

American Association for Cancer Research, Inc. and Affiliates

Consolidated Financial Statements
Years Ended December 31, 2018 and 2017



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AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
American Association for Cancer Research, Inc.
Philadelphia, Pennsylvania**

We have audited the accompanying consolidated financial statements of the American Association for Cancer Research, Inc. and Affiliates (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Association for Cancer Research, Inc. and Affiliates as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Prior Period Adjustment

As discussed in Note 3 to the consolidated financial statements, during the current year management determined that contributions receivable and contributions and grants revenue with donor restrictions were understated by \$1,821,500 in the 2017 consolidated financial statements. Accordingly, contributions receivable and contributions and grants revenue with donor restrictions have been restated in the 2017 consolidated financial statements now presented. Our opinion is not modified with respect to that matter.

BBD, LLP.

**Philadelphia, Pennsylvania
May 17, 2019**

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 12,160,604	\$ 11,926,925
Investments	95,116,011	92,790,623
Accounts receivable		
Publication revenue receivable	1,317,090	1,019,796
Contributions receivable	38,538,446	33,928,998
Other receivables	516,575	1,746,646
Prepaid expenses and other	2,410,364	2,243,938
Property and equipment (net of accumulated depreciation of \$3,297,380 in 2018 and \$3,489,511 in 2017)	<u>159,130</u>	<u>205,913</u>
Total assets	<u>\$ 150,218,220</u>	<u>\$ 143,862,839</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 9,150,845	\$ 7,498,947
Grants payable	37,376,978	31,821,609
Deferred income	<u>14,293,450</u>	<u>14,268,716</u>
Total liabilities	<u>60,821,273</u>	<u>53,589,272</u>
NET ASSETS		
Without donor restrictions		
Undesignated	34,231,798	42,315,419
Board designated	<u>37,724,530</u>	<u>33,481,205</u>
Total net assets without donor restrictions	71,956,328	75,796,624
With donor restrictions	<u>17,440,619</u>	<u>14,476,943</u>
Total net assets	<u>89,396,947</u>	<u>90,273,567</u>
Total liabilities and net assets	<u>\$ 150,218,220</u>	<u>\$ 143,862,839</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE						
Membership dues	\$ 4,296,285	\$ -	\$ 4,296,285	\$ 4,145,566	\$ -	\$ 4,145,566
Meetings and educational workshops	25,709,669	-	25,709,669	23,648,781	-	23,648,781
Publications	20,255,103	-	20,255,103	17,920,478	-	17,920,478
Scientific initiatives	930,938	-	930,938	1,615,000	-	1,615,000
Endowment distribution	196,000	(76,000)	120,000	176,000	(56,000)	120,000
Other	1,474,565	-	1,474,565	1,054,170	-	1,054,170
Total revenue	52,862,560	(76,000)	52,786,560	48,559,995	(56,000)	48,503,995
SUPPORT						
Contributions and grants	50,117,441	13,699,889	63,817,330	55,516,373	10,535,356	66,051,729
NET ASSETS RELEASED FROM RESTRICTIONS	10,566,793	(10,566,793)	-	8,895,068	(8,895,068)	-
Total revenue and support	113,546,794	3,057,096	116,603,890	112,971,436	1,584,288	114,555,724
EXPENSES						
Program Services						
Research grants and scientific awards	53,215,530	-	53,215,530	54,556,901	-	54,556,901
Meetings and educational workshops	19,630,466	-	19,630,466	18,130,349	-	18,130,349
Publications	11,880,366	-	11,880,366	11,622,941	-	11,622,941
Communications, science policy and public education	8,542,656	-	8,542,656	8,585,386	-	8,585,386
Scientific programs	5,128,356	-	5,128,356	4,444,488	-	4,444,488
Total program services	98,397,374	-	98,397,374	97,340,065	-	97,340,065
Supporting Services						
Membership development and services	2,341,936	-	2,341,936	2,134,975	-	2,134,975
General and administrative	6,345,591	-	6,345,591	4,851,005	-	4,851,005
Fundraising	4,445,699	-	4,445,699	4,646,576	-	4,646,576
Total supporting services	13,133,226	-	13,133,226	11,632,556	-	11,632,556
Total expenses	111,530,600	-	111,530,600	108,972,621	-	108,972,621
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	2,016,194	3,057,096	5,073,290	3,998,815	1,584,288	5,583,103
OTHER CHANGES						
Investment income (loss)	(5,856,490)	(91,268)	(5,947,758)	11,157,772	208,313	11,366,085
Change in value of gift annuity obligations	-	(2,152)	(2,152)	-	(2,181)	(2,181)
	(5,856,490)	(93,420)	(5,949,910)	11,157,772	206,132	11,363,904
CHANGE IN NET ASSETS	(3,840,296)	2,963,676	(876,620)	15,156,587	1,790,420	16,947,007
NET ASSETS						
Beginning of year	75,796,624	14,476,943	90,273,567	60,640,037	12,686,523	73,326,560
End of year	\$ 71,956,328	\$ 17,440,619	\$ 89,396,947	\$ 75,796,624	\$ 14,476,943	\$ 90,273,567

