



Consolidated Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

**To the Board of Directors
The Max Foundation
Seattle, Washington**

We have audited the accompanying consolidated financial statements of The Max Foundation and subsidiaries (collectively the Foundation), which comprise the consolidated statement of financial position as of December 31, 2016 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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.



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Opinion

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

Clark Nuber PS

Certified Public Accountants
December 5, 2017

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Financial Position
December 31, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 2,429,749
Accounts receivable	164,811
Inventory	1,810,106
Prepaid expenses	<u>16,710</u>

Total Current Assets **4,421,376**

Noncurrent Assets:

Deposits	10,050
Property and equipment, net (Note 3)	<u>138,853</u>

Total Noncurrent Assets **148,903**

Total Assets **\$ 4,570,279**

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 99,368
Accrued expenses	<u>78,609</u>

Total Current Liabilities **177,977**

Net Assets:

Unrestricted	2,425,577
Temporarily restricted (Note 4)	<u>1,966,725</u>

Total Net Assets **4,392,302**

Total Liabilities and Net Assets **\$ 4,570,279**

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
In-kind pharmaceutical contributions	\$ -	\$ 13,165,210	\$ 13,165,210
Corporate service agreements	2,203,124		2,203,124
Contributions, grants and sponsorships	541,920	162,500	704,420
Diagnostics program revenue, including in-kind of \$262,726	403,500		403,500
Private giving	56,327		56,327
Other income	21,960		21,960
Net assets released from restrictions	12,818,828	(12,818,828)	
Total Public Support and Revenue	16,045,659	508,882	16,554,541
Expenses:			
Program services-			
Program expenses	2,622,228		2,622,228
In-kind program expenses	12,813,807		12,813,807
Total program services	15,436,035		15,436,035
Supporting services-			
Management and general	418,897		418,897
Fundraising and marketing	167,658		167,658
Total supporting services	586,555		586,555
Total Expenses	16,022,590		16,022,590
Change in Net Assets	23,069	508,882	531,951
Net assets, beginning of year	2,402,508	1,457,843	3,860,351
Net Assets, End of Year	\$ 2,425,577	\$ 1,966,725	\$ 4,392,302

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 916,881	\$ 114,610	\$ 114,610	\$ 1,146,101
Employee benefits and payroll taxes	156,542	19,568	19,568	195,678
Total Salaries and Related Expenses	1,073,423	134,178	134,178	1,341,779
Group and patient grants	12,766,957			12,766,957
Sponsored educational projects	780,257			780,257
Max country representatives	484,470			484,470
Travel and related expenses	155,765	8,654	8,654	173,073
Professional fees		141,040		141,040
Occupancy expenses	100,663	12,583	12,583	125,829
Office expenses	39,131	39,131	8,696	86,958
Depreciation	26,709	11,446		38,155
Information technology services		25,294		25,294
Bank charges		18,824		18,824
Insurance		10,052		10,052
Business licenses and taxes		9,822		9,822
Marketing and public relations	4,434	887	3,547	8,868
Miscellaneous		6,986		6,986
Conversion fees and losses	4,226			4,226
Total Expenses	\$ 15,436,035	\$ 418,897	\$ 167,658	\$ 16,022,590

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows From Operating Activities:

Change in net assets	\$ 531,951
Adjustments to reconcile change in net assets to net cash provided by operating activities-	
Noncash activity:	
Depreciation	38,155
In-kind revenue	(13,427,936)
In-kind expense	12,813,807
Changes in assets and liabilities:	
Accounts receivable	222,998
Prepaid expenses	858
Deposits	(793)
Accounts payable	72,061
Accrued expenses	6,344

Net Cash Provided by Operating Activities **257,445**

Cash Flows From Investing Activities:

Purchases of equipment (23,602)

Net Cash Used in Investing Activities **(23,602)**

Net Change in Cash and Cash Equivalents **233,843**

Cash and cash equivalents balance, beginning of year 2,195,906

Cash and Cash Equivalents Balance, End of Year **\$ 2,429,749**

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 1 - Nature of Operations

Nature of Operations - The Max Foundation (the Foundation) was incorporated in 1997 as a nonprofit corporation in the State of Washington. The Foundation was formed to provide information and deliver services to patients with cancer and their families in countries around the world. The Foundation's mission is to increase global access to treatment, care and support for people living with cancer.

