

# PANCREATIC CANCER ACTION NETWORK, INC.

## FINANCIAL STATEMENTS

June 30, 2018  
(with Comparative Totals for 2017)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Pancreatic Cancer Action Network, Inc.

### **Report on Financial Statements**

We have audited the accompanying financial statements of Pancreatic Cancer Action Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 auditors consider 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 Pancreatic Cancer Action Network, Inc. as of June 30, 2018, 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 the Pancreatic Cancer Action Network, Inc.'s 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Long Beach, California  
October 17, 2018

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**ASSETS**

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,880,018	\$ 3,218,380
Investments	22,948,400	15,819,701
Pledges receivable, net	23,987,986	14,828,340
Sundry and other receivables	471,546	589,330
Inventory	33,984	47,537
Prepaid expenses	477,296	430,375
Property and equipment, net	2,171,771	2,508,204
Other assets	<u>164,610</u>	<u>156,905</u>
<b>TOTAL ASSETS</b>	<u>\$ 56,135,611</u>	<u>\$ 37,598,772</u>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,753,935	\$ 1,504,206
Accrued wages and benefits	1,217,237	1,253,657
Grant obligations, net	9,826,906	10,426,389
Deferred lease liability	450,949	440,697
Notes payable	41,397	117,009
Capital lease obligations	<u>10,391</u>	<u>13,644</u>
	<u>13,300,815</u>	<u>13,755,602</u>

**COMMITMENTS AND CONTINGENCIES (Note 8)**

<b>NET ASSETS</b>		
Unrestricted		
Undesignated operating funds	6,151,678	2,872,927
Board designated operating reserve	<u>10,090,000</u>	<u>11,060,000</u>
Total unrestricted	16,241,678	13,932,927
Temporarily restricted	<u>26,593,118</u>	<u>9,910,243</u>
	<u>42,834,796</u>	<u>23,843,170</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 56,135,611</u>	<u>\$ 37,598,772</u>

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

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>June 30,</u>	
			<u>2018</u>	<u>2017</u>
<b>REVENUE, EARNINGS AND OTHER SUPPORT</b>				
Contributions	\$ 10,945,360	\$ 26,826,608	\$ 37,771,968	\$ 22,830,099
Special events (net of direct costs of \$2,058,008 and \$1,871,411 for 2018 and 2017, respectively)	13,026,291	410,000	13,436,291	11,862,387
Store sales, net	55,166	-	55,166	34,908
Other income	18,953	-	18,953	6,515
Investment return	442,653	-	442,653	653,870
Net assets released from restrictions	10,553,733	(10,553,733)	-	-
Total Revenue, Earnings and Other Support	35,042,156	16,682,875	51,725,031	35,387,779
<b>EXPENSES</b>				
Program services:				
Research	14,431,148	-	14,431,148	13,687,036
Advocacy	1,895,188	-	1,895,188	2,066,404
Patient services	3,300,324	-	3,300,324	3,406,667
Community outreach	6,916,589	-	6,916,589	7,886,037
Total Program Services	26,543,249	-	26,543,249	27,046,144
Supporting services:				
General and administrative	3,117,860	-	3,117,860	2,790,302
Fund-raising	3,072,296	-	3,072,296	2,948,546
Total Supporting Services	6,190,156	-	6,190,156	5,738,848
Total Expenses	32,733,405	-	32,733,405	32,784,992
<b>CHANGE IN NET ASSETS</b>	2,308,751	16,682,875	18,991,626	2,602,787
<b>NET ASSETS AT BEGINNING OF YEAR</b>	13,932,927	9,910,243	23,843,170	21,240,383
<b>NET ASSETS AT END OF YEAR</b>	\$ 16,241,678	\$ 26,593,118	\$ 42,834,796	\$ 23,843,170

