

# PANCREATIC CANCER ACTION NETWORK, INC.

## FINANCIAL STATEMENTS

June 30, 2016  
(with Comparative Totals for 2015)

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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, 2016, 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 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 Pancreatic Cancer Action Network, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Pancreatic Cancer Action Network, Inc.'s 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Winder, Inc.*

Long Beach, California  
October 26, 2016

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**ASSETS**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,221,484	\$ 881,956
Investments	13,551,324	16,647,816
Pledges receivable, net	12,756,947	12,379,712
Sundry and other receivables	246,741	258,453
Inventory	42,484	39,733
Prepaid expenses	791,028	506,532
Property and equipment, net	2,422,740	1,673,448
Other assets	152,617	144,709
<b>TOTAL ASSETS</b>	<b><u>\$ 35,185,365</u></b>	<b><u>\$ 32,532,359</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,532,162	\$ 1,446,886
Accrued wages and benefits	1,392,300	1,259,151
Grant obligations, net	10,310,618	7,848,759
Deferred lease liability	520,179	576,190
Note payable	173,101	-
Capital lease obligations	16,622	3,840
	<u>13,944,982</u>	<u>11,134,826</u>

**COMMITMENTS AND CONTINGENCIES (Note 8)**

<b>NET ASSETS</b>		
Unrestricted		
Undesignated operating funds	4,940,956	2,853,316
Board designated operating reserve	9,420,000	7,990,000
Total unrestricted	<u>14,360,956</u>	<u>10,843,316</u>
Temporarily restricted	6,879,427	10,554,217
	<u>21,240,383</u>	<u>21,397,533</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 35,185,365</u></b>	<b><u>\$ 32,532,359</u></b>

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, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	Unrestricted	Temporarily Restricted	June 30,	
			2016	2015
<b>REVENUE, EARNINGS AND OTHER SUPPORT</b>				
Contributions	\$ 10,016,002	\$ 10,174,088	\$ 20,190,090	\$ 23,796,132
Special events (net of direct costs of \$2,114,387 and \$2,068,598, for 2016 and 2015, respectively)	12,205,207	601,000	12,806,207	12,742,731
Store sales, net	24,741	-	24,741	10,958
Other income	5,940	-	5,940	17,000
Investment return	63,793	-	63,793	(172,440)
Net assets released from restrictions	14,449,878	(14,449,878)	-	-
Total Revenue, Earnings and Other Support	36,765,561	(3,674,790)	33,090,771	36,394,381
<b>EXPENSES</b>				
Program services:				
Research	13,587,239	-	13,587,239	9,289,641
Advocacy	2,265,218	-	2,265,218	2,173,426
Patient services	3,648,815	-	3,648,815	3,482,309
Community outreach	7,953,623	-	7,953,623	6,512,972
Total Program Services	27,454,895	-	27,454,895	21,458,348
Supporting services:				
General and administrative	2,498,043	-	2,498,043	1,366,451
Fund-raising	3,294,983	-	3,294,983	2,656,757
Total Supporting Services	5,793,026	-	5,793,026	4,023,208
Total Expenses	33,247,921	-	33,247,921	25,481,556
<b>CHANGE IN NET ASSETS</b>	3,517,640	(3,674,790)	(157,150)	10,912,825
<b>NET ASSETS AT BEGINNING OF YEAR</b>	10,843,316	10,554,217	21,397,533	10,484,708
<b>NET ASSETS AT END OF YEAR</b>	\$ 14,360,956	\$ 6,879,427	\$ 21,240,383	\$ 21,397,533

