



Consolidated Financial Statements

For the Year Ended December 31, 2019

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 16

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 Organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated 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.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019, 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 Organization's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Clark Nuber PS

Certified Public Accountants
June 4, 2020

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,223,324	\$ 2,464,166
Accounts receivable	727,767	635,602
Pledges receivable	50,000	242,770
Prepaid expenses	312,752	265,374
Accrued shipping costs receivable	60,825	280,908
Pharmaceuticals inventory	<u>125,288,640</u>	<u>186,683,675</u>
Total Current Assets	128,663,308	190,572,495
Noncurrent Assets:		
Deposits	15,048	9,047
Property and equipment, net	<u>315,850</u>	<u>80,920</u>
Total Noncurrent Assets	330,898	89,967
Total Assets	<u>\$ 128,994,206</u>	<u>\$ 190,662,462</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 231,181	\$ 165,550
Accrued expenses	214,557	113,980
Advances received and other current liabilities	<u>272,988</u>	<u>247,178</u>
Total Current Liabilities	718,726	526,708
Deferred rent	<u>85,825</u>	
Total Liabilities	804,551	526,708
Net Assets:		
Without donor restriction	2,405,780	2,774,585
With donor restriction	<u>125,783,875</u>	<u>187,361,169</u>
Total Net Assets	<u>128,189,655</u>	<u>190,135,754</u>
Total Liabilities and Net Assets	<u>\$ 128,994,206</u>	<u>\$ 190,662,462</u>

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
Support and Revenue:				
In-kind pharmaceutical contributions	\$ -	\$ 234,188,308	\$ 234,188,308	\$ 314,240,646
Contributions, grants and sponsorships	7,325,071	547,369	7,872,440	8,884,155
Corporate service agreements	155,625		155,625	158,583
Diagnostics program revenue including in-kind of \$148,418 (\$433,321 in 2018)	227,303		227,303	510,974
Other income	18,894		18,894	5,505
Net assets released from restrictions	296,312,971	(296,312,971)		
Total Support and Revenue	304,039,864	(61,577,294)	242,462,570	323,799,863
Expenses:				
Program services-				
Program expenses	6,869,165		6,869,165	7,235,468
In-kind program expenses	295,721,924		295,721,924	270,617,351
Total program services	302,591,089		302,591,089	277,852,819
Supporting services-				
Management and general	1,213,965		1,213,965	996,588
Fundraising	565,305		565,305	628,897
Total supporting services	1,779,270		1,779,270	1,625,485
Total Expenses	304,370,359		304,370,359	279,478,304
Change in Net Assets from Operations	(330,495)	(61,577,294)	(61,907,789)	44,321,559
Nonoperating Expenses:				
Loss on disposal of assets	38,310		38,310	
Total Nonoperating Expenses	38,310		38,310	
Change in Net Assets	(368,805)	(61,577,294)	(61,946,099)	44,321,559
Net assets, beginning of year	2,774,585	187,361,169	190,135,754	145,814,195
Net Assets, End of Year	\$ 2,405,780	\$ 125,783,875	\$ 128,189,655	\$ 190,135,754

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Grants to institutions, in-kind pharmaceuticals	\$ 295,583,343	\$ -	\$ -	\$ 295,583,343	\$ 270,184,030
Distribution and shipping fees	4,450,976			4,450,976	4,669,717
Salaries, benefits and taxes	1,058,687	769,468	394,066	2,222,221	1,822,841
Max country representatives	560,033			560,033	498,588
Grants to patients, partners and other institutions	383,519			383,519	767,241
Occupancy, office and information technology	180,701	142,733	35,436	358,870	277,420
Professional fees	143,244	143,347	21,701	308,292	483,130
Travel and related expenses	211,566	32,721	15,503	259,790	313,799
Marketing and public relations		39,284	87,817	127,101	141,522
Depreciation, insurance and other	19,020	86,412	10,782	116,214	114,037
Sponsored educational projects					205,979
Total Expenses	\$ 302,591,089	\$ 1,213,965	\$ 565,305	\$ 304,370,359	\$ 279,478,304