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

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	Program Services				Supporting Services				Total 2018	Total 2017
	Research	Advocacy	Patient Services	Community Outreach	Total Program	General and Administrative	Fundraising	Total Supporting		
Salaries	\$ 2,709,001	\$ 817,142	\$ 1,771,259	\$ 2,888,714	\$ 8,186,116	\$ 1,840,649	\$ 1,460,771	\$ 3,301,420	\$ 11,487,536	\$ 11,656,844
Payroll taxes and benefits	392,384	130,590	301,343	509,752	1,334,069	332,975	222,891	555,866	1,889,935	1,853,872
Research	8,552,883	-	-	-	8,552,883	-	-	-	8,552,883	7,323,677
Conferences	58,604	2,421	17,259	5,880	84,164	6,156	3,225	9,381	93,545	186,725
Workshops	206,113	387,203	22,969	990,785	1,607,070	4,557	21	4,578	1,611,648	1,613,388
Special events	-	-	-	-	-	-	98,664	98,664	98,664	-
Professional services	833,481	216,324	143,012	576,156	1,768,973	124,466	272,982	397,448	2,166,421	2,763,347
Accounting, legal and regulatory fees	83,862	25,466	56,482	93,470	259,280	56,960	45,467	102,427	361,707	242,844
Advertising	18,884	10,449	241,723	306,592	577,648	12,423	28,337	40,760	618,408	1,791,022
Insurance	27,633	8,499	24,854	67,296	128,282	18,790	15,254	34,044	162,326	163,759
Bank and processing fees	210,456	64,485	142,245	237,609	654,795	147,034	117,475	264,509	919,304	800,459
Occupancy	283,869	87,019	191,664	311,028	873,580	197,636	155,794	353,430	1,227,010	1,098,683
Information technology	164,354	44,917	102,926	256,530	568,727	115,540	94,526	210,066	778,793	778,661
Supplies	15,838	10,026	11,656	18,436	55,956	10,712	10,167	20,879	76,835	83,277
Printing	3,818	1,226	98,419	10,213	113,676	2,555	262,496	265,051	378,727	407,953
Postage and shipping	8,968	4,395	61,635	34,108	109,106	5,568	110,770	116,338	225,444	200,749
Travel and development	188,845	18,338	11,983	387,174	606,340	8,970	78,373	87,343	693,683	666,638
Staff support	75,132	22,183	55,228	101,812	254,355	48,259	41,955	90,214	344,569	247,153
Equipment and maintenance	4,529	1,390	3,116	20,126	29,161	3,126	2,769	5,895	35,056	54,425
Directors' meetings	-	-	-	-	-	53,391	-	53,391	53,391	45,540
Miscellaneous	6,194	24,635	1,796	34,389	67,014	86,985	16,879	103,864	170,878	111,891
Depreciation and amortization	586,300	18,480	40,755	66,519	712,054	41,108	33,480	74,588	786,642	694,085
<b>2018 TOTALS</b>	<b>\$ 14,431,148</b>	<b>\$ 1,895,188</b>	<b>\$ 3,300,324</b>	<b>\$ 6,916,589</b>	<b>\$ 26,543,249</b>	<b>\$ 3,117,860</b>	<b>\$ 3,072,296</b>	<b>\$ 6,190,156</b>	<b>\$ 32,733,405</b>	
<b>2017 TOTALS</b>	<b>\$ 13,687,036</b>	<b>\$ 2,066,404</b>	<b>\$ 3,406,667</b>	<b>\$ 7,886,037</b>	<b>\$ 27,046,144</b>	<b>\$ 2,790,302</b>	<b>\$ 2,948,546</b>	<b>\$ 5,738,848</b>		<b>\$ 32,784,992</b>
<b>PERCENTAGE OF TOTAL EXPENSES:</b>										
2018	44%	6%	10%	21%	81%	10%	9%	19%	100%	
2017	42%	6%	10%	24%	82%	9%	9%	18%		100%

