

PEDIATRIC CANCER RESEARCH FOUNDATION

Combined Financial Statements
For the Years Ended
December 31, 2012 and 2011
and
Independent Auditor's Report

PEDIATRIC CANCER RESEARCH FOUNDATION

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Independent Auditor's Report

To the Board of Directors of
Pediatric Cancer Research Foundation
Irvine, California

We have audited the accompanying combined financial statements of Pediatric Cancer Research Foundation (a nonprofit organization) and the Pediatric Cancer Research Foundation New York, a Not-for-Profit Corporation (collectively "the Foundation"), which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012 and 2011, 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.

HBLA Certified Public Accountants, Inc.

May 31, 2013

PEDIATRIC CANCER RESEARCH FOUNDATION

COMBINED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,142,323	\$ 1,123,550
Receivables	60,095	47,519
Inventories	45,827	137,051
Prepaid expenses	<u>52,882</u>	<u>120,217</u>
TOTAL CURRENT ASSETS	1,301,127	1,428,337
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	11,239	23,069
OTHER ASSETS		
Deposits	<u>3,012</u>	<u>3,012</u>
TOTAL ASSETS	<u>\$ 1,315,378</u>	<u>\$ 1,454,418</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 34,304	\$ 61,005
Grants payable	301,905	298,142
Sales tax payable	2,216	6,266
Deferred revenue	<u>19,932</u>	<u>42,765</u>
TOTAL CURRENT LIABILITIES	358,357	408,178
NET ASSETS		
Unrestricted net assets	<u>957,021</u>	<u>1,046,240</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,315,378</u>	<u>\$ 1,454,418</u>

See accompanying notes to combined financial statements and independent auditor's report.

PEDIATRIC CANCER RESEARCH FOUNDATION

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE AND OTHER SUPPORT		
General public support	\$ 479,466	\$ 353,578
Special events, net of direct donor benefit costs of \$1,147,678 in 2012 and \$978,485 in 2011	982,910	1,014,656
Holiday card program, net of direct costs of \$135,224 in 2012 and \$183,132 in 2011	(117,084)	(70,252)
Unassociated group contributions	194,820	293,541
International symposium	281,161	-
Other income (loss)	(375)	848
	<u>1,820,898</u>	<u>1,592,371</u>
TOTAL REVENUE AND SUPPORT		
EXPENSES		
Program services:		
Pediatric cancer research	1,263,492	1,013,023
International symposium	281,170	-
Supporting services:		
Management and general	179,040	179,469
Fundraising	186,415	180,655
	<u>1,910,117</u>	<u>1,373,147</u>
TOTAL EXPENSES		
INCREASE (DECREASE) IN NET ASSETS	(89,219)	219,224
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<u>1,046,240</u>	<u>827,016</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 957,021</u>	<u>\$ 1,046,240</u>

See accompanying notes to combined financial statements and independent auditor's report.

PEDIATRIC CANCER RESEARCH FOUNDATION

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services		Supporting Services		Total
	Pediatric Cancer Research	International Symposium	Management and General	Fundraising	
Grants for pediatric cancer research	\$ 1,169,814	\$ -	\$ -	\$ -	\$ 1,169,814
Other program services and support	47,078	281,170	-	-	328,248
Salaries and related costs	31,269	-	96,830	96,831	224,930
Postage and supplies	1,231	-	2,804	8,778	12,813
Rent and utilities	6,202	-	18,405	18,406	43,013
Professional services	4,415	-	30,280	-	34,695
Printing	3,483	-	299	14,015	17,797
Public relations	-	-	-	29,648	29,648
Miscellaneous	-	-	18,738	18,737	37,475
Total expenses before depreciation	1,263,492	281,170	167,356	186,415	1,898,433
Depreciation	-	-	11,684	-	11,684
TOTAL EXPENSES	<u>\$ 1,263,492</u>	<u>\$ 281,170</u>	<u>\$ 179,040</u>	<u>\$ 186,415</u>	<u>\$ 1,910,117</u>

See accompanying notes to combined financial statements and independent auditor's report.