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018 with comparative totals for 2017

	Research Grants and Scientific Awards	Meetings and Educational Workshops	Publications	Communications, Science Policy and Public Education	Scientific Programs	Membership Development and Services	General and Administrative	Fundraising	Totals	
									2018	2017
Salaries and fringe benefits	\$ 1,818,068	\$ 4,847,529	\$ 6,127,273	\$ 3,963,701	\$ 1,693,421	\$ 1,379,958	\$ 2,887,140	\$ 2,562,226	\$ 25,279,316	\$ 23,003,197
Audio-visual services	368,537	3,961,268	50,056	80,746	350,271	72,125	92,277	58,042	5,033,322	3,638,394
Bad debt expense	-	-	95,000	-	-	-	-	-	95,000	71,301
Commercial exhibits	-	538,779	-	-	-	-	-	-	538,779	426,089
Computer programming and maintenance	136,420	337,104	104,332	92,666	28,843	23,104	98,678	31,194	852,341	1,229,642
Credit card fees	43	622,341	88,878	6,455	10	87,611	6,479	26,001	837,818	780,693
Depreciation	7,930	14,750	17,957	19,909	5,300	4,003	28,705	7,130	105,684	113,054
Dues and subscriptions	2,559	2,394	103,986	180,456	8,013	2,020	40,493	24,108	364,029	338,920
Duplication, printing and supplies	55,345	168,815	47,777	141,103	43,797	137,893	67,530	79,200	741,460	665,380
Equipment rental	1,589	17,652	4,436	4,172	4,613	804	2,233	1,312	36,811	40,102
Grants and awards	48,732,308	348,000	-	-	324,301	-	-	-	49,404,609	51,831,793
Honoraria	254,000	111,900	746,718	20,000	19,250	-	-	-	1,151,868	981,687
Hotel lodging and facilities rental	497,330	1,936,223	30,381	64,664	222,605	33,307	144,391	51,255	2,980,156	2,364,999
Insurance	11,931	59,958	27,013	16,633	7,971	6,022	13,100	10,081	152,709	156,871
Marketing and branding	17,145	1,185,424	194,297	1,479,293	114,805	100,068	646,521	895,334	4,632,887	5,171,371
Meetings and receptions	490,449	2,498,598	83,098	235,925	392,516	84,095	78,857	122,770	3,986,308	3,787,953
Miscellaneous	20,429	48,047	31,690	53,002	14,922	23,270	199,816	55,427	446,603	399,720
On-site transportation	11,558	551,338	-	25,344	1,995	6,310	3,913	813	601,271	538,168
Postage and freight	10,076	95,317	20,362	15,906	3,949	86,193	22,380	10,551	264,734	315,506
Printing and production	-	209,499	3,030,047	732,508	-	8,674	26,771	17,562	4,025,061	3,855,077
Professional fees	196,840	242,484	292,422	690,070	1,361,170	199	1,476,272	175,538	4,434,995	4,210,289
Rent	242,286	442,102	600,073	458,325	153,405	122,512	261,954	195,273	2,475,930	2,552,876
Telecommunications	39,640	67,749	90,758	106,091	22,234	16,637	56,041	27,174	426,324	310,425
Temporary personnel	-	55,097	-	-	-	130,197	78,875	9,668	273,837	208,932
Travel, speakers and staff	288,112	1,244,025	60,971	136,764	346,321	10,404	81,582	74,368	2,242,547	1,841,420
Utilities and building maintenance	12,935	24,073	32,841	18,923	8,644	6,530	31,583	10,672	146,201	138,762
	\$ 53,215,530	\$ 19,630,466	\$ 11,880,366	\$ 8,542,656	\$ 5,128,356	\$ 2,341,936	\$ 6,345,591	\$ 4,445,699	\$ 111,530,600	\$ 108,972,621