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, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	Program Services					Supporting Services			Total 2016	Total 2015
	Research	Advocacy	Patient Services	Community Outreach	Total Program	General and Administrative	Fundraising	Total Supporting		
Salaries	\$ 1,523,216	\$ 894,946	\$ 1,613,457	\$ 3,195,315	\$ 7,226,934	\$ 1,308,205	\$ 1,304,835	\$ 2,613,040	\$ 9,839,974	\$ 7,720,915
Payroll taxes and benefits	209,397	128,006	268,950	528,362	1,134,715	216,086	202,295	418,381	1,553,096	1,252,056
Research	9,617,577	-	5,500	-	9,623,077	-	-	-	9,623,077	7,040,280
Conferences	94,942	1,326	18,237	2,220	116,725	30,236	21,106	51,342	168,067	204,139
Workshops	132,113	373,222	46,810	812,873	1,365,018	9,297	-	9,297	1,374,315	1,088,196
Professional services	1,015,694	381,371	424,625	971,898	2,793,588	342,475	581,802	924,277	3,717,865	2,545,247
Accounting, legal and regulatory fees	24,372	8,339	14,445	25,273	72,429	10,120	13,175	23,295	95,724	114,296
Advertising	8,918	(4,326)	502,027	886,812	1,393,431	1,727	24,501	26,228	1,419,659	1,271,231
Insurance	16,336	9,998	24,689	74,758	125,781	14,802	14,544	29,346	155,127	124,599
Bank and processing fees	110,241	68,697	126,169	249,916	555,023	101,704	104,506	206,210	761,233	776,963
Occupancy	138,070	193,826	156,788	309,770	798,454	119,020	121,910	240,930	1,039,384	994,005
Information technology	121,830	78,110	125,941	292,188	618,069	96,857	99,184	196,041	814,110	510,176
Supplies	12,205	9,052	14,884	28,553	64,694	11,568	15,218	26,786	91,480	60,744
Printing	4,790	4,374	81,290	15,753	106,207	3,867	315,007	318,874	425,081	250,484
Postage and shipping	4,121	4,679	63,442	30,153	102,395	3,327	99,164	102,491	204,886	169,812
Travel and development	171,277	27,512	15,199	290,297	504,285	8,539	267,911	276,450	780,735	540,719
Staff support	50,374	31,494	110,526	142,595	334,989	41,277	55,233	96,510	431,499	341,689
Equipment and maintenance	4,793	2,967	5,404	34,286	47,450	4,121	4,214	8,335	55,785	38,058
Directors' meetings	-	-	-	-	-	63,051	-	63,051	63,051	47,954
Miscellaneous	12,134	38,024	5,344	15,198	70,700	53,063	29,688	82,751	153,451	118,612
Depreciation and amortization	314,839	13,601	25,088	47,403	400,931	58,701	20,690	79,391	480,322	271,381
<b>2016 TOTALS</b>	<b>\$ 13,587,239</b>	<b>\$ 2,265,218</b>	<b>\$ 3,648,815</b>	<b>\$ 7,953,623</b>	<b>\$ 27,454,895</b>	<b>\$ 2,498,043</b>	<b>\$ 3,294,983</b>	<b>\$ 5,793,026</b>	<b>\$ 33,247,921</b>	
<b>2015 TOTALS</b>	<b>\$ 9,289,641</b>	<b>\$ 2,173,426</b>	<b>\$ 3,482,309</b>	<b>\$ 6,512,972</b>	<b>\$ 21,458,348</b>	<b>\$ 1,366,451</b>	<b>\$ 2,656,757</b>	<b>\$ 4,023,208</b>		<b>\$ 25,481,556</b>
<b>PERCENTAGE OF TOTAL EXPENSES:</b>										
2016	41%	7%	11%	24%	83%	7%	10%	17%	100%	
2015	36%	9%	14%	26%	85%	5%	10%	15%		100%

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

**PANCREATIC CANCER ACTION NETWORK, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	<b>For the Year Ended June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (157,150)	\$ 10,912,825
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	480,322	271,381
Net realized and unrealized losses on investments	266,789	463,535
Provision for uncollectible pledges	49,500	4,998
Changes in operating assets and liabilities:		
Pledges receivable	(426,735)	(8,734,950)
Sundry and other receivables	11,712	94,882
Inventory	(2,751)	(485)
Prepaid expenses	(284,496)	(32,545)
Other assets	(7,908)	(10,506)
Accounts payable and accrued expenses	85,275	623,248
Accrued wages and benefits	133,151	479,811
Grant obligations	2,461,859	554,514
Deferred lease liability	(56,012)	(33,225)
Net Cash Provided By Operating Activities	2,553,556	4,593,483
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,216,336)	(13,917,119)
Proceeds from sale of investments	5,046,038	7,945,455
Purchase of property and equipment	(1,045,612)	(804,304)
Net Cash Provided By (Used In) Investing Activities	1,784,090	(6,775,968)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	108,167	-
Payments made on note payable	(101,033)	-
Payments on capital lease obligations	(5,252)	(6,187)
Net Cash Provided By (Used In) Financing Activities	1,882	(6,187)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	4,339,528	(2,188,672)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	881,956	3,070,628
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 5,221,484	\$ 881,956

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

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**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 and Washington, D.C.

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 2016 and 2015, volunteer-based events raised \$12,806,207 and \$12,742,731, 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, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**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, 2016 and 2015, 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, 2015 with an auditors' report date of September 29, 2015, 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.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

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

***Cash and Cash Equivalents (Continued)***

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.

***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 discounted present value of their estimated future cash flows. 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, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**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, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**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.

