

SARCOMA FOUNDATION OF AMERICA, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sarcoma Foundation of America, Inc.
Damascus, Maryland

We have audited the accompanying financial statements of Sarcoma Foundation of America, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sarcoma Foundation of America, Inc. as of December 31, 2014, 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.

E. Cohen and Company CPAs

October 22, 2015

SARCOMA FOUNDATION OF AMERICA, INC.

YEAR ENDED DECEMBER 31, 2014

Table of Contents

	<u>Page</u>
Independent auditor's report	1
Financial statements	
Statement of financial position	2 - 3
Statement of activities and changes in net assets	4
Statement of cash flows	5
Statement of functional expenses	6
Notes to financial statements	7 - 14

SARCOMA FOUNDATION OF AMERICA, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2014

ASSETS

Current assets	
Cash and cash equivalents	\$ 742,986
Contributions and grants receivable	274,244
Prepaid expenses	11,075
Investments	<u>4,354,285</u>
Total current assets	<u>5,382,590</u>
Property and equipment	
Machinery and equipment	25,093
Furniture	<u>14,091</u>
Total property and equipment	39,184
Accumulated depreciation	<u>(29,599)</u>
Net property and equipment	<u>9,585</u>
Other assets	
Deposits	<u>3,516</u>
Total assets	<u><u>\$ 5,395,691</u></u>

SARCOMA FOUNDATION OF AMERICA, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2014

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 57,395
Grants payable	393,862
Accrued expenses	18,632
Accrued payroll and payroll taxes	<u>3,640</u>
Total liabilities	<u>473,529</u>
Net assets	
Unrestricted	
Board designated	264,353
Undesignated	<u>1,360,424</u>
Total unrestricted	1,624,777
Temporarily restricted	<u>3,297,385</u>
Total net assets	<u>4,922,162</u>
Total liabilities and net assets	<u>\$ 5,395,691</u>

SARCOMA FOUNDATION OF AMERICA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Grants and contributions	\$ 1,043,604	\$ 1,973,697	\$ 3,017,301
Special events less direct expense of \$353,312	661,142	-	661,142
Investment income, net	68,192	-	68,192
Other revenue	53,776	-	53,776
Net assets released from donor restrictions	666,863	(666,863)	-
Total revenues	<u>2,493,577</u>	<u>1,306,834</u>	<u>3,800,411</u>
Expenses			
Program services	1,710,847	-	1,710,847
Management and general	250,470	-	250,470
Fund-raising	164,480	-	164,480
Total expenses	<u>2,125,797</u>	<u>-</u>	<u>2,125,797</u>
Change in net assets	367,780	1,306,834	1,674,614
Net assets, beginning of year	<u>1,256,997</u>	<u>1,990,551</u>	<u>3,247,548</u>
Net assets, end of year	<u>\$ 1,624,777</u>	<u>\$ 3,297,385</u>	<u>\$ 4,922,162</u>

SARCOMA FOUNDATION OF AMERICA, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities	
Changes in net assets	\$ 1,674,614
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Realized and unrealized gains on investments	(31,007)
Stock contributions	(2,186,973)
Depreciation expense	3,594
(Increase) decrease in assets	
Contributions and grants receivable	(213,841)
Prepaid expenses	31,449
Deposits	2,900
Increase (decrease) in liabilities	
Accounts payable	35,121
Grants Payable	200,662
Accrued expenses	4,604
Accrued salaries	(10,825)
Deferred revenue	(14,000)
Net cash used in operating activities	<u>(503,702)</u>
Cash flows from investing activities	
Purchase of equipment	(218)
Purchase of investments	(1,336,913)
Proceeds from sale of investments	<u>360,842</u>
Net cash used in investing activities	<u>(976,289)</u>
Net decrease in cash	(1,479,991)
Cash and cash equivalents, beginning of year	<u>2,222,977</u>
Cash and cash equivalents, end of year	<u><u>\$ 742,986</u></u>

SARCOMA FOUNDATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fundraising	Total
Grants	\$ 893,862	\$ -	\$ -	\$ 893,862
Payroll, payroll taxes and benefits	344,738	151,919	87,645	584,302
Professional fees	106,965	55,556	41,397	203,918
Registry	202,393	-	-	202,393
Occupancy	20,294	8,943	5,160	34,397
Telephone and internet	19,153	8,440	4,870	32,463
Office expense	18,384	8,102	4,674	31,160
GSK study	30,786	-	-	30,786
Travel	21,684	2,007	1,379	25,070
Promotional materials	15,455	2,034	4,848	22,337
Software	11,975	2,488	1,435	15,898
Printing and reproduction	1,267	2,163	8,267	11,697
Repairs and maintenance	4,773	2,103	1,214	8,090
Dues and subscriptions	6,229	1,035	315	7,579
Registration fees	4,463	1,966	1,134	7,563
Depreciation	3,066	1,351	780	5,197
Insurance	2,998	1,322	762	5,082
Conferences and meetings	2,362	1,041	600	4,003
Total expenses	<u>\$ 1,710,847</u>	<u>\$ 250,470</u>	<u>\$ 164,480</u>	<u>\$ 2,125,797</u>