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

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	<b>For the Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 18,991,626	\$ 2,602,787
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	786,642	694,085
Net realized and unrealized gains on investments	(5,027)	(347,018)
Loss on write-down of fixed assets	10,852	
Provision for uncollectible pledges	75,000	30,000
Changes in operating assets and liabilities:		
Pledges receivable	(9,159,646)	(2,071,393)
Sundry and other receivables	117,784	(342,589)
Inventory	13,553	(5,053)
Prepaid expenses	(46,921)	360,653
Other assets	(7,705)	(4,288)
Accounts payable and accrued expenses	249,730	(27,956)
Accrued wages and benefits	(36,420)	(138,643)
Grant obligations	(599,483)	115,771
Deferred lease liability	10,252	(79,482)
Net Cash Provided By Operating Activities	10,400,237	786,874
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(35,475,841)	(9,659,041)
Proceeds from sale of investments	28,277,169	7,707,681
Purchase of property and equipment	(461,062)	(690,306)
Net Cash Used In Investing Activities	(7,659,734)	(2,641,666)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	19,178
Payments made on notes payable	(75,612)	(164,512)
Payments on capital lease obligations	(3,253)	(2,978)
Net Cash Used In Financing Activities	(78,865)	(148,312)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,661,638	(2,003,104)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3,218,380	5,221,484
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 5,880,018</b>	<b>\$ 3,218,380</b>

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



**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 1 – Organization and Business**

The Pancreatic Cancer Action Network, Inc. (the Organization) is a nationwide network of people dedicated to working together to advance research, support patients and create hope for those afflicted with pancreatic cancer. The Organization raises money for direct private funding of research and advocates for more aggressive federal research funding of medical breakthroughs in prevention, diagnosis, and treatment. The Organization fills the void of information and options by giving patients and caregivers the personalized and reliable information they need to make informed decisions. Additionally, the Organization helps individuals and communities across the country work together to raise awareness about pancreatic cancer and the funds to find a cure. The Organization's activities are conducted from offices in Manhattan Beach, California, Washington, D.C. and New York, New York.

The Organization derives most of its revenue from contributions and special events. The Organization hosts various outreach events utilizing a volunteer network. The volunteer network is comprised of community-based team members across the country who volunteer their time to raise awareness and educate their communities about pancreatic cancer. In 2018 and 2017, volunteer-based events raised \$13,436,291 and \$11,862,387, respectively, net of related expenses.

**NOTE 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The financial statements of the Organization have been prepared in conformity with generally accepted accounting principles applicable to nonprofit organizations. Accordingly, the Organization's net assets are classified for financial reporting purposes as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets are not subject to donor-imposed restrictions and include those net assets that may be used by the Organization for any of its programs or administrative support, including current and future grant awards and obligations for which funding from future restricted giving is uncertain.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Basis of Presentation (Continued)***

Temporarily restricted net assets are subject to donor-imposed restrictions which will be met either by the Organization's actions or the passage of time. Items that increase this net asset category are contributions restricted as to time or purpose and include contributions that may be used for any purpose upon receipt at a future date. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions have been met or have expired.

Permanently restricted net assets are subject to explicit donor-imposed restrictions that do not expire. Funds are held in perpetuity while the income is available for general use. At June 30, 2018 and 2017, the Organization had no permanently restricted net assets.

***Prior-Period Information***

The 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 Organization's audited financial statements for the year ended June 30, 2017 with an auditors' report date of October 25, 2017, from which the summarized information was derived.

***Use of Estimates and Assumptions***

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions, among others, include the carrying amount of property and equipment and the allowance for pledges receivable. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Organization maintains its cash in financial institutions which, at times, may exceed federally insured limits. Historically, the Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Investments***

Investments are recorded at fair value at quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment. In addition to gains and losses on investment sale transactions, investment income includes dividends and interest and is recognized as revenue in the period in which it is earned. Changes in fair value are recorded as unrealized gains (losses). Investment income amounts are reported as an increase in unrestricted net assets unless otherwise restricted by the donor. Contributions of securities from donors are recorded at fair value at the time the gift is made.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

***Pledges Receivable***

The Organization recognizes donors' unconditional promises to give cash or other assets as revenue in the period promises are made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Those promises to give that are expected to be collected over a period in excess of one year are recorded at the present value of their estimated future cash flows, discounted using an estimated market return rate of 3%. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not recognized as revenue until the conditions are met.