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017

	Research Grants and Scientific Awards	Meetings and Educational Workshops	Publications	Communications, Science Policy and Public Education	Scientific Programs	Membership Development and Services	General and Administrative	Fundraising	Total
Salaries and fringe benefits	\$ 1,398,302	\$ 4,530,536	\$ 5,856,647	\$ 3,624,236	\$ 1,464,160	\$ 1,214,299	\$ 2,614,525	\$ 2,300,492	\$ 23,003,197
Audio-visual services	115,706	3,073,778	28,752	101,192	205,350	48,428	20,307	44,881	3,638,394
Bad debt expense	-	-	71,301	-	-	-	-	-	71,301
Commercial exhibits	-	426,089	-	-	-	-	-	-	426,089
Computer programming and maintenance	156,111	537,598	149,520	124,152	53,913	34,455	127,722	46,171	1,229,642
Credit card fees	-	556,308	93,725	5,453	31	108,106	5,334	11,736	780,693
Depreciation	8,062	18,785	20,214	13,126	4,298	4,659	36,335	7,575	113,054
Dues and subscriptions	3,042	1,653	67,084	196,630	5,495	3,653	41,025	20,338	338,920
Duplication, printing and supplies	32,435	188,031	53,808	109,718	29,035	120,281	59,975	72,097	665,380
Equipment rental	3,904	14,701	4,886	4,567	4,188	721	6,059	1,076	40,102
Grants and awards	51,399,269	290,636	-	-	141,888	-	-	-	51,831,793
Honoraria	160,500	80,550	705,887	21,000	13,750	-	-	-	981,687
Hotel lodging and facilities rental	261,181	1,648,803	17,972	73,941	160,852	30,559	130,205	41,486	2,364,999
Insurance	11,863	59,260	29,748	17,647	6,318	6,856	14,949	10,230	156,871
Marketing and branding	15,046	1,187,574	248,079	2,075,764	88,730	100,254	5,261	1,450,663	5,171,371
Meetings and receptions	340,597	2,400,527	65,495	179,707	281,847	103,437	272,136	144,207	3,787,953
Miscellaneous	22,516	93,599	37,283	26,082	9,896	5,954	153,742	50,648	399,720
On-site transportation	12,042	492,750	-	19,608	1,121	6,020	6,627	-	538,168
Postage and freight	5,634	137,569	24,902	22,123	3,939	88,797	21,018	11,524	315,506
Printing and production	-	266,714	2,947,638	624,581	-	11,944	-	4,200	3,855,077
Professional fees	133,403	423,009	388,878	633,454	1,683,896	13,362	811,114	123,173	4,210,289
Rent	234,876	438,426	634,921	501,116	113,351	135,805	298,373	196,008	2,552,876
Telecommunications	28,320	60,769	75,903	58,509	12,153	12,978	42,027	19,766	310,425
Temporary personnel	-	63,180	4,969	4,980	1,994	65,259	44,585	23,965	208,932
Travel, speakers and staff	203,078	1,118,526	64,685	129,372	152,427	12,059	104,410	56,863	1,841,420
Utilities and building maintenance	11,014	20,978	30,644	18,428	5,856	7,089	35,276	9,477	138,762
	<u>\$ 54,556,901</u>	<u>\$ 18,130,349</u>	<u>\$ 11,622,941</u>	<u>\$ 8,585,386</u>	<u>\$ 4,444,488</u>	<u>\$ 2,134,975</u>	<u>\$ 4,851,005</u>	<u>\$ 4,646,576</u>	<u>\$ 108,972,621</u>