See notes to financial statements.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2014

1. Organization and summary of significant accounting policies

Organization

Sarcoma Foundation of America, Inc. (the Organization) was incorporated on August 10, 2000 under the laws of the State of Maryland. The Organization has been approved for tax exempt status under Section 501(c)(3) of the internal Revenue Code.

The mission of Sarcoma Foundation of America, Inc. is to advocate for sarcoma patients by funding research and by increasing awareness about the disease. The organization raises money to privately fund grants for sarcoma researchers and conducts education and advocacy efforts on behalf of sarcoma patients.

Method of accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when obligations are incurred.

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

The Organization considers all cash and or highly liquid investments with initial maturities of three months or less to be cash equivalents. As of December 31, 2014, the organization held \$488,575 of such investments.

Financial risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant financial risk on cash.

The Organization invests in professionally managed portfolios that contain mutual funds and equity securities. Such investments are exposed to various market risks, such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the financial statements.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

1. Organization and summary of significant accounting policies (continued)

Accounts receivable and allowance for doubtful accounts

Receivables are carried at original invoice amounts less an estimate for doubtful accounts based on review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectable. Recoveries of receivables previously written off are recorded when received. Management believes all accounts receivables as of December 31, 2014 are fully collectible.

Investments

Investments are reflected at fair value, which is determined based on quoted market rates. To adjust the carrying value of investments, the change in fair value is reflected as part of investment income in the statement of activities.

Property and equipment

Property and equipment are stated at cost. An item is capitalized if its cost is \$500 or more and its estimated useful life is greater than one year. Depreciation is being provided using the straight-line method over their estimated useful lives of the related assets of five to seven years.

Revenue recognition

Contributions received are reported as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. 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.

Contributions

All contributions are considered to be available for unrestricted use unless the donor specifically restricts the contribution. Donated equipment and materials, if any, are reflected in the accompanying financial statements at their estimated fair values at the date of donation.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

1. Organization and summary of significant accounting policies (continued)

Contributions (continued)

The Organization recognizes contribution revenue for certain contributed services received at the fair value of those services. For the year ended December 31, 2014, the Organization had approximately 50 volunteers; however, these contributed services are not reflected in the financial statements, since the services do not require specialized skills.

Deferred grant expenses

The Organization has agreed to pay various research and support grants to various universities and organizations. Grants which are paid for a period of time are recorded as deferred until the timing restriction has been met.

Income taxes

No provision has been made for income taxes, since the Organization has been determined to be exempt from income tax pursuant to Internal Revenue Code Section 501(c)(3). There was no net unrelated business taxable income during the year.

The Organization adopted the Financial Accounting Standards Board FASB ASC 740-10, *Income Taxes*, which requires an assessment of uncertainty in income taxes and certain financial statement disclosures relating to unrecognized tax benefits. For the year ended December 31, 2014, the Organization has determined that no material uncertain tax positions exist requiring either recognition or disclosure in the financial statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, 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. Actual results could differ from those estimates.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

2. Investments

Investments at December 31, 2014, consist of mutual funds in equity in the amount of \$4,354,285. Money market funds are valued at cost and thus are not subject to fair value disclosure.

Investment income for the year ended December 31, 2014, consists of the following:

Realized and unrealized gains	\$	31,007
Dividends and interest		51,521
Investment fees		<u>(14,336)</u>
Net investment income	\$	<u>68,192</u>

Return objective and risk parameters: The Organization's investments include temporarily restricted donated stock which will be used for their designated purpose in the short term. Otherwise the overall funds objective is to earn a long-term, risk-adjusted total rate of return to support the designated programs. The Organization recognizes and accepts that pursuing such a goal involves risk and potential volatility. The Organization targets a diversified asset allocation that places a greater emphasis on mutual fund to achieve its long-term return objectives within prudent risk constraints. The Organization has established a portfolio asset allocation. While the asset allocation can be adjusted from time to time, it is designed to serve for long-time horizons based upon long-term expected returns. The Organization has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing. Investments are available for sale and have been classified as short term.

