

**The Children's Oncology Group
Foundation, Inc.**

Financial Statements

December 31, 2017 and 2016



BAKER TILLY

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The Children's Oncology Group Foundation, Inc.

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December 31, 2017 and 2016

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Independent Auditors' Report

Board of Directors
The Children's Oncology Group Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Oncology Group Foundation, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, and cash flows 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 audit 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 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 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 position of the Children's Oncology Group Foundation, Inc. as of December 31, 2017 and 2016, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
July 13, 2018

The Children's Oncology Group Foundation, Inc.

Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Assets		
Cash	\$ 10,303,957	\$ 9,545,756
Grants and contributions receivable	6,070,000	7,026,027
Investments	803,402	253,092
Prepaid expenses	482,546	449,340
Deposits	-	2,250
Fixed assets, net	345	1,036
	<u> </u>	<u> </u>
Total assets	<u>\$ 17,660,250</u>	<u>\$ 17,277,501</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 73,651	\$ 62,237
Deferred revenue	162,498	155,594
	<u> </u>	<u> </u>
Total liabilities	<u>236,149</u>	<u>217,831</u>
Net Assets		
Unrestricted	1,992,129	1,937,430
Temporarily restricted	15,431,972	15,122,240
	<u> </u>	<u> </u>
Total net assets	<u>17,424,101</u>	<u>17,059,670</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 17,660,250</u>	<u>\$ 17,277,501</u>

See notes to financial statements

The Children's Oncology Group Foundation, Inc.

Statements of Activities

Year Ended December 31, 2017 with Comparative Total for Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues, Gains and Other Support				
Grants	\$ 120,000	\$ 8,153,741	\$ 8,273,741	\$ 6,784,477
Contributions	151,993	749,505	901,498	1,883,713
Conference income	75,450	-	75,450	179,125
Program service revenue	-	2,896	2,896	557,777
In-kind contributions	29,036	-	29,036	37,114
Bank interest	1,554	-	1,554	1,369
Investment income	51,412	-	51,412	3,092
Other income	336	-	336	-
Net assets released from restriction	8,596,410	(8,596,410)	-	-
	<u>9,026,191</u>	<u>309,732</u>	<u>9,335,923</u>	<u>9,446,667</u>
Total revenues, gains and other support				
Expenses				
Program services	8,889,468	-	8,889,468	8,265,078
Supporting services:				
Management and general	57,079	-	57,079	53,539
Fundraising	24,945	-	24,945	26,139
	<u>82,024</u>	<u>-</u>	<u>82,024</u>	<u>79,678</u>
Total supporting services expenses				
Total expenses	<u>8,971,492</u>	<u>-</u>	<u>8,971,492</u>	<u>8,344,756</u>
Changes in Net Assets	<u>54,699</u>	<u>309,732</u>	<u>364,431</u>	<u>1,101,911</u>
Net Assets, Beginning of Year	<u>1,937,430</u>	<u>15,122,240</u>	<u>17,059,670</u>	<u>15,957,759</u>
Net Assets, End of Year	<u>\$ 1,992,129</u>	<u>\$ 15,431,972</u>	<u>\$ 17,424,101</u>	<u>\$ 17,059,670</u>

See notes to financial statements

The Children's Oncology Group Foundation, Inc.

Statements of Activities

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>
Revenues, Gains and Other Support			
Grants	\$ -	\$ 6,784,477	\$ 6,784,477
Contributions	739,998	1,143,715	1,883,713
Conference income	179,125	-	179,125
Program service revenue	557,777	-	557,777
In-kind contributions	37,114	-	37,114
Bank interest	1,369	-	1,369
Investment income	3,092	-	3,092
Net assets released from restriction	8,089,453	(8,089,453)	-
	<u>9,607,928</u>	<u>(161,261)</u>	<u>9,446,667</u>
Expenses			
Program services	8,265,078	-	8,265,078
Supporting services:			
Management and general	53,539	-	53,539
Fundraising	26,139	-	26,139
	<u>79,678</u>	<u>-</u>	<u>79,678</u>
	<u>8,344,756</u>	<u>-</u>	<u>8,344,756</u>
Changes in Net Assets	<u>1,263,172</u>	<u>(161,261)</u>	<u>1,101,911</u>
Net Assets, Beginning of Year	<u>674,258</u>	<u>15,283,501</u>	<u>15,957,759</u>
Net Assets, End of Year	<u>\$ 1,937,430</u>	<u>\$ 15,122,240</u>	<u>\$ 17,059,670</u>

See notes to financial statements

The Children's Oncology Group Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 364,431	\$ 1,101,911
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	691	691
Realized and unrealized (gain) loss	(37,339)	15
Changes in assets and liabilities:		
Grants and contributions receivable	956,027	2,691,771
Prepaid expenses and other current assets	(33,206)	397,530
Deposits	2,250	-
Accounts payable and accrued expenses	11,414	(29,417)
Deferred revenue	6,904	(36,976)
	<u>1,271,172</u>	<u>4,125,525</u>
Net cash provided by operating activities		
	1,271,172	4,125,525
Cash Flows from Investing Activities		
Purchase of investments	(512,971)	(253,107)
	<u>(512,971)</u>	<u>(253,107)</u>
Net cash used in investing activities		
	(512,971)	(253,107)
Net increase in cash	758,201	3,872,418
Cash, Beginning	<u>9,545,756</u>	<u>5,673,338</u>
Cash, Ending	<u>\$ 10,303,957</u>	<u>\$ 9,545,756</u>