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (61,946,099)	\$ 44,321,559
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Noncash activity:		
Depreciation	51,868	36,893
In-kind revenue	(234,188,308)	(314,673,967)
In-kind expense	295,583,343	270,617,351
Loss on disposal of assets	38,310	
Changes in assets and liabilities:		
Accounts receivable	(92,165)	(562,403)
Pledges receivable	192,770	(242,770)
Prepaid expenses	(47,378)	(234,279)
Accrued shipping costs receivable	220,083	(280,908)
Deposits	(6,001)	(49)
Accounts payable	65,631	(67,658)
Accrued expenses	100,577	24,689
Advances received and other current liabilities	25,810	247,178
Deferred rent	85,825	
Net Cash Provided by (Used in) Operating Activities	84,266	(814,364)
Cash Flows From Investing Activities:		
Purchases of equipment	(325,108)	(4,136)
Net Cash Used in Investing Activities	(325,108)	(4,136)
Net Change in Cash and Cash Equivalents	(240,842)	(818,500)
Cash and cash equivalents balance, beginning of year	2,464,166	3,282,666
Cash and Cash Equivalents Balance, End of Year	\$ 2,223,324	\$ 2,464,166

See accompanying notes.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 1 - Nature of Operations

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

MaxAid is a Type I supporting organization as described under Internal Revenue Code (IRC) 509(a)(3). MaxAid aims to support the efforts of The Max Foundation and increase its impact. MaxAid was incorporated in the State of Washington and granted Type I supporting organization status by the Internal Revenue Service in December 2016.

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 South Asia. 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.

The Organization coordinates its activities in the Africa and Middle East regions through a South Africa-based entity, The Max Foundation South Africa Trust (the Trust). The Trust operates from Pretoria, South Africa. In August 2017, the Organization received approval from the government of Thailand to establish The Max Foundation Thailand based in Bangkok. In fourteen additional countries, including six countries in Latin America, four countries in Asia, and four countries in Africa, the Organization sponsors local program coordinators through contracts with local professionals.

In 2017, the Organization increased the scope of its Max Access Solution program. Max Access Solution is the Organization's newest strategy to increase patient access to treatment for cancer in disadvantaged regions of the world. Through collaborations with cancer treating institutions, pharmaceutical manufacturers, and in partnership with an international pharmaceutical distributor, the Organization makes requests for in-kind donations of cancer treating medications in order to respond to spontaneous requests for humanitarian access to medications from partner hematologists and oncologists on behalf of individual patients in the recipient countries. The volume of in-kind donations received annually from donor partners is driven by the number of requests for donations received from medical institution partners. Requests to manufacturer partners are congruent with the volume needed to fulfill the specific prescribed treatment for each individual patient.

During the years ended December 31, 2019 and 2018, the Organization provided aid to fulfill new and on-going treatment to 16,962 and 15,299 patients in 74 and 72 countries, respectively (unaudited). In March 2020, the Organization transitioned the treatment distribution of 14,362 patients in India into Max Access Solutions from the previously managed Glivec International Patient Assistance Program (GIPAP) (unaudited).

Principles of Consolidation - The consolidated financial statements include the accounts of the Organization, its subsidiaries in India, Malaysia, Thailand, the South Africa Trust and MaxAid (collectively, the Organization).

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 2 - Significant Accounting Policies

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America (U.S. GAAP). All inter-entity transactions have been eliminated in consolidation. 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 Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction - Net assets that are not subject to externally-imposed restrictions.

Net Assts With Donor Restriction - Net assets subject to externally-imposed restrictions that will be met either by action of the Organization or the passage of time, or net assets subject to externally-imposed restrictions that stipulate the resources be maintained in perpetuity. There were no net assets subject to donor restriction to be maintained in perpetuity at December 31, 2019 and 2018.

Support and revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation. Expirations of time or purpose 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 Organization's policy to recognize restricted contributions in the net assets without donor restriction class if the restrictions have been met in the same year the contributions were recognized, except for donated pharmaceuticals, which are reported as contributions with donor restrictions and are shown as releases from restriction upon use.

Cash and Cash Equivalents - For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Organization closely monitors its cash and cash equivalents. Therefore, management believes the Organization is not exposed to any significant credit risk on cash and equivalents.

Accounts Receivable - Accounts receivable is 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 unnecessary as of December 31, 2019 and 2018.