***Inventory***

Inventory consists of various branded promotional items that are held for sale. Inventory is stated at the lower of cost or market determined by using the first-in, first-out (FIFO) method.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

*Property and Equipment*

Property and equipment are stated at cost, except for donated assets, which, except for certain facility improvements, are recorded at fair value at the time of receipt. The Organization capitalizes expenditures for property and equipment greater than \$5,000. Additionally, the Organization capitalizes certain direct costs associated with the development of its web-site and its clinical trials database system.

Depreciation and amortization expense is calculated using the straight-line method over estimated useful lives of three to ten years for furniture and equipment, computer software and internally developed asset costs. Leasehold improvements and equipment under capital lease obligations are amortized on a straight-line basis over the estimated life of the asset or the remaining life of the lease, whichever is shorter.

*Fair Value Measurements*

The Organization follows the guidance required for fair value measurements of financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Organization's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

The Organization groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

*Fair Value Measurements (Continued)*

The Organization's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

*Contributions*

Contributions are recognized as revenue in the period received or pledged and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed temporary restrictions are recorded as temporarily restricted revenue. When a donor 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 statement of activities as net assets released from restrictions. During fiscal year 2018, the Organization received an unprecedented \$25 million pledged gift, the largest donation in the history of the Organization. This transformational gift will support the Organization's goal to change the paradigm for how pancreatic cancer patients are diagnosed and treated and, in turn, dramatically improve outcomes.

Bequests are recognized at the time the Organization receives notification of its right to them as a beneficiary, the proceeds are subject to reasonable estimation, and there are no known or probable impediments to receipt of the bequeathed gift. As of June 30, 2018 and 2017, there were no outstanding bequests. Bequests are included in pledges receivable in the accompanying statement of financial position.

Donated materials, contributed services and other noncash donations are recorded as contributions at their estimated fair values on the date received. The Organization recorded \$31,242 and \$809,388 representing the estimated fair value of donated goods and services for the years ended June 30, 2018 and 2017, respectively. Many individuals, most of whom are active in one of the 60 nationwide Community Engagement volunteer affiliates as of June 30, 2018, volunteer their time and perform a variety of tasks that assist the Organization with its programs and administration. These donated services are not reflected in the financial statements because they do not meet the criteria for inclusion. Also, the financial statements do not reflect approximately \$341,000 and \$72,000 in professional legal services provided to the Organization at no cost for the years ended June 30, 2018 and 2017, respectively.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Research Grants***

The Organization awards peer-reviewed research grants to investigators who are devoted to scientific research related to pancreatic cancer. Research grants include periodic reporting and compliance requirements that, if not met, allow the Organization to rescind its promise to pay future award installments. For the year ended June 30, 2017, the Organization paid a fee for grant peer-review and administrative services provided by the American Association of Cancer Research at an approximate rate of 2.0% of the amount of the awards granted in 2017, which was paid from unrestricted funds. No fee was paid for the year ended June 30, 2018. Grants and fees are recognized as expense when the grant is awarded to a named recipient. Grants with payment terms in excess of one year from the fiscal year-end are discounted to the present value of the obligation using a discount rate based on the market interest rate applicable to the year in which the obligation is made. During the year ended June 30, 2018 and 2017, grants payable was discounted using rates of 2.78% and 1.84%, respectively. Unused grant awards are returned to the Organization and reduce the research grant expense in the year returned.