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See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (876,620)	\$ 16,947,007
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Net realized gain on sale of investments	(723,521)	(5,309,475)
Net unrealized (gain) loss on investments	8,040,131	(5,119,508)
Bad debt expense	95,000	71,301
Depreciation	105,684	113,054
Contributions restricted for long-term purposes	(1,015,000)	(22,000)
Change in value of gift annuity obligations	2,152	2,181
(Increase) decrease in		
Accounts receivable	(3,021,671)	(17,593,667)
Prepaid expenses and other	(166,426)	(57,049)
Increase (decrease) in		
Accounts payable and other accrued expenses	1,649,746	1,044,839
Grants payable	5,555,369	14,790,720
Deferred income	24,734	583,259
Net cash provided by operating activities	<u>9,669,578</u>	<u>5,450,662</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	17,538,750	33,769,774
Purchase of investments	(27,180,748)	(46,282,810)
Acquisition of property and equipment	<u>(58,901)</u>	<u>(164,599)</u>
Net cash used for investing activities	<u>(9,700,899)</u>	<u>(12,677,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for endowment	<u>265,000</u>	<u>22,000</u>
Net change in cash	233,679	(7,204,973)
CASH BALANCE		
Beginning of year	<u>11,926,925</u>	<u>19,131,898</u>
End of year	<u>\$ 12,160,604</u>	<u>\$ 11,926,925</u>
SUPPLEMENTAL INFORMATION		
Income taxes paid	<u>\$ -</u>	<u>\$ 20,000</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

(1) NATURE OF OPERATIONS

The American Association for Cancer Research, Inc. (the "AACR") is a not-for-profit corporation incorporated in New York with headquarters located in Pennsylvania. The mission of the AACR is to prevent and cure all cancers through research, education, communication and collaboration. Through its programs and services, the AACR fosters research in cancer and related biomedical science; accelerates the dissemination of new research findings among scientists and others dedicated to the conquest of cancer; promotes science education and training; and advances the understanding of cancer etiology, prevention, diagnosis and treatment throughout the world.

The American Association for Cancer Research Foundation (the "AACR Foundation") is a Pennsylvania nonprofit corporation. The AACR is the sole member of the AACR Foundation. The purpose of the AACR Foundation is to raise funds and solicit grants and contributions to benefit, support and promote the AACR's mission as described in the preceding paragraph.

AACR International – Canada was established in 2014 as a Canadian not-for-profit corporation and received its charity status in 2015. It is a subsidiary of the AACR. Its purpose is to promote health by supporting, managing and conducting new and innovative research for the cure, prevention and treatment of cancer, and by fostering collaboration amongst scientists engaged in cancer research. It intends to advance education by developing and operating programs, conferences, seminars and workshops designed to train students and scientists and advance their understanding of cancer etiology, prevention, diagnosis and treatment.

AACR programs and activities include:

Research Grants and Scientific Awards

- The AACR provides critical cancer research funding for cancer researchers at various stages in their careers, from fellowships to career development awards to grants for independent investigators. Through its grants and awards, the AACR helps to sustain a robust cancer workforce by supporting high-quality cancer research and related biomedical science.

Meetings and Educational Workshops

- The AACR convenes topical scientific conferences, workshops and an annual meeting that combined draw more than 36,000 participants from the cancer research community. Through these meetings the AACR educates a global audience on the latest findings in cancer research.

Publications

- The AACR publishes a portfolio of eight highly rated peer-reviewed journals that present leading research articles. Our scientific breadth and excellence continue to attract the premier researchers in the field. More than 25,000 pages of peer reviewed, original cancer research are published through the AACR journals annually.

Communications, Science Policy and Public Education

- The AACR collaborates with cancer survivors, raises public awareness of the progress in and cause for hope in cancer research, advocates for strong federal research funding and publishes Cancer Today for cancer patients, survivors and caregivers.

Scientific Programs

- The AACR provides for the professional development of underrepresented populations in the cancer research community and convenes groundbreaking collaborations through its think tanks, task forces and scientific advisory committees.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

(2) SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the AACR, the AACR Foundation and AACR International – Canada. All significant interorganization balances and transactions have been eliminated.

Financial Statement Presentation

The AACR and Affiliates report information regarding their financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets that are not subject to donor-imposed restrictions.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the AACR and Affiliates and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting the AACR and Affiliates to expend the income generated in accordance with the provisions of the contribution.

Accounting Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles ("**GAAP**"), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the AACR and Affiliates. Unobservable inputs reflect the AACR and Affiliates' assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the AACR and Affiliates have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the AACR and Affiliates' own assumptions.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Dividend and interest income is recorded as earned.

The AACR and Affiliates invest in a professionally-managed portfolio that contains various types of securities (**See Note 4**). Such investments are exposed to market and credit risk. 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 the amounts reported in the consolidated financial statements could change materially in the near term.