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value including an allowance for doubtful accounts. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Conditional promises to give are recognized when the conditions on which they depend are met.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 2 - Continued

Inventory - The Organization recognizes in-kind contributions (GIK) consisting of pharmaceuticals, medical devices and related products (Note 3). These goods are recorded as inventory and revenue at fair value at the time received and as a reduction to inventory and program expense when the goods are distributed. Pharmaceutical inventory is released using a specific identification method based on expiration date and is reviewed at least annually for impairment. Pharmaceutical inventory is disposed and written off as obsolete when it is determined the pharmaceutical cannot be imported into a specific country of destination with shelf-life sufficient to comply with local importation regulations and the Organization's own guidelines. In addition, management evaluates the fair value of inventory annually to ensure inventory is reflected at net realizable value. These adjustments are recorded as a reduction of inventory and to current year in-kind pharmaceutical contributions in order to reflect the value of donated revenue that is ultimately used in the Organization's Max Access Solutions program.

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 Organization capitalizes assets with a cost greater than \$3,000 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, software, office equipment and furniture	5 years
Tenant improvements	The length of the lease term

Revenue Recognition - Contributions, grants and sponsorships are recognized in the period received. Conditional promises to give are recognized as revenue when the conditions on which they depend are met. Corporate service revenue is recognized as the services are provided.

Diagnostics program revenue is recognized when the medical kits are ordered. U.S. GAAP requires revenue to be recognized at the time of delivery, however as medical kits are ordered and delivered in the same year, management has determined the difference in accounting treatment would not result in a material difference. Payments received in advance of services provided are recorded as deferred revenue.

GIK are recognized in accordance with U.S. GAAP and in consideration of Accord Interagency GIK Standards. The industry standards are subject to review and adjustment; therefore, estimates of fair value of GIK may vary in the future. GIK are recorded at their fair value using a hierarchy of pricing inputs that approximates wholesale market price based on data obtained from a reliable third-party source.

The Organization receives free medical 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 Organization is supported by a substantial number of volunteers who have donated significant amounts of time to the Organization'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.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 2 - Continued

Allocation of Functional Expenses - Expenses are classified in the consolidated statement 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 overall support and direction of the Organization. Fundraising costs represent costs incurred by personnel related to raising funds to provide additional financial support for the Organization and soliciting pharmaceutical donations. Generally, expenses are charged directly to program, management and general or fundraising based on the fundamental nature of the expense. Those that are not clearly related to just one function are allocated across functions and consist of occupancy, information technology services and depreciation. These expenses are allocated based on the percentage of staff members working in each function.

Special Event - The Organization held various special events during the years ended December 31, 2019 and 2018. Revenue related to the events in 2019 and 2018 totaled \$144,693 and \$128,575, respectively, and is included in contributions, grants and sponsorships on the consolidated statement of activities. Related expenses for 2019 and 2018 totaling \$100,353 and \$98,433, respectively, are included as fundraising in the consolidated statement of activities and consolidated statement of functional expenses.

Tax Exempt Status - The Organization 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 Organization has not made any provision for income tax expense in the accompanying consolidated financial statements.

Concentrations - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents. The Organization places its cash and cash equivalents with FDIC insured financial institutions. At December 31, 2019, the Organization had cash on deposit in excess of the federally insured limits.

For the years ended December 31, 2019 and 2018, 76% and 93%, respectively, of the Organization's total support and revenues were received from one entity. Approximately 89% of the Organization's accounts receivable were due from two entities at December 31, 2019. Approximately 97% of the Organization's accounts receivable were due from one entity at December 31, 2018. Approximately 90% and 95% of the Organization's pledges receivable were due from one entity at December 31, 2019 and 2018, and are due within one year.

The Organization is funded in large part through several agreements with one pharmaceutical company (the Company). The current agreements and sponsorships with the Company resulted in contributions, grant and sponsorship revenue of approximately \$6.7 million and \$7.3 million during the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the Company donated pharmaceuticals valued at approximately \$178 million and \$288 million, respectively.

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 Organization operates in several foreign countries. At December 31, 2019 and 2018, the Organization held approximately \$60,155 and \$63,673 in foreign countries, respectively, all of which was in foreign currencies. Repatriation of funds restrictions may exist in a small number of foreign currency accounts. Therefore, management limits the cash balances in these countries.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 2 - Continued

The Organization 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 Organization 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 are recognized in the consolidated statement of activities and consolidated statement of functional expenses. Foreign currency translation losses totaled \$8,439 and \$14,780, respectively, for the years ended December 31, 2019 and 2018.

Financial Statement Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported.