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 bequested gift. As of June 30, 2016, there were two outstanding bequests valued at \$1,020,000. As of June 30, 2015, there was one bequest valued at \$12,500. 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 \$704,532 and \$742,437 representing the estimated fair value of donated goods and services for the years ended June 30, 2016 and 2015, respectively. Many individuals, most of whom are active in one of the fifty-eight nationwide Community Outreach volunteer affiliates as of June 30, 2016, 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 \$70,000 and \$53,000 in professional legal services provided to the Organization at no cost for the years ended June 30, 2016 and 2015, respectively.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

**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. The Organization pays a fee for grant peer-review and administrative services provided by the American Association of Cancer Research. These fees are charged at an approximate rate of 2.5% and 5.0% of the amount of the awards granted in 2016 and 2015, respectively, and are paid from unrestricted funds. 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. During the year ended June 30, 2016 and 2015, grants payable was discounted using rates of 1.24% and 1.32%, 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, 2016 and 2015, advertising expense totaled \$1,419,659 and \$1,271,231, respectively. Advertising expense includes the estimated fair value of donated materials, contributed services and noncash donations in the amount of \$620,883 and \$612,526 for the years ended June 30, 2016 and 2015, respectively.

***Income Taxes***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state laws.

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 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.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

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

*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.

*Subsequent Events*

In preparing these financial statements, the Organization’s management has evaluated subsequent events and transactions for potential recognition or disclosure through October 26, 2016, the date at which the financial statements were available to be issued.

**NOTE 3 – Investments**

Investments held at June 30, 2016 and 2015 consist of:

	<b>2016</b>		<b>2015</b>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Securities:				
Corporate bonds	\$ 2,485,606	\$ 2,533,998	\$ 2,974,415	\$ 2,955,882
US Federal agencies	1,346,508	1,373,018	1,893,191	1,896,599
Mutual and Exchange				
Traded Funds:				
Bond funds	5,676,075	5,696,687	6,312,275	6,238,996
Equity funds and				
other assets	1,059,449	995,597	1,887,360	1,894,809
Common Stocks	<u>2,776,342</u>	<u>2,952,024</u>	<u>3,326,701</u>	<u>3,661,530</u>
	<u>\$ 13,343,980</u>	<u>\$ 13,551,324</u>	<u>\$ 16,393,942</u>	<u>\$ 16,647,816</u>

At June 30, 2016, fixed income securities bear maturity dates through 2026.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

**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>2016</u>	<u>2015</u>
Dividend and interest income, net	\$ 330,582	\$ 291,095
Net realized and unrealized losses	<u>(266,789)</u>	<u>(463,535)</u>
	<u>\$ 63,793</u>	<u>\$ (172,440)</u>

Dividend and interest income is reported net of investment advisor and bank fees of \$123,279 and \$113,059 in 2016 and 2015, respectively.

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2016 and 2015:

	<u>Fair Value Measurements at June 30, 2016</u>			<u>Total</u>	
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2016</u>	<u>2015</u>
Fixed Income					
Securities:					
Corporate bonds	\$ -	\$ 2,533,998	\$ -	\$ 2,533,998	\$ 2,955,882
US Federal agencies	1,373,018	-	-	1,373,018	1,896,599
Mutual and Exchange					
Traded Funds:					
Bond funds	5,696,687	-	-	5,696,687	6,238,996
Equity funds and other assets	995,597	-	-	995,597	1,894,809
Common Stocks	<u>2,952,024</u>	<u>-</u>	<u>-</u>	<u>2,952,024</u>	<u>3,661,530</u>
Total	<u>\$ 11,017,326</u>	<u>\$ 2,533,998</u>	<u>\$ -</u>	<u>\$ 13,551,324</u>	<u>\$ 16,647,816</u>

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

**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, 2016 are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2017	\$ 9,207,320
2018	1,810,334
2019	1,210,332
2020	601,688
2021	400,000
Thereafter	<u>50,000</u>
	13,279,674
Less discount at a rate of 3.0%	(501,498)
Less allowance for uncollectible pledges	<u>(21,229)</u>
	<u>\$ 12,756,947</u>

At June 30, 2016 and 2015, the total of pledges receivable that are recorded net of related discounts is \$9,631,466 and \$11,763,592, respectively. Uncollectible pledge expense of \$49,500 and \$4,998 was reported in miscellaneous expense in the accompanying statement of activities for the years ended June 30, 2016 and 2015, respectively.

