

American Association for Cancer Research, Inc. and Affiliates

Consolidated Financial Statements
Years Ended December 31, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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.

BBD, LLP.

Philadelphia, Pennsylvania

June 26, 2020

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 24,768,182	\$ 12,160,604
Investments	106,530,250	95,116,011
Accounts receivable		
Publication revenue receivable	1,029,426	1,317,090
Contributions receivable	40,591,603	38,538,446
Other receivables	1,215,153	516,575
Prepaid expenses and other	2,879,169	2,410,364
Property and equipment (net of accumulated depreciation of \$3,418,411 in 2019 and \$3,297,380 in 2018)	700,390	159,130
Total assets	<u>\$ 177,714,173</u>	<u>\$ 150,218,220</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 17,780,532	\$ 9,150,845
Grants payable	40,740,266	37,376,978
Deferred income	9,929,211	14,293,450
Total liabilities	<u>68,450,009</u>	<u>60,821,273</u>
NET ASSETS		
Without donor restrictions		
Undesignated	49,893,484	34,231,798
Board designated	41,144,267	37,724,530
Total net assets without donor restrictions	<u>91,037,751</u>	<u>71,956,328</u>
With donor restrictions		
Total net assets	<u>109,264,164</u>	<u>89,396,947</u>
Total liabilities and net assets	<u>\$ 177,714,173</u>	<u>\$ 150,218,220</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE						
Membership dues	\$ 4,468,939	\$ -	\$ 4,468,939	\$ 4,296,285	\$ -	\$ 4,296,285
Meetings and educational workshops	27,268,248	-	27,268,248	25,709,669	-	25,709,669
Publications	19,250,027	-	19,250,027	20,255,103	-	20,255,103
Scientific initiatives	4,050,891	-	4,050,891	930,938	-	930,938
Endowment distribution	359,000	(209,000)	150,000	196,000	(76,000)	120,000
Other	999,965	-	999,965	1,474,565	-	1,474,565
Total revenue	56,397,070	(209,000)	56,188,070	52,862,560	(76,000)	52,786,560
SUPPORT						
Contributions and grants	59,609,710	10,032,304	69,642,014	50,117,441	13,699,889	63,817,330
NET ASSETS RELEASED FROM RESTRICTIONS						
Total revenue and support	9,399,482	(9,399,482)	-	10,566,793	(10,566,793)	-
EXPENSES						
Program Services						
Research grants and scientific awards	59,736,868	-	59,736,868	53,215,530	-	53,215,530
Meetings and educational workshops	21,056,320	-	21,056,320	19,630,466	-	19,630,466
Publications	12,751,100	-	12,751,100	11,880,366	-	11,880,366
Communications, science policy and public education	8,723,784	-	8,723,784	8,542,656	-	8,542,656
Scientific programs	7,539,398	-	7,539,398	5,128,356	-	5,128,356
Total program services	109,807,470	-	109,807,470	98,397,374	-	98,397,374
Supporting Services						
Membership development and services	2,686,850	-	2,686,850	2,341,936	-	2,341,936
General and administrative	5,767,687	-	5,767,687	6,345,591	-	6,345,591
Fundraising	4,212,569	-	4,212,569	4,445,699	-	4,445,699
Total supporting services	12,667,106	-	12,667,106	13,133,226	-	13,133,226
Total expenses	122,474,576	-	122,474,576	111,530,600	-	111,530,600
CHANGE IN NET ASSETS BEFORE OTHER CHANGES						
	2,931,686	423,822	3,355,508	2,016,194	3,057,096	5,073,290
OTHER CHANGES						
Investment income (loss)	16,149,737	364,614	16,514,351	(5,856,490)	(91,268)	(5,947,758)
Change in value of gift annuity obligations	-	(2,642)	(2,642)	-	(2,152)	(2,152)
	16,149,737	361,972	16,511,709	(5,856,490)	(93,420)	(5,949,910)
CHANGE IN NET ASSETS	19,081,423	785,794	19,867,217	(3,840,296)	2,963,676	(876,620)
NET ASSETS						
Beginning of year	71,956,328	17,440,619	89,396,947	75,796,624	14,476,943	90,273,567
End of year	\$ 91,037,751	\$ 18,226,413	\$ 109,264,164	\$ 71,956,328	\$ 17,440,619	\$ 89,396,947

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2019 with comparative totals for 2018