Summarized Comparative Information for 2018 - For comparative purposes, the consolidated financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Note 3 - In-Kind Contributions

In-kind contributions (GIK) consisted of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Pharmaceuticals	\$ 234,188,308	\$ 314,240,646
Medical kit discounts	<u>148,418</u>	<u>433,321</u>
Total In-Kind Contributions	<u>\$ 234,336,726</u>	<u>\$ 314,673,967</u>

In accordance with U.S. GAAP, the Organization values its in-kind pharmaceuticals using inputs from the principal market, defined as the market with the greatest volume and activity. During the years ended December 31, 2019 and 2018, the Organization obtained from a third-party source, IQVIA, fair value data which reflects wholesale prices available in multiple geographic sub-regional markets. The GIK are recorded, by drug, based on the estimated fair value in the international geographic sub-regional market of highest volume, excluding the United States and Western Europe.

During the year ended December 31, 2018, the Organization built up its inventory to accommodate the additional demand as a result of incorporating more countries with a known number of patients in need of continuous treatment into its program. Due to timing delays with the transition of some of those countries the Organization had excess inventory at December 31, 2018. As a result, during the year ended December 31, 2019, the Organization made fewer requests from donors for donated pharmaceuticals due to first using the prior year's excess inventory and improving the inventory management system.

THE MAX FOUNDATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019**

Note 3 - Continued

In-kind pharmaceutical GIK activity by units for the years ended December 31:

	2019		2018	
	Units	Dollars	Units	Dollars
Beginning pharmaceutical GIK in inventory	144,638	\$ 186,683,675	112,970	\$ 142,627,059
Donated pharmaceutical GIK	170,364	282,371,737	221,478	368,913,309
Inventory adjustment	(42,788)	(48,183,429)	(43,187)	(54,672,663)
Expensed pharmaceutical GIK	<u>(192,899)</u>	<u>(295,583,343)</u>	<u>(146,623)</u>	<u>(270,184,030)</u>
Ending Pharmaceutical GIK in Inventory	<u>79,315</u>	<u>\$ 125,288,640</u>	<u>144,638</u>	<u>\$ 186,683,675</u>

A unit is defined as a product package which contains tablets or capsules of various strengths and quantities, as opposed to a daily dosage.

Of the total pharmaceutical GIK for the years ended December 31, 2019 and 2018, 91% and 98%, respectively was received from one donor.

Note 4 - Diagnostics Program Revenue and Expense

The Organization has access to significant discounts on the purchase of medical kits. Qualified medical institutions are able to purchase discounted medical kits and diagnostic devices through the Organization. The discounts, provided with donative intent by the supplier, are recognized as GIK in the consolidated statement of activities. Payments are received by the qualified medical institutions in advance of shipment. The related expense is included in grants to patients, partners and other institutions in the consolidated statement of activities and consolidated statement of functional expenses.

Diagnostics program revenue and expense, including the GIK portion, consisted of the following for the years ended December 31:

	2019	2018
Diagnostics program revenue	\$ 78,885	\$ 77,653
Diagnostics GIK revenue	<u>148,418</u>	<u>433,321</u>
	227,303	510,974
Less-		
Diagnostic grant expense	139,615	254,419
Diagnostics program expense	76,830	42,028
Diagnostics GIK expense	<u>138,581</u>	<u>433,321</u>
Diagnostics Program Revenue, Net	<u>\$ (127,723)</u>	<u>\$ (218,794)</u>

THE MAX FOUNDATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019**

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Tenant improvements	\$ 243,580	\$ 74,559
Office furniture	144,711	63,185
Computers and software	61,811	133,904
Office equipment	<u>16,085</u>	<u>16,085</u>
Total property and equipment	466,187	287,733
Less accumulated depreciation	<u>(150,337)</u>	<u>(206,813)</u>
Property and Equipment, Net	<u>\$ 315,850</u>	<u>\$ 80,920</u>

Depreciation expense totaled \$51,868 and \$36,893 for the years ended December 31, 2019 and 2018, respectively.

Note 6 - Line of Credit

During the year ended December 31, 2019, the Organization entered into a line of credit agreement with a lender with a credit limit of up to \$500,000. There were no amounts outstanding under this agreement as of December 31, 2019. Interest on borrowings is based on the lender's prime rate plus one percentage point (5.75% at December 31, 2019). The agreement matures on September 1, 2020.