Publication Revenue Receivable

Publication revenue 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. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the consolidated financial statements. The AACR does not charge interest on outstanding balances.

Property and Equipment

The AACR and Affiliates capitalize all expenditures for property and equipment in excess of \$10,000. Property and equipment are carried at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

Revenue

Membership dues and subscriptions are recognized as revenue in the year to which they relate. Registration fees for the annual meeting, special conferences and educational workshops are recognized as revenue in the year of the meetings. Accordingly, such revenues received in advance of the applicable year are included in deferred income in the accompanying statements of financial position.

Grants

Grants are recognized as revenue as the related expenses are incurred.

Contributions

Contributions received are recorded as net assets without donor restrictions or with donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as net assets without donor restrictions.

Unconditional contributions are recognized as revenue when the related promise to give is received. Conditional contributions are recognized as revenue when the conditions are satisfied.

Functional Allocation of Expenses

The costs of providing the various program and other activities have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries and benefits, and rent which are allocated based on estimates of time and effort.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Income Tax Status

The AACR and AACR Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organizations' tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and the AACR and AACR Foundation have been classified as organizations other than a private foundation under Section 509(a)(2) and 509(a)(3), respectively.

AACR International – Canada was established in 2014 as a Canadian not for profit corporation and received its charity status in 2015. It is a wholly owned subsidiary of the AACR.

GAAP prescribes a minimum recognition threshold that a tax position is required to meet in order to be recognized in the financial statements. The AACR and Affiliates believe that they had no uncertain tax positions as defined in GAAP.

Concentrations of Credit Risk

Financial instruments which potentially subject the AACR and Affiliates to concentrations of credit risk are cash, publication revenue receivable, contributions receivable and other receivables.

The AACR maintains cash deposits at various financial institutions. At times, such deposits may exceed federally-insured limits.

Publication revenue receivable consists principally of non-member subscription revenues and reprints and page charges due from authors who submit articles to the AACR's journals. Contributions and other receivables are due primarily from foundations and companies in the pharmaceutical industry (**See Note 5**).

Accounting Pronouncements Adopted

On August 18, 2016, the Financial Accounting Standards Board ("**FASB**") issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The AACR and Affiliates have adjusted the presentation of their consolidated financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the AACR and Affiliates' consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (**Note 10**).

(3) PRIOR PERIOD ADJUSTMENT

During 2018, the AACR determined that certain contributions unconditionally promised in 2017 for future periods were not recorded in the 2017 consolidated financial statements as donor restricted revenue. As a result, the AACR increased contributions receivable and contributions and grants revenue with donor restrictions by \$1,821,500 in the restated 2017 consolidated financial statements. This prior period adjustment had no impact on the 2017 or 2018 operating results (statement of activities without donor restrictions).

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(4) INVESTMENTS

Investments at December 31, consisted of the following:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 51,022	\$ 51,197
U.S. Treasury securities	5,969,140	5,986,100
Common stocks	4,586,954	4,955,352
Mutual funds		
Fixed income	27,585,037	22,460,696
Equity	32,364,584	32,563,876
Limited partnerships	<u>24,559,274</u>	<u>26,773,402</u>
	<u>\$95,116,011</u>	<u>\$92,790,623</u>

Investment income (loss) was comprised of the following:

	<u>2018</u>	<u>2017</u>
Net realized gain	\$ 723,521	\$ 5,309,475
Net unrealized gain (loss)	(8,040,131)	5,119,508
Interest and dividends	1,765,604	1,362,403
Investment management fees	<u>(276,752)</u>	<u>(305,301)</u>
	<u>\$ (5,827,758)</u>	<u>\$11,486,085</u>

Limited partnerships consisted of the following at December 31, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
S&P 500 index hedge fund (a)	\$10,355,262	none	quarterly	60 days
Equity long/short hedge funds (b)	6,911,433	none	daily, semi-annual	90 days
Multi strategy hedge fund (c)	3,131,277	none	daily	5 days
Emerging markets hedge fund (d)	2,089,554	none	monthly	30 days
Private equity funds (e)	<u>2,071,748</u>	1,866,700	none	none
	<u>\$24,559,274</u>			

(a) – This category includes investments in a hedge fund that seeks to outperform the S&P 500 Index using a risk-controlled, analyst-driven approach. The fair values of the investments in this category have been estimated using the net asset value per share. There are no initial lock-up restrictions at December 31, 2018 on this fund.