	<u>Research Grants and Scientific Awards</u>	<u>Meetings and Educational Workshops</u>	<u>Publications</u>	<u>Communications, Science Policy and Public Education</u>	<u>Scientific Programs</u>	<u>Membership Development and Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>	<u>2019</u>	<u>2018</u>
Salaries and fringe benefits	\$ 1,907,490	\$ 5,342,736	\$ 6,805,969	\$ 4,166,420	\$ 1,675,457	\$ 1,609,299	\$ 3,014,927	\$ 2,317,780	\$ 26,840,078	\$ 25,279,316	
Audio-visual services	315,832	3,930,199	19,797	72,661	281,370	64,190	48,677	35,402	4,768,128	5,033,322	
Bad debt expense	-	-	-	-	-	-	-	-	-	95,000	
Commercial exhibits	-	503,550	-	-	-	-	-	-	503,550	538,779	
Computer programming and maintenance	214,212	414,750	224,664	162,621	88,389	61,551	195,518	71,376	1,433,081	852,341	
Credit card fees	-	680,427	57,337	1,525	11	78,108	7,610	17,124	842,142	837,818	
Depreciation	8,037	16,751	20,990	21,939	6,368	5,182	33,552	8,212	121,031	105,684	
Dues and subscriptions	2,500	394	75,293	219,118	11,641	424	47,275	34,854	391,499	364,029	
Duplication, printing and supplies	65,403	162,235	50,972	89,316	53,365	155,917	48,315	41,621	667,144	741,460	
Equipment rental	1,349	14,070	4,698	4,779	1,067	869	2,608	1,264	30,704	36,811	
Grants and awards	55,450,770	409,600	-	-	195,635	-	-	-	56,056,005	49,404,609	
Honoraria	246,000	114,150	708,882	20,000	3,250	-	-	-	1,092,282	1,151,868	
Hotel lodging and facilities rental	511,710	1,854,700	32,169	79,711	190,614	28,464	41,440	43,799	2,782,607	2,980,156	
Insurance	10,298	59,877	26,897	16,769	8,160	6,640	12,515	9,656	150,812	152,709	
Marketing and branding	8,130	1,151,985	297,417	1,510,537	83,108	151,463	787,286	1,004,987	4,994,913	4,632,887	
Meetings and receptions	409,782	2,630,036	74,869	214,039	459,096	103,065	60,076	121,761	4,072,724	3,986,308	
Miscellaneous	18,210	74,159	41,706	25,168	15,217	10,627	276,839	33,866	495,792	446,603	
On-site transportation	456	891,465	-	20,715	-	6,885	-	-	919,521	601,271	
Postage and freight	5,362	122,656	19,224	16,707	3,382	73,375	19,086	7,539	267,331	264,734	
Printing and production	-	273,299	3,099,580	593,457	2,999	17,721	59,297	-	4,046,353	4,025,061	
Professional fees	63,518	549,573	367,403	785,094	4,023,162	8,603	662,676	175,439	6,635,468	4,434,995	
Rent	218,058	468,358	609,160	464,940	173,113	136,268	221,646	199,824	2,491,367	2,475,930	
Telecommunications	28,371	70,256	84,617	88,708	20,179	15,784	48,895	23,369	380,179	426,324	
Temporary personnel	-	53,250	7,070	6,966	-	127,192	42,399	3,314	240,191	273,837	
Travel, speakers and staff	241,869	1,248,049	95,615	127,107	236,277	19,090	120,592	51,384	2,139,983	2,242,547	
Utilities and building maintenance	9,511	19,795	26,771	15,487	7,538	6,133	16,458	9,998	111,691	146,201	
	\$ 59,736,868	\$ 21,056,320	\$ 12,751,100	\$ 8,723,784	\$ 7,539,398	\$ 2,686,850	\$ 5,767,687	\$ 4,212,569	\$ 122,474,576	\$ 111,530,600	