The Foundation has its global headquarters in Seattle, Washington. Programs and services in India are delivered through a liaison office located in Mumbai, India, and a strategic partnership with the Friends of Max Trust, a locally registered patient organization. The Max India Liaison office also functions as the South Asia Regional office, coordinating activities in four countries. In Malaysia, programs and services are delivered through a local subsidiary, MaxStation Malaysia based in Kuala Lumpur, as well as through a strategic partnership with a locally-registered, patient-focused organization, MaxFamily Society of Malaysia. MaxStation Malaysia also functions as the Asia Pacific Regional office, coordinating activities in the region. In fourteen additional countries the Foundation sponsors local program coordinators through contracts with local professionals, extending the Foundation's services to local patients in several countries. In 2015, the Foundation received authorization from the government of South Africa to establish The Max Foundation South Africa Trust. The Trust operates from Pretoria, South Africa. No activity was registered through the Trust in 2016.

In 2016, the Board of Directors of the Foundation established MaxAid, a Type I supporting organization as described under Internal Revenue Code (IRC) 509(a)(3). MaxAid aims to support the efforts of the Foundation and increase its impact. MaxAid was granted Type I supporting organization status by the Internal Revenue Service in December 2016. MaxAid had no activity in 2016.

In 2016, the Foundation increased the scope of its Max Access Solution (MAS) pilot program. The Max Access Solution is the Foundation's newest strategy to increase patient access to treatment for cancer in disadvantaged regions of the world. Through collaborations with pharmaceutical manufacturers, and in partnership with an international pharmaceutical distributor, and several cancer-treating institutions and hospitals, MAS channels humanitarian donations of oncology medicines to qualified patients in an agreed list of countries. MAS allows the Foundation to respond to requests for humanitarian access to targeted treatments from prescribing hematologists and oncologists in the recipient countries, and channel these donations to partner medical institutions in end user countries. Due to the ongoing nature of treatment with these life-saving drugs and to avoid stock outs, the Foundation maintains safety inventory of certain products for continuous supply for patients on treatment as prescribed by the healthcare providers.

Further to its mission, in 2016 the Foundation managed six unique industry driven Patient Assistance Programs (PAPs) of diverse scope and focus, providing access to treatment to patients in 75 countries and facilitating access to required daily doses of medicines as prescribed by their treating physicians. Additionally, the Foundation provided patient navigation services, one-on-one emotional support services, informational referrals, and advocacy services to patients in these countries.

In 2016, the Foundation held a capacity building conference for representatives of patient associations from different countries throughout Asia, as well as an advocacy coaching workshop for leaders of patient associations from Latin America. Through travel grants, representatives of patient associations were able to attend these educational events. The Foundation also conducted two global awareness campaigns. By providing grants to local patient associations, these associations held 54 events (unaudited) aimed at increasing awareness of cancer.

Principles of Consolidation - The consolidated financial statements include the accounts of the Foundation and its subsidiaries in India and Malaysia and the South Africa Trust. All inter-entity accounts and transactions have been eliminated for financial statement presentation.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 2 - Significant Accounting Policies

Basis of Presentation - The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts relating to the foreign subsidiaries have been converted to United States dollars for the accompanying financial presentation.

Net Assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to externally-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to externally-imposed restrictions that will be met either by action of the Foundation or the passage of time. All temporarily restricted net assets at December 31, 2016, are purpose restricted.

Permanently Restricted Net Assets - Net assets subject to externally-imposed restrictions that stipulate the resources be maintained permanently. The Foundation had no permanently restricted net assets at December 31, 2016.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. It is the Foundation's policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year the contributions were recognized.