PEDIATRIC CANCER RESEARCH FOUNDATION

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants for pediatric cancer research	\$ 916,878	\$ -	\$ -	\$ 916,878
Other program services and support	32,077	-	-	32,077
Salaries and related costs	49,632	80,638	80,638	210,908
Postage and supplies	3,867	2,638	17,346	23,851
Rent and utilities	7,906	6,668	6,668	21,242
Professional services	-	17,155	13,593	30,748
Printing	2,663	-	7,380	10,043
Public relations	-	-	24,887	24,887
Miscellaneous	-	62,140	19,912	82,052
	<u>1,013,023</u>	<u>169,239</u>	<u>170,424</u>	<u>1,352,686</u>
Total expenses before depreciation				
Depreciation	<u>-</u>	<u>10,230</u>	<u>10,231</u>	<u>20,461</u>
TOTAL EXPENSES	<u>\$ 1,013,023</u>	<u>\$ 179,469</u>	<u>\$ 180,655</u>	<u>\$ 1,373,147</u>

See accompanying notes to combined financial statements and independent auditor's report.

PEDIATRIC CANCER RESEARCH FOUNDATION

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ <u>(89,219)</u>	\$ <u>219,224</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	11,684	20,461
Unrealized loss on investments	-	510
Realized loss on disposal of assets	146	1,265
(Increase) decrease in operating assets:		
Receivables	(12,576)	102,190
Bequest receivable	-	211,465
Inventories	91,224	32,258
Prepaid expenses	67,335	(36,806)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(26,701)	26,248
Grants payable	3,763	(237,610)
Sales tax payable	(4,050)	1,576
Deferred revenue	(22,833)	7,725
Total adjustments	<u>107,992</u>	<u>129,282</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>18,773</u>	<u>348,506</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment sales and maturities	-	40,000
Purchases of property and equipment	-	(15,309)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>24,691</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,773	373,197
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,123,550</u>	<u>750,353</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,142,323</u>	<u>\$ 1,123,550</u>

See accompanying notes to combined financial statements and independent auditor's report.

PEDIATRIC CANCER RESEARCH FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization

Pediatric Cancer Research Foundation (PCRF) and the Pediatric Cancer Research Foundation New York, a Not-for-Profit Corporation (PCRFNY), related entities under common control, (collectively “the Foundation”) are nonprofit public benefit corporations incorporated on December 2, 1982 under the laws of the State of California and on August 23, 2010 under the laws of the State of New York, respectively. During 2011, PCRFNY became inactive, and thus, all subsequent activities are conducted by PCRF. The Foundation is headquartered in Irvine, CA. The Foundation is primarily engaged in fundraising activities and awarding grants to organizations for the purpose of funding pediatric cancer research (Note D).

Basis of Presentation

The accompanying combined financial statements include the accounts of the Foundation. All significant intercompany transactions and balances included in the combined financial statements have been eliminated.

Contributions

Contributions are recognized as revenue when the Foundation receives an unconditional “promise to pay” from a donor.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as additions to temporarily restricted or permanently restricted net assets. When a temporary restriction has been satisfied, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. There were no temporarily or permanently restricted net assets at December 31, 2012 and 2011.

When donor restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Foundation reports both the revenue and the related expense in the unrestricted net asset category.

Inventories

Inventories, consisting primarily of unsold holiday cards, are reported at the lower of cost (first in, first out) or market.

During 2012, the Foundation adjusted inventory by \$80,000 to the lower of cost or market. The resulting loss is included in the holiday card program, net of direct costs, in the 2012 combined statement of activities and changes in net assets.

PEDIATRIC CANCER RESEARCH FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Holiday cards are sold in various grocery stores and other outlets in the Southern California area. Revenue on the holiday cards is recognized as the cards are sold by the stores and outlets.

Revenues from the special events and the international symposium are recognized when the activities are held.

Accounts Receivable

Accounts receivable are recorded at the amount the Foundation expects to collect on balances outstanding at year end. The Foundation uses the allowance method to account for uncollectible accounts receivable. The allowance is based on management's periodic review of accounts receivable and collection experience. No allowance for doubtful accounts was provided for at December 31, 2012 and 2011, as management considers all amounts to be fully collectible. The Foundation had holiday card sales from two retailers aggregating approximately 35% of total holiday card sales for the year ended December 31, 2011. The related accounts receivable were approximately 82% of total accounts receivable at December 31, 2011. At December 31, 2012, accounts receivable consisted of contributions to the Foundation.