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018

	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	\$ 1,818,068	\$ 4,847,529	\$ 6,127,273	\$ 3,963,701	\$ 1,693,421	\$ 1,379,958	\$ 2,887,140	\$ 2,562,226	\$ 25,279,316
Audio-visual services	368,537	3,961,268	50,056	80,746	350,271	72,125	92,277	58,042	5,033,322
Bad debt expense	-	-	95,000	-	-	-	-	-	95,000
Commercial exhibits	-	538,779	-	-	-	-	-	-	538,779
Computer programming and maintenance	136,420	337,104	104,332	92,666	28,843	23,104	98,678	31,194	852,341
Credit card fees	43	622,341	88,878	6,455	10	87,611	6,479	26,001	837,818
Depreciation	7,930	14,750	17,957	19,909	5,300	4,003	28,705	7,130	105,684
Dues and subscriptions	2,559	2,394	103,986	180,456	8,013	2,020	40,493	24,108	364,029
Duplication, printing and supplies	55,345	168,815	47,777	141,103	43,797	137,893	67,530	79,200	741,460
Equipment rental	1,589	17,652	4,436	4,172	4,613	804	2,233	1,312	36,811
Grants and awards	48,732,308	348,000	-	-	324,301	-	-	-	49,404,609
Honoraria	254,000	111,900	746,718	20,000	19,250	-	-	-	1,151,868
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
Insurance	11,931	59,958	27,013	16,633	7,971	6,022	13,100	10,081	152,709
Marketing and branding	17,145	1,185,424	194,297	1,479,293	114,805	100,068	646,521	895,334	4,632,887
Meetings and receptions	490,449	2,498,598	83,098	235,925	392,516	84,095	78,857	122,770	3,986,308
Miscellaneous	20,429	48,047	31,690	53,002	14,922	23,270	199,816	55,427	446,603
On-site transportation	11,558	551,338	-	25,344	1,995	6,310	3,913	813	601,271
Postage and freight	10,076	95,317	20,362	15,906	3,949	86,193	22,380	10,551	264,734
Printing and production	-	209,499	3,030,047	732,508	-	8,674	26,771	17,562	4,025,061
Professional fees	196,840	242,484	292,422	690,070	1,361,170	199	1,476,272	175,538	4,434,995
Rent	242,286	442,102	600,073	458,325	153,405	122,512	261,954	195,273	2,475,930
Telecommunications	39,640	67,749	90,758	106,091	22,234	16,637	56,041	27,174	426,324
Temporary personnel	-	55,097	-	-	-	130,197	78,875	9,668	273,837
Travel, speakers and staff	288,112	1,244,025	60,971	136,764	346,321	10,404	81,582	74,368	2,242,547
Utilities and building maintenance	12,935	24,073	32,841	18,923	8,644	6,530	31,583	10,672	146,201
	\$ 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

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 19,867,217	\$ (876,620)
<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	(377,425)	(723,521)
Net unrealized (gain) loss on investments	(14,021,968)	8,040,131
Bad debt expense	-	95,000
Depreciation	121,031	105,684
Contributions restricted for long-term purposes	(3,000)	(1,015,000)
Change in value of gift annuity obligations	2,642	2,152
(Increase) decrease in		
Accounts receivable	(2,464,071)	(3,021,671)
Prepaid expenses and other	(468,805)	(166,426)
Increase (decrease) in		
Accounts payable and other accrued expenses	8,627,045	1,649,746
Grants payable	3,363,288	5,555,369
Deferred income	<u>(4,364,239)</u>	<u>24,734</u>
Net cash provided by operating activities	<u>10,281,715</u>	<u>9,669,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	12,644,041	17,538,750
Purchase of investments	(9,658,887)	(27,180,748)
Acquisition of property and equipment	<u>(662,291)</u>	<u>(58,901)</u>
Net cash provided by (used for) investing activities	<u>2,322,863</u>	<u>(9,700,899)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for endowment	<u>3,000</u>	<u>265,000</u>
Net change in cash	<u>12,607,578</u>	<u>233,679</u>
CASH BALANCE		
Beginning of year	<u>12,160,604</u>	<u>11,926,925</u>
End of year	<u>\$ 24,768,182</u>	<u>\$ 12,160,604</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(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 research funding for cancer researchers, both domestically and internationally, to support every stage of their careers with fellowships, career development awards, independent investigator grants, and team science grants. Through its grants and awards, the AACR helps to sustain a robust cancer workforce and high quality cancer research to understand, prevent, detect, and treat cancer.

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 nine 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, 2019 and 2018

(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, 2019 and 2018

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 3**). 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 Recognition

Membership dues are on a calendar year and invoiced based on fixed rate schedules prior to the membership year, which creates a deferred revenue balance upon collection. Revenue from membership dues is recognized as revenue on a pro rata basis over the membership year as membership benefits are provided.