See notes to financial statements

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

1. Nature of Operations

The Children's Oncology Group Foundation, Inc. (the "Foundation") is a not-for-profit organization incorporated in the Commonwealth of Pennsylvania in August 2011. The Foundation was formed to support the Children's Oncology Group ("COG"), an unincorporated entity, which is the world's largest organization devoted exclusively to childhood and adolescent cancer research. The Foundation enables COG's leadership, comprised of a team of doctors, nurses, laboratory scientists and other allied professionals, to direct the resources raised for childhood cancer research to the areas of highest need and opportunity. The board of the Foundation is comprised of members of the executive committee of COG. The Foundation allows philanthropic funds from individual supporters and organizations to go directly to COG and other organizations to fund their much needed research. In an era of rapid scientific discovery, this direct link allows COG researchers to respond quickly to new discoveries with great potential to benefit children with cancer. The Foundation's 2017 and 2016 grant expense consists of sub-grants made primarily to one organization that disperses the funds on behalf of the Foundation to COG member sites.

These activities are primarily supported by grants and contributions from foundations, corporations and individuals.

2. Summary of Significant Accounting Policies

Basis of Financial Reporting

The Foundation follows the authoritative guidance for external financial reporting by not-for-profit organizations and requires that unconditional promises to give (contributions) be recorded as a receivable and revenue and requires the Foundation to distinguish between contributions received for each net asset classification in accordance with donor imposed restrictions. The authoritative guidance also establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset classifications according to externally (donor) imposed restrictions.

A description of the net asset classifications follows:

Unrestricted Net Assets include assets that are available for the support of operations and whose use is not externally restricted.

Temporarily Restricted Net Assets include gifts and accumulated earnings for which donor imposed restrictions, primarily passage of time or occurrence of a specific event, have not been met.

Permanently Restricted Net Assets include gifts, trusts, and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

The Foundation has only unrestricted and temporarily restricted net assets as of December 31, 2017 and 2016. Temporarily restricted funds received for which the restrictions are satisfied in the same year are reported as unrestricted funds.

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

Revenue Recognition

Grants or contributions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Grants and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted, which increase those net asset classifications. When a donor restriction expires, that is, a time restriction ends or a stipulated purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Grants and contributions, including unconditional promises to give, that are expected to be received within one year are recorded at net realizable value. Grants and contributions that are expected to be collected in future years are recorded at the present value of their expected future cash flows, which approximates fair value. All grants and contributions receivable as of December 31, 2017 and 2016 are expected to be collected within one year, therefore no discount rate in determination of the present value of this balance is necessary.

Conference revenues that have been collected, but for which the conference has not been held as of the year end, and program service revenue collected related to an exchange agreement for which the related services have not yet been performed, are considered not yet earned and included in deferred revenue in the statement of financial position.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes interest-bearing deposits with original maturities of three months or less, including money market funds.

Investments

The Foundation's investments are reported at fair value in the accompanying statements of financial position. Realized gains and losses are computed on the average cost method.

Financial Instruments and Risk Concentration

The Foundation's principal financial instruments subject to credit risk are its cash and investments. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

Fixed Assets

Fixed assets are stated at cost and are depreciated over their estimated useful lives (three to five years) using the straight-line method. Maintenance and repairs are recorded as expenses when incurred.

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the 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 the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

In-Kind Contributions

In-kind contributions include donated goods and services that are recognized as revenues and expenses based on the estimated fair value of the goods or services as of the date provided. The Foundation received \$29,036 and \$37,114 in in-kind professional services in the years ended December 31, 2017 and 2016, respectively.

Income Tax

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Foundation is exempt from income tax.

The Foundation accounts for uncertainty in income taxes recognized in the financial statements using a recognition threshold of more likely than not as to whether the uncertainty will be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after filed.

New Accounting Standards - Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a single comprehensive revenue recognition framework and supersedes existing revenue recognition guidance. Included in the new principles-based revenue recognition model are changes to the basis for deciding on the timing for revenue recognition. In addition, the standard expands and improves revenue disclosures. In August 2015, the FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* which defers the effective date of ASU 2014-09. After the deferral, ASU 2014-09 is effective retroactively for annual or interim reporting periods beginning after December 15, 2018, with early adoption permitted for reporting periods beginning after December 15, 2016. This update is effective for the Foundation's fiscal year beginning January 1, 2019. The Foundation is assessing the impact this standard will have on its financial statements.

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
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In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this standard will have on its financial statements.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through July 13, 2018, the date the financial statements were available to be issued.