Income Taxes

PCRF and PCRIFY qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and under the corresponding tax codes of California and New York. The Foundation is also registered in the states of New Jersey, Massachusetts, Connecticut, and Washington.

The Foundation's federal income tax and informational returns for the years ended December 31, 2009, and subsequent, remain open for examination by the Internal Revenue Service. The returns for California and New York remain open for examination by those states' tax authorities for the years ended December 31, 2008, and subsequent.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation includes in cash and cash equivalents all cash accounts, none of which are subject to withdrawal restrictions or penalties, and all certificates of deposit purchased with an original maturity of three months or less.

PEDIATRIC CANCER RESEARCH FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and Materials

The Foundation receives a substantial amount of services donated by individuals interested in the Foundation's objectives. Services provided generally involve the contribution of time to organize and administer fundraising campaigns and to provide necessary services. The value of such volunteers' services has not been reflected in the accompanying financial statements since it does not meet the criteria for revenue recognition. Donated materials and assets are recorded at their fair market value at the date of the gift. Donated materials and assets related to special events aggregated \$194,362 and \$166,900 for the years ended December 31, 2012 and 2011, respectively, and are included with special events in the statements of activities and changes in net assets.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deferred Revenue

Deferred revenue represents funds received in advance of special events to be held in the subsequent year.

Property and Equipment

Property and equipment are stated at cost if purchased and fair value if donated, and depreciated using the straight-line method over the estimated useful lives (3-5 years) of the assets. Expenditures for repairs and maintenance are charged to supporting services when incurred; renewals and betterments are capitalized. Upon sale or other disposal of property and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the statement of activities and changes in net assets.

Management Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

PEDIATRIC CANCER RESEARCH FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Foundation's long-lived assets include property and equipment. In accordance with generally accepted accounting principles, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. As of December 31, 2012 and 2011, the Foundation did not identify any material impairment of its long-lived assets.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 9,413	\$ 25,612
Computer software	62,910	65,724
Vehicles	<u>8,000</u>	<u>8,000</u>
Total property and equipment	80,323	99,336
Less accumulated depreciation	<u>69,084</u>	<u>76,267</u>
Net book value	<u>\$ 11,239</u>	<u>\$ 23,069</u>

NOTE C - CASH DEPOSITS IN EXCESS OF INSURED LIMITS

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. At times, deposits may be in excess of the FDIC insurance limit; however, management does not believe the Foundation is exposed to any significant related credit risk.

NOTE D – GRANTS

Grants payable consist of amounts awarded but not paid as of December 31, 2012 and 2011. The Foundation awarded total grants of \$1,169,814 and \$916,878 and disbursed a total of \$1,166,051 and \$1,153,488 during the years ended December 31, 2012 and 2011, respectively.

PEDIATRIC CANCER RESEARCH FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE E - COMMITMENTS

The Foundation leases its facility under a lease agreement originally dated July 8, 2005, and amended in July 2011. The lease expires July 31, 2014. The minimum monthly base rent as of December 31, 2012 is \$2,768. The lease agreement provides for annual increases based on predetermined amounts. In addition to the base rent, the Foundation pays common area maintenance charges, which are included in rent expense. Additionally, the Foundation pays rent for two month-to-month storage facilities at a total cost of \$440 per month. Rent expense has been allocated to management and general, fundraising, holiday card program and program services based on estimated space utilization. The Foundation does not have facilities in New York.

Rent expense for the year ended December 31, 2012 was \$51,475, of which \$32,169 was allocated to the holiday card program and special events. Rent expense for the year ended December 31, 2011 was \$66,361, of which \$45,119 was allocated to the holiday card program and special events.

The future minimum lease payments are as follows for the years ending December 31:

2013	\$ 34,061
2014	<u>20,559</u>
	<u>\$ 54,620</u>

NOTE F – EMPLOYEE BENEFIT PLAN

In 1999 the Foundation adopted a 401(k) profit sharing plan for all its eligible employees. The Foundation's contributions are discretionary and determined semi-annually. There were no Foundation contributions credited or expenses charged to the plan for the years ended December 31, 2012 and 2011.

NOTE G – BOARD DESIGNATIONS

As of December 31, 2012 and 2011, the Board of Directors has designated \$552,752 and \$271,143, respectively, of unrestricted funds for the Pediatric Cancer Research Foundation Laboratory.

NOTE H – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 31, 2013, the date the financial statements were available to be issued.