Cash and Cash Equivalents - For purposes of the consolidated statement of cash flows, the Foundation considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable consist primarily of grants receivable and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Management has determined that an allowance for doubtful accounts was deemed unnecessary as of December 31, 2016.

Inventory and In-Kind Contributions - The Foundation recognizes in-kind contributions consisting of pharmaceuticals, medical devices and related products. These in-kind contributions are recognized at fair value on the date received, on an item by item basis, in the consolidated statement of activities as revenue. The fair value of pharmaceuticals is based on their published wholesale prices obtained from an independent third party. Program expense is recognized as the pharmaceuticals are distributed for use by patients. Pharmaceuticals not yet distributed at year end are reflected as inventory on the consolidated statement of financial position and are reported at the lower of fair value as recorded on the statement of activities or at year end.

The Foundation also authorized to purchase medical test kits at significant discounts (Note 1). The discounts, provided with donative intent by the supplier, are recognized as in-kind contributions in the consolidated statement of activities.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 2 - Continued

The Foundation also receives free medical testing services from community members and its affiliations with many physicians. These services have not been reflected in the consolidated financial statements, as an objective basis to measure the value of such services is not available. In addition, the Foundation is supported by a substantial number of volunteers who have donated significant amounts of time to the Foundation's programs. The value of the volunteer services is not reflected in the consolidated financial statements, as they do not meet specific criteria defined by U.S. GAAP.

In-kind contributions consisted of the following for the year ended December 31, 2016:

Pharmaceuticals	\$ 13,165,210
Medical kit discounts	<u>262,726</u>
Total In-Kind Contributions	<u><u>\$ 13,427,936</u></u>

Property and Equipment - Property and equipment consists of tenant improvements, computers, software, and office equipment and furniture which are stated at cost on the date purchased or at fair value on the date contributed. The Foundation capitalizes assets with a cost greater than \$500 and an estimated useful life of one or more years. The costs of repairs and maintenance are expensed as incurred. Depreciation is computed utilizing the straight-line method using the estimated useful lives noted below.

Computers, office equipment and furniture	5 years
Tenant improvements	The shorter of the lease term or 5 years

Revenue Recognition - Unconditional contributions, grants and sponsorships are recognized in the period received. Corporate service revenue is recognized as the services are provided. Diagnostics program revenue is recognized when the medical kits are ordered. Payments received in advance of services provided are recorded as deferred revenue.

Allocation of Functional Expenses - Expenses are classified in the consolidated schedule of functional expenses according to whether they relate to a specific program or to supporting service classifications on the basis of estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for overall support and direction of the Foundation. Fundraising costs represent costs incurred by personnel related to raising funds to provide additional financial support for the Foundation.

Tax Exempt Status - The Foundation is exempt from income taxes under the provisions of Section 501(c)(3) of the IRC, and is not classified as a private foundation. Accordingly, the Foundation has not made any provision for income tax expense in the accompanying consolidated financial statements.

Concentrations - Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents. The Foundation places its cash and cash equivalents with FDIC insured financial institutions. At December 31, 2016, the Foundation had cash on deposit in excess of the federally insured limits.

For the year ended December 31, 2016, 72% of the Foundation's total support and revenues were received from one donor. Approximately 67% of the Foundation's accounts receivable were due from two entities at December 31, 2016.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 2 - Continued

The Foundation is funded in large part through several service agreements with one pharmaceutical company (the Company). The current service agreements and sponsorships with the Company resulted in revenue of approximately \$2.2M during the year ended December 31, 2016. This represents 14% of total revenue for the year ended December 31, 2016. In 2017, the Foundation and the Company agreed to reframe their partnership for access to a specific product and signed a four-year Collaboration Agreement through which the Company agreed to donate quantities of product to support up to 35,000 active patients for that period, as well as to provide an annual monetary contribution.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Operations and Foreign Currency Translation - The Foundation operates in several foreign countries. At December 31, 2016, the Foundation held approximately \$89,925 in foreign countries, all of which was in foreign currencies. Repatriation of funds restrictions may exist in a small number of foreign currency accounts. The Foundation closely monitors its cash and cash equivalents. Therefore, management believes the Foundation is not exposed to any significant credit risk on cash and equivalents.