**NOTE 5 – Property and Equipment**

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 516,445	\$ 440,890
Computer software and hardware	424,921	429,797
Database system and web-site	2,329,952	1,527,019
Leasehold improvements	<u>683,000</u>	<u>349,758</u>
	3,954,318	2,747,464
Accumulated depreciation and amortization	<u>(1,531,578)</u>	<u>(1,074,016)</u>
	<u>\$ 2,422,740</u>	<u>\$ 1,673,448</u>

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

**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 \$46,910 and \$31,093 at June 30, 2016 and 2015, respectively. Related accumulated amortization of the capital lease equipment at June 30, 2016 and 2015 was \$20,940 and \$16,576, 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 \$292,987 and \$133,661 for the years ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2016, the Organization incurred database system development expenditures of \$802,933. 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 \$480,322 and \$271,381 for the years ended June 30, 2016 and 2015, 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, 2016 are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2017	\$ 4,999,000
2018	3,185,567
2019	1,520,000
2020	625,000
2021	225,000
	<u>10,554,567</u>
Less discounts at rates of 1.24%	<u>(243,949)</u>
	<u>\$ 10,310,618</u>

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

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

During the year ended June 30, 2016, the Organization recorded new grant obligations in the amount of \$7,142,165. This amount was comprised of grant awards in the amount of \$7,140,567, administrative fees in the amount of \$176,000, and a grant obligation discount in the amount of \$174,402.

**NOTE 7 – Note Payable**

The Organization entered into a note payable agreement with a financing company for the purchase and installation of office cubicles for the Manhattan Beach office in December 2015 for \$274,134. The note is payable in eight quarterly installments of \$35,344, including interest at 2.77%. The note is secured by the equipment. Future maturities of the note payable at June 30, 2016 are as follows:

<b>Year Ending June 30,</b>	
2017	\$ 138,007
2018	<u>35,094</u>
	<u>\$ 173,101</u>

**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. The Manhattan Beach office lease included six months free rent and a provision for monthly payment rent escalation from \$35,250 to \$74,098 over the lease term. 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 Manhattan Beach lease expires October 2021, with two five-year term renewal options.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

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

*Facilities Leases (Continued)*

The Washington D.C. lease requires monthly payments of \$7,740, with scheduled annual increases of 4%, and expires February 2017. The Organization entered into a lease for additional office space that requires monthly payments of \$2,700, commencing July 2016 and expiring June 2018.

Future minimum lease payments for the corporate facility operating leases, including minimum parking accommodations, as of June 30, 2016 are as follows:

<b>Year Ending June 30,</b>	
2017	\$ 899,380
2018	926,155
2019	920,568
2020	948,185
2021	<u>307,666</u>
	<u>\$ 4,001,954</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 \$808 per month through May 2017. The other lease is recorded as a capital lease and requires monthly payments of \$354, including imputed interest at 3%, and expires May 2021.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

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

*Equipment Leases (Continued)*

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>
2017	\$ 4,247	\$ 8,884
2018	4,247	-
2019	4,247	-
2020	4,247	-
2021	3,186	-
	<u>20,174</u>	<u>8,884</u>
Less amount representing interest	<u>(3,552)</u>	<u>-</u>
	<u>\$ 16,622</u>	<u>\$ 8,884</u>

During the years ended June 30, 2016 and 2015, rental expense for operating leases was \$1,048,601 and \$1,002,885, respectively.

*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 2018. The agreements require payment of cancellation fees that range from a minimum of \$3,325 to \$543,520. The minimum and maximum aggregate cancellation fees for all contracted venues at June 30, 2016 are \$800,472 and \$1,646,621, 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.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

**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, 2016, the Board Designated Operating Reserve balance was \$9,420,000 and represented approximately four months of fiscal 2016 operating expense. At June 30, 2015, the Board Designated Operating Reserve balance was \$7,990,000 and represented approximately five months of fiscal 2015 operating expense.

Temporarily restricted net assets are available for the following purposes:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Time restricted net assets:		
Unrestricted use	\$ 651,978	\$ 527,955
Purpose restricted net assets:		
Research grants and patient services	<u>6,227,449</u>	<u>10,026,262</u>
	<u>\$ 6,879,427</u>	<u>\$ 10,554,217</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, 2016 and 2015, the Organization made nondiscretionary contributions of \$277,622 and \$220,320, respectively, towards its employees' 401(k) retirement accounts.

**PANCREATIC CANCER ACTION NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**  
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**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.

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

	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Interest paid	<u>\$ 6,207</u>	<u>\$ 1,167</u>
Noncash investing and financing transactions:		
Leasehold improvements financed by note payable	<u>\$ 165,968</u>	<u>\$ -</u>
Assets acquired under capital lease	<u>\$ 15,817</u>	<u>\$ -</u>