(b) – This category includes investments in two hedge funds of fund managers that invest in direct hedge fund managers employing long/short and absolute return strategies. The fair values of the investments in this category have been estimated using the net asset value per share. There are no initial lock-up restrictions at December 31, 2018.

(c) – This category includes investments in a hedge fund that aims to deliver an average annual return of five percent above the Bank of England base rate. The aim is to select a combination of strategies which together seek to maximize the chance of achieving the return objective, and manage the volatility of the fund. The fair values of the investments in this category have been estimated using the net asset value per share. There are no initial lock-up restrictions at December 31, 2018.

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(d) – This category includes investments in a hedge fund that invests in publicly traded equity securities principally operating in emerging market countries. The fair values of the investments in this category have been estimated using the net asset value per share. There are no initial lock-up restrictions at December 31, 2018 on this fund.

(e) – This category includes three funds that invests in direct private equity and venture capital partnerships across all industries. These investments can be redeemed early, albeit at a substantial discount. If not redeemed early, distributions will be received through the liquidation of the underlying assets of the fund. The fair values of the investments in this category have been estimated using the net asset value per share.

(5) CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

	<u>2018</u>	<u>2017</u>
In less than one year	\$35,240,696	\$31,290,048
In one to five years	<u>3,337,750</u>	<u>2,678,950</u>
	38,578,446	33,968,998
Less allowance for uncollectible contributions receivable	<u>(40,000)</u>	<u>(40,000)</u>
	<u>\$38,538,446</u>	<u>\$33,928,998</u>

No discount has been recorded on contributions receivable at December 31, 2018 and 2017.

(6) GRANTS PAYABLE

Grants authorized but unpaid at year-end are reported as liabilities. No discount has been recorded due to immateriality since most grants will be paid within 18 months after year end. The following is a summary of grants authorized and payable at December 31,:

	<u>2018</u>	<u>2017</u>
To be paid in less than one year	\$32,412,945	\$21,866,920
To be paid in one to five years	<u>4,964,033</u>	<u>9,954,689</u>
	<u>\$37,376,978</u>	<u>\$31,821,609</u>

(7) NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Board designated net assets consisted of the following:

	<u>Balance</u> <u>December 31, 2017</u>	<u>Additions</u>	<u>Investment</u> <u>Loss</u>	<u>Releases</u>	<u>Balance</u> <u>December 31, 2018</u>
Innovation fund	\$15,230,790	\$5,000,000	\$(508,250)	\$ -	\$19,722,540
Reserve fund	15,521,353	-	-	-	15,521,353
Quasi-Endowment fund	<u>2,729,062</u>	<u>-</u>	<u>(128,425)</u>	<u>(120,000)</u>	<u>2,480,637</u>
	<u>\$33,481,205</u>	<u>\$5,000,000</u>	<u>\$(636,675)</u>	<u>\$(120,000)</u>	<u>\$37,724,530</u>

The Innovation Fund is to implement novel initiatives and projects that are aligned with the AACR's strategic plan. The Reserve Fund is to be used as a reserve for future years' operations. The Quasi-Endowment Fund is to provide annual income distributions that are restricted for educational sessions at the AACR annual meeting and other purposes. For the year ended December 31, 2018, the AACR received an income distribution of \$120,000 from the Quasi-Endowment Fund.

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(8) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes and periods:

	Balance			Balance
	December 31, 2017	Additions	Releases	December 31, 2018
Subject to expenditure for specified purpose or periods				
Research Grants and Fellowships	\$10,152,103	\$11,201,787	\$ (8,887,593)	\$12,466,297
Meetings and Educational Workshops	1,215,645	827,500	(907,500)	1,135,645
Education and Training	151,860	503,432	(101,700)	553,592
Other	980,000	-	(460,000)	520,000
Available in future periods	<u>210,000</u>	<u>152,170</u>	<u>(210,000)</u>	<u>152,170</u>
	<u>12,709,608</u>	<u>12,684,889</u>	<u>(10,566,793)</u>	<u>14,827,704</u>
Net assets to be maintained indefinitely				
Endowment, with an historic dollar value of \$2,615,000, whose income is available to support the programs, services and mission of the AACR	<u>1,767,335</u>	<u>921,580</u>	<u>(76,000)</u>	<u>2,612,915</u>
	<u>\$14,476,943</u>	<u>\$13,606,469</u>	<u>\$(10,642,793)</u>	<u>\$17,440,619</u>
	Balance			Balance
	December 31, 2016	Additions	Releases	December 31, 2017
Subject to expenditure for specified purpose or periods				
Research Grants and Fellowships	\$ 7,825,147	\$ 8,892,856	\$(6,565,900)	\$10,152,103
Meetings and Educational Workshops	1,095,130	907,500	(786,985)	1,215,645
Education and Training	331,043	53,000	(232,183)	151,860
Other	570,000	450,000	(40,000)	980,000
Available in future periods	<u>1,270,000</u>	<u>210,000</u>	<u>(1,270,000)</u>	<u>210,000</u>
	<u>11,091,320</u>	<u>10,513,356</u>	<u>(8,895,068)</u>	<u>12,709,608</u>
Net assets to be maintained indefinitely				
Endowment, with an historic dollar value of \$1,600,000, whose income is available to support the programs, services and mission of the AACR	<u>1,595,203</u>	<u>228,132</u>	<u>(56,000)</u>	<u>1,767,335</u>
	<u>\$12,686,523</u>	<u>\$10,741,488</u>	<u>\$(8,951,068)</u>	<u>\$14,476,943</u>

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Net assets to be maintained indefinitely consisted of the following:

	<u>2018</u>	<u>2017</u>
Endowment		
Cash	\$ 5,000	\$ -
Contributions receivable	750,000	-
Investments	1,848,261	1,753,850
Gift annuity	<u>9,654</u>	<u>13,485</u>
	<u>\$2,612,915</u>	<u>\$1,767,335</u>

(9) ENDOWMENT FUNDS

An accounting standard exists which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The AACR is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the AACR has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The AACR's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the endowment fund to support various programs. The current spending policy is to distribute an amount equal to 5% of a moving three-year average of the fair value of the endowment fund.

Changes in the invested endowment assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Assets</u>
Invested endowment net assets, December 31, 2017	\$2,729,062	\$1,753,850	\$4,482,912
Additions	-	260,000	260,000
Investment loss	(128,425)	(89,589)	(218,014)
Spending policy distribution	<u>(120,000)</u>	<u>(76,000)</u>	<u>(196,000)</u>
Invested endowment net assets, December 31, 2018	<u>\$2,480,637</u>	<u>\$1,848,261</u>	<u>\$4,328,898</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Assets</u>
Invested endowment net assets, December 31, 2016	\$2,479,066	\$1,588,475	\$4,067,541
Additions	-	22,000	22,000
Investment income	369,996	199,375	569,371
Spending policy distribution	<u>(120,000)</u>	<u>(56,000)</u>	<u>(176,000)</u>
Invested endowment net assets, December 31, 2017	<u>\$2,729,062</u>	<u>\$1,753,850</u>	<u>\$4,482,912</u>

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(10) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the AACR and Affiliates' financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash	\$ 12,160,604
Investments	95,116,011
Accounts receivable	<u>40,372,111</u>
Total financial assets	147,648,726
Less: financial assets not available for general operations within one year	
Restricted by donors with purpose restrictions	(14,675,534)
Restricted by donors in perpetuity	(2,612,915)
Investments with liquidity horizons greater than one year	(2,071,748)
Unfunded commitments to private equity funds	(1,866,700)
Board designated funds	<u>(37,724,530)</u>
Total financial assets available within one year	<u>\$ 88,697,299</u>

Liquidity Management

As part of the AACR's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically certificates of deposit and money market funds.

(11) PENSION PLAN AND OTHER BENEFITS

The AACR has a defined contribution pension plan covering substantially all eligible employees. Contributions to the plan, which are determined by the Board of Directors, were \$1,100,176 and \$1,019,986 for 2018 and 2017, respectively.

The AACR has an employment contract with its chief executive officer that provides for various types of compensated leave. The liability to the chief executive officer resulting from this contract and the AACR's standard leave policies, which is included in "accounts payable and other accrued expenses" in the accompanying statements of financial position, was \$1,922,655 at December 31, 2018 and \$1,718,655 at December 31, 2017.

