
	<u>1,361,582</u>	<u>3,218,582</u>	<u>1,257,000</u>	<u>2,183,250</u>
Less discount		<u>41,110</u>		<u>55,122</u>
	<u>\$ 1,361,582</u>	<u>\$ 3,177,472</u>	<u>\$ 1,257,000</u>	<u>\$ 2,128,128</u>

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

8. Program grants (continued)

The following summarizes grant activity for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Grants payable, beginning of year	\$ 2,128,128	\$ 2,110,282
Grants awarded	1,361,582	1,257,000
Payments made	(176,250)	(1,255,000)
Other adjustments	(150,000)	
Discount amortization	<u>14,012</u>	<u>15,846</u>
Grants payable, end of the year	<u>\$ 3,177,472</u>	<u>\$ 2,128,128</u>

Future minimum payments under these grants, net of discount, are as follows for years ending December 31:

2018	\$ 2,718,582
2019	95,779
2020	93,735
2021	91,735
2022	89,778
Thereafter	<u>87,863</u>
	<u>\$ 3,177,472</u>

9. Temporarily restricted net assets

Temporarily restricted net assets are available as follows at December 31:

	<u>2017</u>	<u>2016</u>
Sarcoma Research	\$ 6,627	\$ 118,038
Breast Cancer Research	28,423	23,237
Young Ambassadors	67,881	
MD Anderson Cancer Center	85,061	83,532
Ovarian Cancer Research	<u>137,817</u>	<u>59,630</u>
	<u>\$ 325,809</u>	<u>\$ 284,437</u>

THE T.J. MARTELL FOUNDATION FOR CANCER RESEARCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

9. Temporarily restricted net assets (continued)

Net assets were released from restrictions as follows during the year ended December 31:

	<u>2017</u>	<u>2016</u>
Sarcoma Research	\$ 118,038	\$ 149,606
Breast Cancer Research	23,237	39,738
Bladder Cancer Research		200
Emory University Research		25,434
Colon Cancer Research		23,660
Pediatric Cancer Research		5,000
Ovarian Cancer Research	59,630	
MD Anderson Cancer Center	<u>83,532</u>	
	<u>\$ 284,437</u>	<u>\$ 243,638</u>

10. Related party transactions

The Foundation received professional services from several companies that are owned by members of the Foundation's Board of Directors. During the fiscal years ended December 31, 2017 and 2016, the Foundation paid \$26,331 and \$28,640, respectively, for these professional services.

11. Non-cash contributions

Specialized donated services amounted to \$860,035 and \$841,955 in 2017 and 2016, respectively.

During the years ended December 31, 2017 and 2016, the Foundation received a substantial amount of air time to broadcast public service announcements with a value of \$860,000 and \$838,000, respectively. The announcements were provided by various companies through a board member of the Foundation, which is an employee at one of these companies. The fair value of the announcements is included as part of donated services and public relations, education, and advertising. Other miscellaneous donated services received by the Foundation amounted to \$35 and \$3,955 in 2017 and 2016, respectively.

12. Allocation of joint costs

The Organization has allocated the joint costs of the air time received to broadcast public service announcements. This activity with a value of \$860,000 and \$838,000 at December 31, 2017 and 2016, respectively, includes both programmatic and fundraising components.

For the year ended December 31, 2017, the allocation of this joint cost was allocated \$430,000 to program expenses and \$430,000 to fundraising expenses. For the year ended December 31, 2016, the allocation of this joint cost was allocated \$419,000 to program expenses and \$419,000 to fundraising expenses.

13. Subsequent events

Subsequent events have been evaluated through November 7, 2018, which is the date the financial statements were available to be issued.