Note 7 - Net Assets With Donor Restriction

Net assets were restricted for specific purposes as follows at December 31:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Max Access Solutions	\$ 125,288,640	\$ 186,683,674
Diagnostic kits	9,837	
Rising Sun	2,898	9,367
My PCR		<u>38,128</u>
	125,301,375	186,731,169
Subject to Passage of Time:		
Max Access Solutions	457,500	630,000
Diagnostics	<u>25,000</u>	
Total Net Assets With Donor Restriction	<u>\$ 125,783,875</u>	<u>\$ 187,361,169</u>

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 7 - Continued

Net assets released from restriction for the years ended December 31, 2019 and 2018, totaled \$295,912,971 and \$270,519,065, respectively, as their restricted purpose had been satisfied. Releases due to the passage of time totaled \$400,000 and \$330,000 for the years ended December 31, 2019 and 2018, respectively. Funds are released based on costs that are directly allocated to the specific programs as well as overhead expenses that are allocated at 20% of direct costs.

Note 8 - Retirement Plan

The Organization 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 Organization may, at its option, elect to contribute amounts on behalf of eligible employees. There were no contributions made by the Organization for the years ended December 31, 2019 and 2018.

Note 9 - Commitments and Contingencies

Operating Leases - Effective July 1, 2014, the Organization entered into a five-year lease agreement for office space located in Seattle, Washington. The initial monthly rent of \$3,273 increased each year in July by 3% until termination of the lease on July 31, 2019. This lease was extended through September 30, 2019. In February 2019, the Organization entered into a new lease agreement at a new location for Seattle office space. The lease became effective August 1, 2019 for a term of 53 months, with monthly rent of \$8,889 increasing 3% each year. The lease terms provided for an allowance for leasehold improvements, which was accounted for as a liability when incurred and is being amortized over the life of the lease.

The Organization also leases office space in Malaysia, Thailand, and India. The Malaysia office lease began on August 1, 2018 and its term is 36 months with fixed monthly rent of \$571. 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. This lease was extended on January 1, 2019 for another 36-month term with monthly rent of \$3,213 increasing 8% each year. The Thailand office lease began on February 1, 2018, and its term is 12 months with monthly rent of \$681. This lease was extended on February 1, 2019 for another 12-month term with monthly rent of \$681. Rent expense related to these leases totaled \$164,326 and \$134,590 the years ended December 31, 2019 and 2018, respectively.

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

For the Year Ending December 31,

2020	\$	153,682
2021		158,787
2022		114,572
2023		<u>118,009</u>
Total	\$	<u>545,050</u>

Employment Contract - In May 2013, the Organization entered into a five-year employment agreement with its Chief Executive Officer. The contract was renewed in May 2018 for another three-year term. The agreement provides for a specified compensation and benefits, among other matters, as described in the agreement.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 9 - Continued

Distribution and Warehouse Agreement - The Organization has two services agreements with a specialized third-party to receive and then ship cancer treatment pharmaceuticals to low and middle-income countries. The terms of the agreements are through March 31, 2021 and March 1, 2024, respectively, with options to renew for an additional two years.

Note 10 - Related Party Transactions

As discussed in Note 1, the Organization provides services to patients in various countries through its Max Country Representatives. The regional head for Latin American operations is a family member of the Organization's Chief Executive Officer.

Note 11 - Liquidity and Availability of Financial Assets

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To protect against currency exchange losses, the Organization limits local currency balances to a one-month reserve.

The Organization has the following financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,223,324	\$ 2,464,166
Accounts receivable	727,767	635,602
Pledges receivable	<u>50,000</u>	<u>242,770</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 3,001,091</u>	<u>\$ 3,342,538</u>

The Organization receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. No donor restrictions outside its annual operations or contractual restrictions exist that would make the above financial assets unavailable for general expenditure within one year of the statement of financial position date.

Note 12 - Subsequent Event

The Organization has evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2019 through June 4, 2020, the date the consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements, nor have any events occurred, the nature of which would require disclosure, except as discussed below.

THE MAX FOUNDATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

Note 12 - Continued

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. Subsequent to year-end, the World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of multiple businesses. As a result, the Organization’s offices have been temporarily closed, with staff successfully working remotely without disruption. While the situation is expected to be temporary, the extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the effect on the Organization’s patients, employees and vendors, none of which can be predicted. The extent to which COVID-19 may impact the Organization’s financial condition or results of operations is uncertain at this time. Management continues to monitor events and conditions as they unfold and have established strategies to respond accordingly.

In response to COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On May 11, 2020, the Organization obtained a loan under the PPP with a principal balance of \$296,372 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning November 11, 2020 through maturity on May 11, 2022. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.