(12) COMMITMENTS

Operating Leases

The AACR leases office space for its headquarters in Philadelphia, Pennsylvania under a lease which expires in 2025 and satellite offices in Washington, D.C. and Boston, MA under leases which expire in 2028 and 2019, respectively. The Philadelphia lease may be renewed for a ten-year period, the Washington D.C. lease may be renewed at the AACR's discretion for a five-year period and the Boston lease does not currently allow for a renewal. Each lease requires the AACR to pay its share of escalations in real estate taxes and operating expenses. Rent expense was \$2,475,930 and \$2,552,876 for 2018 and 2017, respectively.

The leases for office facilities contain scheduled rent increases which are being recognized on a straight-line basis over the lease terms.

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Minimum annual lease commitments under noncancelable office leases are approximately as follows:

<u>Year ending December 31,</u>	
2019	\$ 2,448,187
2020	2,406,291
2021	2,442,906
2022	2,479,715
2023	2,516,669
Thereafter	<u>6,078,851</u>
Total	<u>\$18,372,619</u>

Other Commitments

The AACR also entered into agreements with hotels providing room accommodations for its meetings and educational workshops through the year 2020. These agreements include a guarantee by the AACR that a minimum number of rooms will be rented by conference attendees.

(13) STAND UP TO CANCER

Stand Up To Cancer, a program of the Entertainment Industry Foundation, was created through an unprecedented collaboration uniting the major television networks, entertainment industry executives and celebrities, and prominent leaders in cancer research and patient advocacy. Stand Up To Cancer embarked on a series of projects to raise significant dollars to fund research that will positively impact patient care and prevention. Since 2008, more than \$350 million has been pledged to the AACR by Stand Up To Cancer to accelerate groundbreaking research and bring new treatments to patients.

The AACR has a long-term contract with the Entertainment Industry Foundation to serve as the scientific partner for Stand Up To Cancer. The AACR provides scientific oversight, conducts expert peer review and is responsible for all aspects related to grant administration for Stand Up To Cancer. The funds for the Stand Up To Cancer initiative are recorded as the donor's conditions are satisfied. In 2018, AACR distributed over \$32 million in payments to fund Stand Up To Cancer Research Grants.

(14) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following is a summary of assets and liabilities measured at fair value on a recurring basis and the valuation inputs used to value them at December 31:

2018	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Money market funds	\$ 51,022	\$ 51,022	\$ -	\$ -
U.S. Treasury securities	5,969,140	-	5,969,140	-
Common stocks	4,586,954	4,586,954	-	-
Mutual funds				
Fixed income	27,585,037	27,585,037	-	-
Equity	32,364,584	32,364,584	-	-
Limited partnerships measured at net asset value (a)	<u>24,559,274</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total investments	95,116,011	64,587,597	5,969,140	-

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Contributions receivable	<u>38,538,446</u>	<u>-</u>	<u>38,538,446</u>	<u>-</u>
Total assets	<u>\$133,654,457</u>	<u>\$64,587,597</u>	<u>\$44,507,586</u>	<u>\$ -</u>
Liabilities				
Grants payable	<u>\$ 37,376,978</u>	<u>\$ -</u>	<u>\$37,376,978</u>	<u>\$ -</u>
		Quoted Prices in	Significant Other	Significant
		Active Markets	Observable Inputs	Unobservable Inputs
2017	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets				
Investments				
Money market funds	\$ 51,197	\$ 51,197	\$ -	\$ -
U.S. Treasury securities	5,986,100	-	5,986,100	-
Common stocks	4,955,352	4,955,352	-	-
Mutual funds				
Fixed income	22,460,696	22,460,696	-	-
Equity	32,563,876	32,563,876	-	-
Limited partnerships measured at net asset value (a)	<u>26,773,402</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total investments	92,790,623	60,031,121	5,986,100	-
Contributions receivable	<u>33,928,998</u>	<u>-</u>	<u>33,928,998</u>	<u>-</u>
Total assets	<u>\$126,719,621</u>	<u>\$60,031,121</u>	<u>\$39,915,098</u>	<u>\$ -</u>
Liabilities				
Grants payable	<u>\$ 31,821,609</u>	<u>\$ -</u>	<u>\$31,821,609</u>	<u>\$ -</u>

(a) Certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. These investments have been included in this table to permit reconciliation to the amounts presented in the statement of financial position.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 17, 2019, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 that required recognition in the financial statements.