Publication fees are fixed at the time of purchase based on price listings or negotiated rates. Customers can pay at the time of purchase or are invoiced for purchases. Subscription revenue from publications is recognized in the period that the publication is delivered to the customer or over the period of time that a customer may access the resource depending on the type of publication. Author publication fees are recognized when the manuscript is accepted for publication.

Meetings and educational workshop fees are based on published fixed rates and collected either at the time of registration, in advance of the meeting resulting in a deferred revenue balance or at the time the meeting takes place and immediately recognized as revenue. Educational workshop revenues are recognized in the period the meetings are conducted.

Deferred revenue at December 31, 2019 is expected to be recognized as revenue in 2020.

Contributions and Grants

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

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 fringe benefits which are allocated based on estimates of time and effort.

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 4**).

Accounting Pronouncements Adopted

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The AACR adopted ASU 2014-09 on January 1, 2019 using the modified retrospective method approach.

The AACR performed an analysis of revenue streams and transactions under ASU 2014-09, including applying the portfolio approach as a practical expedient to group contracts with similar characteristics such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by contract basis. The impact of adopting ASU 2014-09 was not material to total revenues without donor restrictions, excess of revenues, support and gains over expenses and losses, or total net assets. The AACR's revenue recognition policies are detailed within Note 2.

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In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and accounting guidance for contributions received and made and assists entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance, and in determining whether a contribution is conditional. The AACR adopted ASU 2018-08 on January 1, 2019.

(3) INVESTMENTS

Investments at December 31, consisted of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 25,316	\$ 51,022
U.S. Treasury securities	-	5,969,140
Common stocks	5,834,283	4,586,954
Mutual funds		
Fixed income	30,924,393	27,585,037
Equity	39,068,053	32,364,584
Limited partnerships	<u>30,678,205</u>	<u>24,559,274</u>
	<u>\$106,530,250</u>	<u>\$95,116,011</u>

Investment income (loss) was comprised of the following:

	<u>2019</u>	<u>2018</u>
Net realized gain	\$ 377,425	\$ 723,521
Net unrealized gain (loss)	14,021,968	(8,040,131)
Interest and dividends	2,566,736	1,765,604
Investment management fees	<u>(301,778)</u>	<u>(276,752)</u>
	<u>\$ 16,664,351</u>	<u>\$ (5,827,758)</u>

Investments are measured at fair value using level 1 inputs except for U.S. Treasury securities which use level 2 inputs and limited partnerships which are measured at net asset value.

Limited partnerships consisted of the following at December 31, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
S&P 500 index hedge fund (a)	\$13,870,438	none	quarterly	60 days
Equity long/short hedge funds (b)	7,567,784	none	daily, semi-annual	90 days
Multi strategy hedge fund (c)	3,490,377	none	daily	5 days
Emerging markets hedge fund (d)	2,534,601	none	monthly	30 days
Private equity funds (e)	<u>3,215,005</u>	<u>\$2,996,758</u>	none	none
	<u>\$30,678,205</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, 2019 on this fund.

(b) – This category includes investments in a hedge fund 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, 2019.

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(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, 2019.

(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, 2019 on this fund.

(e) – This category includes four 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.

(4) CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

	<u>2019</u>	<u>2018</u>
In less than one year	\$37,000,853	\$35,240,696
In one to five years	<u>3,630,750</u>	<u>3,337,750</u>
	40,631,603	38,578,446
Less allowance for uncollectible contributions receivable	<u>(40,000)</u>	<u>(40,000)</u>
	<u>\$40,591,603</u>	<u>\$38,538,446</u>

No discount has been recorded on contributions receivable at December 31, 2019 and 2018.

(5) 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>2019</u>	<u>2018</u>
To be paid in less than one year	\$38,842,766	\$32,412,945
To be paid in one to five years	<u>1,897,500</u>	<u>4,964,033</u>
	<u>\$40,740,266</u>	<u>\$37,376,978</u>

(6) NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Board designated net assets consisted of the following:

	<u>Balance December 31, 2018</u>	<u>Additions</u>	<u>Investment Income</u>	<u>Releases</u>	<u>Balance December 31, 2019</u>
Innovation fund	\$19,722,540	\$ -	\$3,093,045	\$ -	\$22,815,585
Reserve fund	15,521,353	-	-	-	15,521,353
Quasi-Endowment fund	<u>2,480,637</u>	<u>-</u>	<u>476,692</u>	<u>(150,000)</u>	<u>2,807,329</u>
	<u>\$37,724,530</u>	<u>\$ -</u>	<u>\$3,569,737</u>	<u>\$(150,000)</u>	<u>\$41,144,267</u>

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	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Investment Loss</u>	<u>Releases</u>	<u>Balance 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 years ended December 31, 2019 and 2018, the AACR received income distributions of \$150,000 and \$120,000, respectively, from the Quasi-Endowment Fund.