3. Investments and Fair Value Measurements

The Foundation's investments, at fair value, consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Equity mutual fund	\$ 803,402	\$ 253,092
Total investments	<u>\$ 803,402</u>	<u>\$ 253,092</u>

Investment income for the years ended December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Dividend income	\$ 14,073	\$ 3,107
Realized gains	2,015	534
Unrealized gains (losses)	<u>35,324</u>	<u>(549)</u>
	<u>\$ 51,412</u>	<u>\$ 3,092</u>

The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Foundation has no investments valued using Level 2 or 3 inputs.

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

The following table presents information about the Foundation's investments measured and disclosed at fair value or net asset value as of December 31, 2017 and 2016 and indicates the fair value hierarchy:

	2017			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 803,402	\$ -	\$ -	\$ 803,402
Total investments reported at fair value	\$ 803,402	\$ -	\$ -	\$ 803,402

	2016			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 253,092	\$ -	\$ -	\$ 253,092
Total investments reported at fair value	\$ 253,092	\$ -	\$ -	\$ 253,092

The following provides a brief description of the types of financial instruments the Foundation holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate:

Equity mutual funds: These are mutual funds that consist of securities which are traded on a recognized active exchange. The closing price of the security as of the reporting date is used to determine fair value. This is considered a Level 1 value in the hierarchy.

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are designated for the following purposes:

	<u>2017</u>	<u>2016</u>
Pediatric cancer research supplemental programs	\$ 5,992,504	\$ 5,884,304
Project: EveryChild	3,457,467	3,629,965
Infrastructure projects	315,351	631,693
Biopathology center	-	131,653
Integrated Translational Science Center	679,892	486,426
COG Reference Laboratories	910,000	1,201,189
Leukemia research	821,159	688,691
Bone tumor research	32,901	508,691
Acute myeloid leukemia research	710,385	505,322
Nursing discipline	128,007	132,788
Adolescent and young adult research	1,172	2,999
General cancer research	17,404	42,370
Central nervous system tumor research	12,000	12,000
Neuroblastoma research	650,750	450,000
Renal tumor research	56,638	56,638
Soft tissue sarcoma research	1,549	30,966
Other research support	1,644,793	726,545
	<u>\$ 15,431,972</u>	<u>\$ 15,122,240</u>
Total		

The Children's Oncology Group Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

5. Net Assets Released from Restrictions

Net assets were released from donor/grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors/grantors during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Pediatric cancer research supplemental programs	\$ 4,321,800	\$ 5,019,500
Project: EveryChild	1,188,945	556,471
Infrastructure projects	419,481	391,455
Biopathology center	-	118,347
Integrated Translational Science Centers	541,534	509,148
COG Reference Laboratories	868,051	825,303
Leukemia research	120,000	361,734
Bone tumor research	41,514	14,569
Acute myeloid leukemia research	767,676	90,963
Nursing discipline	9,781	3,893
Adolescent and young adult research	1,827	37,500
General cancer research	202,277	39,620
Central nervous system tumor research	-	14,423
Neuroblastoma research	-	14,105
Soft tissue sarcoma research	31,773	-
Other research support	81,751	92,422
	<u>\$ 8,596,410</u>	<u>\$ 8,089,453</u>
Total		

6. Concentrations of Risk

For the years ended December 31, 2017 and 2016 approximately 65% and 69% of revenues were from one organization, respectively. Approximately 99% and 96% of the grants receivable balance for December 31, 2017 and 2016, respectively, was due from one organization.

The Foundation's grants receivable are unsecured and are at risk to the extent such amounts become uncollectible. Management carefully monitors its contributor and grantor relationships in order to minimize credit risk. All grants receivable are considered fully collectible and accordingly, no allowance for uncollectible accounts has been recorded at December 31, 2017 and 2016.

The Foundation maintains its operating cash accounts in two banks. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times during the year, the Foundation has balances in excess of FDIC insured limits. The Foundation has not experienced any losses on such accounts.

The Children's Oncology Group Foundation, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2017

	COG Site Support	Program Capacity	Other COG Research	Total Programs	Management and General	Fundraising	Total
Grant expense	\$ 5,620,791	\$ -	\$ 1,792,011	\$ 7,412,802	\$ -	\$ -	\$ 7,412,802
Research expense	-	-	1,078,858	1,078,858	-	-	1,078,858
Professional fees	-	201,669	-	201,669	185,779	-	387,448
Conference	-	54,174	12,027	66,201	-	-	66,201
Travel	-	8,150	2,582	10,732	-	-	10,732
Other expenses	-	2,642	377	3,019	5,795	4,762	13,576
Insurance	-	-	-	-	1,184	-	1,184
Depreciation	-	-	-	-	691	-	691
Indirect cost allocation	2,745	44,355	69,087	116,187	(136,370)	20,183	-
	<u>\$ 5,623,536</u>	<u>\$ 310,990</u>	<u>\$ 2,954,942</u>	<u>\$ 8,889,468</u>	<u>\$ 57,079</u>	<u>\$ 24,945</u>	<u>\$ 8,971,492</u>