The Foundation has entered into contracts with individuals in certain countries to support its programs. These contracts are typically denominated in U.S. dollars although some are denominated in local currency. The Foundation accounts for payments in foreign currency at the exchange rate prevailing at the time payment is made. These payments are reflected in the consolidated financial statements at their equivalent amounts in U.S. dollars. Gains and losses from foreign currency translation for the year are included in the consolidated statement of activities. For the year ended December 31, 2016, the Foundation recognized a foreign currency translation loss of \$4,201. The loss is included as an expense on the schedule of functional expense.

Subsequent Events - The Foundation has evaluated subsequent events through December 5, 2017, the date on which the consolidated financial statements were approved and authorized for issuance by management.

In April 2017, the Foundation entered into a distribution and warehousing agreement with an organization located in Switzerland (Note 6).

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

Computers and software	\$	127,037
Tenant improvements		74,559
Office equipment		17,280
Office furniture		<u>55,589</u>
Total fixed assets		274,465
Less accumulated depreciation		<u>(135,612)</u>
Fixed Assets, Net	\$	<u>138,853</u>

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 3 - Continued

Depreciation expense totaled \$38,155 for the year ended December 31, 2016.

Note 4 - Temporarily Restricted Net Assets

Net assets were restricted for specific purposes as follows:

Max Access Solutions	\$ 1,854,225
Max Day by Day	65,000
Maximo	2,500
Patient Services	<u>45,000</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 1,966,725</u></u>

Temporarily restricted net assets released from restriction for the year ended December 31, 2016, totaled \$12,818,828, as their restricted purpose had been satisfied. Funds are released based on costs that are directly allocated to the specific programs as well as general expenses that are allocated based on activities conducted.

Note 5 - Retirement Plan

The Foundation sponsors a qualified retirement plan under section 401(k) of the IRC. Eligible employees may elect to contribute a portion of their compensation to the plan. The Foundation may, at its option, elect to contribute amounts on behalf of eligible employees. There were no contributions made by the Foundation for the year ended December 31, 2016.

Note 6 - Commitments and Contingencies

Operating Leases - Effective July 1, 2014, the Foundation entered into a five-year lease agreement for office space located in Seattle, Washington. The initial monthly rent of \$3,273 increases each year in July by 3% until termination of the lease on July 31, 2019. The Foundation also leases office space in Malaysia and India. The Malaysia office lease began on September 1, 2015, and its term is 36 months with fixed monthly rent of \$628. The India office lease began on January 1, 2016, and its term is 36 months with monthly rent of \$3,093 increasing 7% each year. Rent expense related to these leases totaled \$125,829 the year ended December 31, 2016.

Future minimum lease payments under the noncancelable leases are as follows:

For the Year Ending December 31,

2017	\$ 98,949
2018	93,514
2019	<u>22,103</u>
Total	<u><u>\$ 214,566</u></u>

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2016

Note 6 - Continued

Employment Contract - In May 2013, the Foundation entered into a five-year employment agreement with its Chief Executive Officer. The agreement provides for a specified compensation and benefits, among other matters, as described in the agreement.

Distribution and Warehouse Agreement - Subsequent to year end the Foundation entered into a services agreement with a specialized third party to receive and then ship cancer treatment pharmaceuticals in low and middle-income countries. The term of the agreement is through March 31, 2021 with an optional to renew for an additional two years. The agreement includes one-time set-up fees per depot location and non-depot stations, monthly program fees for the distribution hub in Switzerland and monthly fees for depot and non-depot locations. Shipping fees are also paid by the Foundation as charged by the specialized third party.

Note 7 - Related Party Transactions

As discussed in Note 1, the Foundation provides services to patients in various countries through its Max Country Representatives. One of the representatives who manages the Foundation's Latin American operations is a family member of the Foundation's Chief Executive Officer.