(7) NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>Balance December 31, 2018</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance December 31, 2019</u>
Subject to expenditure for specified purpose or periods				
Research Grants and				
Fellowships	\$12,466,297	\$ 7,597,492	\$(7,943,550)	\$12,120,239
Meetings and				
Educational Workshops	1,135,645	2,205,000	(777,500)	2,563,145
Education and Training	553,592	126,812	(553,432)	126,972
Other	520,000	-	-	520,000
Available in future periods	<u>152,170</u>	<u>100,000</u>	<u>(125,000)</u>	<u>127,170</u>
	<u>14,827,704</u>	<u>10,029,304</u>	<u>(9,399,482)</u>	<u>15,457,526</u>

Net assets to be maintained indefinitely

Endowment, with an historic dollar value of \$2,618,000, whose income is available to support the programs, services and mission of the AACR	2,612,915	364,972	(209,000)	2,768,887
	<u>\$17,440,619</u>	<u>\$10,394,276</u>	<u>\$(9,608,482)</u>	<u>\$18,226,413</u>

	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance December 31, 2018</u>
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>

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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

1,767,335	921,580	(76,000)	2,612,915
\$14,476,943	\$13,606,469	\$(10,642,793)	\$17,440,619

Net assets to be maintained indefinitely consisted of the following:

	<u>2019</u>	<u>2018</u>
Endowment		
Cash	\$ 8,000	\$ 5,000
Contributions receivable	500,000	750,000
Investments	2,248,426	1,848,261
Gift annuity	<u>12,461</u>	<u>9,654</u>
	<u>\$2,768,887</u>	<u>\$2,612,915</u>

(8) 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, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Assets</u>
Invested endowment net assets, December 31, 2018	\$2,480,637	\$1,848,261	\$4,328,898
Additions	-	250,000	250,000
Investment gain	476,692	359,165	835,857
Spending policy distribution	<u>(150,000)</u>	<u>(209,000)</u>	<u>(359,000)</u>
Invested endowment net assets, December 31, 2019	<u>\$2,807,329</u>	<u>\$2,248,426</u>	<u>\$5,055,755</u>

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	<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>

(9) 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.

	<u>2019</u>	<u>2018</u>
Cash	\$ 24,768,182	\$ 12,160,604
Investments	106,530,250	95,116,011
Accounts receivable	<u>42,836,182</u>	<u>40,372,111</u>
Total financial assets	174,134,614	147,648,726
Less: financial assets not available for general operations within one year		
Restricted by donors with purpose restrictions	(15,330,356)	(14,675,534)
Restricted by donors in perpetuity	(2,768,887)	(2,612,915)
Investments with liquidity horizons greater than one year	(3,215,005)	(2,071,748)
Unfunded commitments to private equity funds	(2,996,758)	(1,866,700)
Board designated funds	<u>(41,144,267)</u>	<u>(37,724,530)</u>
Total financial assets available within one year	<u>\$108,679,341</u>	<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 U.S. Treasury securities and money market funds.

(10) 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 \$1,154,053 and \$1,100,176 for 2019 and 2018, 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 \$1,636,884 at December 31, 2019 and \$1,922,655 at December 31, 2018.

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(11) 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 \$2,491,367 and \$2,475,930 for 2019 and 2018, respectively.

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

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

Year ending December 31,

2020	\$ 2,406,291
2021	2,442,906
2022	2,479,715
2023	2,516,669
2024	2,553,816
Thereafter	<u>3,525,035</u>
Total	<u>\$15,924,432</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.

(12) 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 \$366 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 2019, AACR distributed over \$42 million in payments to fund Stand Up To Cancer Research Grants.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2020 the date on which the consolidated financial statements were available to be issued. The AACR evaluated its December 31, 2019 financial statements for subsequent events through the date the financial statements were issued. The extent of the impact of COVID-19 on AACR's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, all of which cannot be predicted at this time. No other material subsequent events have occurred since December 31, 2019 that required recognition in the financial statements.