3. Fair value measurements

In accordance with FASB ASC 820, Fair Value Measurements and Disclosures, the fair value 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. The Organization utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure the value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

3. Fair value measurements (continued)

Level 1 - Quoted market prices in active market for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below represents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	Level 1	Level 2	Level 3
Mutual funds – equity	\$ 3,967,838	\$ -	\$ -
Marketable securities	277,200		
Corporate bonds	109,247		
	<u>\$ 4,354,285</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization's funds are classified as Level 1 items as their values are readily attainable on active exchanges. The Organization also invested in money market funds which are not subject to fair market value disclosure.

4. Commitments

The Organization leases their main facility under a non-cancelable operating lease which terms go through October 31, 2016. Rent expense under the operating lease for the year ended December 31, 2014 was \$33,557.

Future minimum lease payments under the operating leases at December 31, 2014, are as follows:

<u>Year ending December 31,</u>	
2015	\$ 34,478
2016	29,446
	<u>\$ 63,924</u>

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

4. Commitments (continued)

The Organization has committed to the Sarcoma Alliance for Research through Collaboration (SARC) annual contribution of \$100,000 over a five year period for a total of \$500,000 to support the Specialized Program in Research Excellence. This grant is contingent upon SARC receiving approval of additional funding from the National Cancer Institute (NCI). Management expects SARC to receive this funding however the Organization is not obligated to pay the annual contributions to SARC until SARC has shown they have received approval of the annual NCI funding. As of December 31, 2014, grant expense under this agreement totaled \$300,000.

5. Functional allocation of expenses

The costs of providing programs of the Organization have been summarized on a functional basis in the accompanying financial statements. Costs that can be identified with a particular program or support function are charged directly to that program function. Salaries and related costs have been allocated among the programs and supporting services based upon management's best estimates of the portion of these costs applicable to each program. Other allocable costs have been allocated to program services and to support services based upon management's best estimates.

6. Retirement plan

The Organization has a SIMPLE IRA plan covering all employees that earn over \$5,000 during the plan year. Employees are eligible to make elective deferrals on any day on or following the date of hire. Employer non-elective contributions are 2% of each participants' eligible compensation up to \$250,000 in compensation. The Organization's non-elective contribution for the year ended December 31, 2014 was \$8,617.

7. Income taxes

The Organization has not recognized any cumulative adjustment relating to the adoption of FASB ASC Income Tax Topic, nor are there any unrecognized tax benefits to be disclosed as of December 31, 2014. Uncertainty in income taxes for a not-for-profit organization would include the status of its exemption from taxes, status of filings in local jurisdictions, and unrelated business income, if any. The Organization's information return filings for the years 2011-2013 remain subject to examination by the Internal Revenue Service and Maryland. The federal and state returns for the year ended December 31, 2014, have not yet been filed.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

8. Temporarily restricted net assets

Temporarily restricted net assets include donor restricted funds and other funds, which are only available for program activities. Temporarily restricted net assets were released from restriction during the year ended December 31, 2014, due to the purpose for the restriction being accomplished.

The temporarily restricted net assets as of December 31, 2014, are as follows:

Aronsohn Memorial Fund for ULMS Research	\$	2,532,057
Aronsohn Memorial Fund for General Sarcoma Research		715,029
Ashley Davis Research Award Fund		35,889
Alexander Burdo Research Award Fund		14,410
	\$	<u>3,297,385</u>

9. Board designated

The board has designated reserves for the following purpose as of December 31, 2014:

Pittsburgh Cure Sarcoma Research Award Fund	\$	128,763
John Green/FTDWS Research Award Fund		100,000
Alexander Burdo Research Award Fund		35,590
	\$	<u>264,353</u>

10. Major customer concentration

The Organization received 57% of its revenue from the Dr. Richard and Valarie Aronsohn bequest for the year ended December 31, 2014. Chomiak bequest made up 91% of the Organization's receivables at year end.

11. In-kind contributions

During the year ended December 31, 2014, the Organization received approximately \$37,520 for items donated to the Organization for a silent auction held at the Gala event. No other amounts have been included in the financial statements for donated services for financial oversight and bookkeeping as none meet the requirements for recording such services.

SARCOMA FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS (continued) YEAR ENDED DECEMBER 31, 2014

12. Subsequent events

Management has evaluated events or transactions that occurred after December 31, 2014 through October 22, 2015, the date the financial statements were available to be issued. Management of the Organization has determined that there were no subsequent events or transactions that should be disclosed in the financial statements.