***Advertising Costs***

Advertising costs are expensed in the period the advertisement is run and charged directly to the program benefiting from the advertisement. Advertising expenses that affect more than one functional area are allocated to applicable areas based on ratios estimated by management. During the years ended June 30, 2018 and 2017, advertising expense totaled \$618,407 and \$1,791,022, respectively. For the year ended June 30, 2017, advertising expense included the estimated fair value of donated materials, contributed services and noncash donations in the amount of \$791,523. There was no contributed advertising expense recognized in the year ended June 30, 2018.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Income Taxes***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state laws. In December 2017, the Tax Cuts and Jobs Act (the Act) was enacted, which may result in additional unrelated business taxable income on certain fringe benefits. The Organization recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization had no material net unrelated business income requiring recognition for the years ended June 30, 2018 and 2017. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

***Functional Expenses***

Operating expenses directly identified with a functional area are charged to that area. Expenses affecting more than one functional area are allocated to the respective areas on the basis of ratios estimated by management.

***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Recently Issued Accounting Pronouncements (Continued)***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In July 2018, the FASB issues ASU 2018-11, *Leases (Topic 842)*, which allows entities to initially apply the new lease standard as of the adoption date instead of at the beginning of the earliest period presented in the financial statements. The new lease standard requires a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

In August 2016, the FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

In June 2018, the FASB issues ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.



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**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

*Subsequent Events*

In preparing these financial statements, the Organization’s management has evaluated subsequent events and transactions for potential recognition or disclosure through October 17, 2018, the date at which the financial statements were available to be issued.

**NOTE 3 – Investments**

Investments held at June 30, 2018 and 2017 consist of:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Securities:				
Corporate bonds	\$ 3,973,990	\$ 3,882,219	\$ 3,966,210	\$ 3,981,756
Municipal bonds	1,112,565	1,114,160	2,825,000	2,827,207
US Federal agencies	2,584,770	2,571,579	2,201,588	2,199,279
Commercial paper and certificates of deposit	6,243,548	6,263,796	-	-
Mutual and exchange traded funds:				
Bond funds	4,447,945	4,272,568	2,832,767	2,829,236
Equity funds and other assets	1,469,319	1,565,311	824,730	951,027
Common stocks	<u>2,495,704</u>	<u>3,278,767</u>	<u>2,409,518</u>	<u>3,031,196</u>
	<u>\$ 22,327,841</u>	<u>\$ 22,948,400</u>	<u>\$ 15,059,813</u>	<u>\$ 15,819,701</u>

At June 30, 2018, fixed income securities bear maturity dates through 2030.

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**NOTE 3 – Investments (Continued)**

Investment returns from these investments and other interest-bearing accounts are summarized as follows:

	<b>For the Year Ended June 30,</b>	
	<u>2018</u>	<u>2017</u>
Dividend and interest income, net	\$ 437,626	\$ 306,852
Net realized and unrealized gains	<u>5,027</u>	<u>347,018</u>
	<u>\$ 442,653</u>	<u>\$ 653,870</u>

Dividend and interest income is reported net of investment advisor and bank fees of \$116,297 and \$116,150 in 2018 and 2017, respectively.

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2018 and 2017:

	<u>Fair Value Measurements at June 30, 2018</u>			<u>Total</u>	
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2018</u>	<u>2017</u>
Fixed Income					
Securities:					
Corporate bonds	\$ -	\$ 3,882,219	\$ -	\$ 3,882,219	\$ 3,981,756
Municipal bonds	-	1,114,160	-	1,114,160	2,827,207
US Federal agencies	2,053,897	517,682	-	2,571,579	2,199,279
Commercial paper and certificates of deposit	-	6,263,796	-	6,263,796	-
Mutual and exchange traded funds:					
Bond funds	4,272,568	-	-	4,272,568	2,829,236
Equity funds and other assets	1,565,311	-	-	1,565,311	951,027
Common stocks	<u>3,278,767</u>	<u>-</u>	<u>-</u>	<u>3,278,767</u>	<u>3,031,196</u>
Total	<u>\$ 11,170,543</u>	<u>\$11,777,857</u>	<u>\$ -</u>	<u>\$22,948,400</u>	<u>\$15,819,701</u>

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**NOTE 4 – Pledges Receivable**

Pledges receivable consists of amounts due in installments from various individuals, foundations, and corporations. Expected future collections as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 7,227,398
2020	6,016,355
2021	5,974,667
2022	5,453,000
2023	275,000
Thereafter	<u>860,000</u>
	25,806,420
Less discount at a rate of 3.0%	(1,799,259)
Less allowance for uncollectible pledges	<u>(19,175)</u>
	<u>\$ 23,987,986</u>

Uncollectible pledge expense of \$75,000 and \$30,000 was reported in miscellaneous expense in the accompanying statement of activities for the years ended June 30, 2018 and 2017, respectively.

**NOTE 5 – Property and Equipment**

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 495,600	\$ 495,600
Computer software and hardware	649,374	681,499
Database system and web-site	3,146,455	2,799,248
Leasehold improvements	<u>836,255</u>	<u>726,426</u>
	5,127,684	4,702,773
Accumulated depreciation and amortization	<u>(2,955,913)</u>	<u>(2,194,569)</u>
	<u>\$ 2,171,771</u>	<u>\$ 2,508,204</u>

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**NOTE 5 – Property and Equipment (Continued)**

Furniture and equipment includes assets acquired in exchange for capital lease obligations. The cost of capital lease equipment was \$15,817 at June 30, 2018 and 2017. Related accumulated amortization of the capital lease equipment at June 30, 2018 and 2017 was \$7,794 and \$5,043, respectively.

The Organization has internally developed a clinical trials database system for internal use. Development costs for the database system are being amortized over a five-year period. Web-site development costs are amortized over a three-year period. Amortization of the internally developed clinical trials database system and web-site costs were \$525,719 and \$428,607 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, the Organization incurred database system development expenditures of \$347,206. These expenditures updated the functionality and expanded utilities and access to the Organization’s internal clinical trials database system, including adding patients’ and health care professionals’ portals.

Total depreciation and amortization expense was \$786,642 and \$694,085 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 6 – Grant Obligations**

Grant obligations consists of annual award installments and administrative fees due on multi-year research grants that are payable each year in advance, over one to five years.

Future payments on grant obligations as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 5,148,139
2020	3,791,550
2021	995,000
2022	175,000
2023	
Less discount rate ranging from 1.24% - 2.78%	<u>(282,783)</u>
	<u>\$ 9,826,906</u>

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**NOTE 6 – Grant Obligations (Continued)**

During the year ended June 30, 2018, the Organization recorded new grant obligations in the amount of \$4,024,265. This amount was comprised of grant awards in the amount of \$4,200,000 and a grant obligation discount in the amount of \$175,735.

**NOTE 7 – Notes Payable**

In January 2017, the Organization entered into a note payable agreement with a financing company for the purchase and installation of IT equipment for the Manhattan Beach office for \$108,420. The note is payable in eight quarterly installments of \$14,168, including interest at 3.99%. The note is secured by the equipment. The remaining balance of \$41,397 is due in the year ending June 30, 2018.

**NOTE 8 – Commitments and Contingencies**

*Facilities Leases*

The Organization is obligated under operating leases for the rental of office space in Manhattan Beach and Washington D.C. In August 2017, a six-year renewal option was executed for the Manhattan Beach office, extending the lease term through October 2026. Over the lease term, the monthly rent escalation will be from \$67,810 to \$85,900. Rent expense is recognized on a straight-line basis, with the amount of rental expense in excess of the lease payments recorded as a deferred lease liability. The lease requires payment of allocated operating expenses and purchase of a set number of parking spaces at a rate that increases 3% annually.

The Washington D.C. lease requires monthly payments of \$15,784, with scheduled annual increases of 4%, and expires June 2020.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**NOTE 8 – Commitments and Contingencies (Continued)**

*Facilities Leases (Continued)*

Future minimum lease payments for the corporate facility operating leases, including minimum parking accommodations, as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 1,106,125
2020	1,141,202
2021	972,545
2022	1,001,721
2023	1,031,773
Thereafter	<u>3,664,279</u>
	<u>\$ 8,917,645</u>

*Equipment Leases*

The Organization leases office equipment under noncancelable leases that are collateralized by the office equipment acquired under the agreements. One of these leases is recorded as an operating lease with lease payments of \$626 per month through May 2020. The other lease is recorded as a capital lease and requires monthly payments of \$354, including imputed interest at 3%, and expires May 2021.

The future minimum capital and operating equipment lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>	<u>Operating Lease</u>
2019	\$ 4,269	\$ 7,512
2020	4,269	6,260
2021	3,114	
Less amount representing interest	<u>(1,261)</u>	<u>-</u>
	<u>\$ 10,391</u>	<u>\$ 13,772</u>

During the years ended June 30, 2018 and 2017, rental expense for operating leases was \$1,227,010 and \$1,100,873, respectively.

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**NOTE 8 – Commitments and Contingencies (Continued)**

*Contractual Obligations*

The Organization has entered into contractual agreements with hotel venues to provide facilities and services for events scheduled to take place through June 2019. The agreements require payment of cancellation fees that range from a minimum of \$4,098 to \$353,291. The minimum and maximum aggregate cancellation fees for all contracted venues at June 30, 2018 are \$360,798 and \$1,568,741, respectively.

*Litigation*

From time to time, the Organization is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have a material effect on the Organization's statements of financial position or activities.

**NOTE 9 – Net Assets**

*Unrestricted Net Assets – Board Designated Operating Reserve*

The Organization defines Board Designated Operating Reserve as the portion of unrestricted net assets that has been designated for use in emergencies and to sustain financial operations in the event budgeted revenues are not realized or unforeseen expenses are incurred. The presence of an operating reserve provides the Organization with flexibility to respond adeptly to rapidly changing economic and other conditions that warrant an immediate shift in strategy. The Board has established a target of maintaining a minimum, fully funded operating reserve sufficient to fund four months of budgeted operating costs as modified for projected availability of financial resources restricted for the purpose of funding a growing research grant portfolio. At June 30, 2018 and 2017, the Board Designated Operating Reserve balance was \$10,090,000 and \$11,060,000, respectively, and represented approximately four months of fiscal operating expense for each year.

**PANCREATIC CANCER ACTION NETWORK, INC.**

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**NOTE 9 – Net Assets (Continued)**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets are available for the following purposes:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Time restricted only:		
Unrestricted use	\$ 1,634,822	\$ 1,396,234
Purpose restricted:		
Research grants and patient services	<u>24,958,296</u>	<u>8,514,009</u>
	<u>\$26,593,118</u>	<u>\$ 9,910,243</u>

**NOTE 10 – Retirement Plan**

The Organization has a 401(k) profit-sharing plan (the Plan) covering all eligible employees. The Plan provides for participants to make pretax contributions, with the Organization matching 100% of contributions up to 3% of the participant's compensation and matching 50% of contributions for the next 2% of compensation. In addition, the Organization may make discretionary additional contributions for its employees. During the years ended June 30, 2018 and 2017, the Organization made nondiscretionary contributions of \$360,690 and \$350,434, respectively, towards its employees' 401(k) retirement accounts.

**NOTE 11 – Deferred Compensation Plan**

On July 1, 2015, the Organization adopted a deferred compensation plan in accordance with Section 457(f) of the Internal Revenue Code. The purpose of this plan is to offer certain eligible employees of the Organization the opportunity to defer specified amounts of compensation on a pre-tax basis.



**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 12 – Supplemental Disclosure of Cash Flow Information**

	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Interest paid	<u>\$ 3,836</u>	<u>\$ 6,155</u>
Noncash investing and financing transactions:		
Assets financed by notes payable	<u>\$ -</u>	<u>\$ 89,242</u>