

American Association For Cancer Research, Inc. and Affiliates

Consolidated Financial Statements
Years Ended December 31, 2017 and 2016



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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

Report on the Financial Statements

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, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consolidated financial position of the American Association for Cancer Research, Inc. and Affiliates as of December 31, 2017 and 2016, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018, on our consideration of American Association for Cancer Research, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of American Association for Cancer Research, Inc. and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Association for Cancer Research, Inc. and Affiliates' internal control over financial reporting and compliance.

BBD, LLP.

Philadelphia, Pennsylvania
May 2, 2018

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 11,926,925	\$ 19,131,898
Investments	92,790,623	69,848,604
Accounts receivable		
Publication revenue receivable (net of allowance of \$130,000 in 2016)	1,019,796	1,560,142
Contributions receivable	32,107,498	17,606,665
Other receivables	1,746,646	6,267
Prepaid expenses and other	2,243,938	2,186,889
Property and equipment (net of accumulated depreciation of \$3,489,511 in 2017 and \$5,878,886 in 2016)	<u>205,913</u>	<u>154,368</u>
Total assets	<u>\$ 142,041,339</u>	<u>\$ 110,494,833</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 7,498,947	\$ 6,451,927
Grants payable	31,821,609	17,030,889
Deferred income	<u>14,268,716</u>	<u>13,685,457</u>
Total liabilities	<u>53,589,272</u>	<u>37,168,273</u>
NET ASSETS		
Unrestricted		
Undesignated	45,044,481	35,118,684
Board designated		
Reserve fund	15,521,353	15,521,353
Innovation fund	<u>15,230,790</u>	<u>10,000,000</u>
Total unrestricted net assets	75,796,624	60,640,037
Temporarily restricted	10,888,108	11,091,320
Permanently restricted	<u>1,767,335</u>	<u>1,595,203</u>
Total net assets	<u>88,452,067</u>	<u>73,326,560</u>
Total liabilities and net assets	<u>\$ 142,041,339</u>	<u>\$ 110,494,833</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE								
Membership dues	\$ 4,145,566	\$ -	\$ -	\$ 4,145,566	\$ 4,028,199	\$ -	\$ -	\$ 4,028,199
Meetings and educational workshops	23,648,781	-	-	23,648,781	19,111,543	-	-	19,111,543
Publications	17,920,478	-	-	17,920,478	18,233,271	-	-	18,233,271
Scientific initiatives	1,615,000	-	-	1,615,000	-	-	-	-
Endowment distribution	176,000	-	(56,000)	120,000	156,000	-	(36,000)	120,000
Other	1,054,170	-	-	1,054,170	859,462	-	-	859,462
Total revenue	48,559,995	-	(56,000)	48,503,995	42,388,475	-	(36,000)	42,352,475
SUPPORT								
Contributions and grants	55,516,373	8,691,856	22,000	64,230,229	39,243,726	8,269,099	778,000	48,290,825
NET ASSETS RELEASED FROM RESTRICTIONS	8,895,068	(8,895,068)	-	-	7,283,853	(7,283,853)	-	-
Total revenue and support	112,971,436	(203,212)	(34,000)	112,734,224	88,916,054	985,246	742,000	90,643,300
EXPENSES								
Program Services								
Research grants and scientific awards	54,556,901	-	-	54,556,901	38,460,729	-	-	38,460,729
Meetings and educational workshops	18,130,349	-	-	18,130,349	15,633,634	-	-	15,633,634
Publications	11,622,941	-	-	11,622,941	11,359,851	-	-	11,359,851
Communications, science policy and public education	8,585,386	-	-	8,585,386	7,953,703	-	-	7,953,703
Scientific and educational programs	4,444,488	-	-	4,444,488	3,993,352	-	-	3,993,352
Total program services	97,340,065	-	-	97,340,065	77,401,269	-	-	77,401,269
Supporting Services								
Membership development and services	2,134,975	-	-	2,134,975	2,232,479	-	-	2,232,479
General and administrative	5,017,314	-	-	5,017,314	3,789,887	-	-	3,789,887
Fundraising	4,646,576	-	-	4,646,576	3,795,012	-	-	3,795,012
Total supporting services	11,798,865	-	-	11,798,865	9,817,378	-	-	9,817,378
Total expenses	109,138,930	-	-	109,138,930	87,218,647	-	-	87,218,647
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	3,832,506	(203,212)	(34,000)	3,595,294	1,697,407	985,246	742,000	3,424,653
OTHER CHANGES								
Investment income	11,324,081	-	208,313	11,532,394	3,525,758	-	60,933	3,586,691
Change in value of gift annuity obligations	-	-	(2,181)	(2,181)	-	-	(2,210)	(2,210)
	11,324,081	-	206,132	11,530,213	3,525,758	-	58,723	3,584,481
CHANGE IN NET ASSETS	15,156,587	(203,212)	172,132	15,125,507	5,223,165	985,246	800,723	7,009,134
NET ASSETS								
Beginning of year	60,640,037	11,091,320	1,595,203	73,326,560	55,416,872	10,106,074	794,480	66,317,426
End of year	\$ 75,796,624	\$ 10,888,108	\$ 1,767,335	\$ 88,452,067	\$ 60,640,037	\$ 11,091,320	\$ 1,595,203	\$ 73,326,560

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017 with comparative totals for 2016

	Research Grants and Scientific Awards	Meetings and Educational Workshops	Publications	Communications, Science Policy and Public Education	Scientific and Educational Programs	Membership Development and Services	General and Administrative	Fundraising	Totals	
									2017	2016
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	\$ 21,797,694
Audio-visual services	115,706	3,073,778	28,752	101,192	205,350	48,428	20,307	44,881	3,638,394	2,808,718
Bad debt expense	-	-	71,301	-	-	-	-	-	71,301	195,732
Commercial exhibits	-	426,089	-	-	-	-	-	-	426,089	342,624
Computer programming and maintenance	156,111	537,598	149,520	124,152	53,913	34,455	127,722	46,171	1,229,642	897,974
Credit card fees	-	556,308	93,725	5,453	31	108,106	5,334	11,736	780,693	708,382
Depreciation	8,062	18,785	20,214	13,126	4,298	4,659	36,335	7,575	113,054	226,659
Dues and subscriptions	3,042	1,653	67,084	196,630	5,495	3,653	41,025	20,338	338,920	400,327
Duplication, printing and supplies	32,435	188,031	53,808	109,718	29,035	120,281	59,975	72,097	665,380	705,950
Equipment rental	3,904	14,701	4,886	4,567	4,188	721	6,059	1,076	40,102	26,576
Grants and awards	51,399,269	290,636	-	-	141,888	-	-	-	51,831,793	35,834,509
Honoraria	160,500	80,550	705,887	21,000	13,750	-	-	-	981,687	923,587
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	1,997,178
Insurance	11,863	59,260	29,748	17,647	6,318	6,856	14,949	10,230	156,871	158,920
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	4,090,562
Meetings and receptions	340,597	2,400,527	65,495	179,707	281,847	103,437	272,136	144,207	3,787,953	3,412,927
Miscellaneous	22,516	93,599	37,283	26,082	9,896	5,954	153,742	50,648	399,720	433,007
On-site transportation	12,042	492,750	-	19,608	1,121	6,020	6,627	-	538,168	493,619
Postage and freight	5,634	137,569	24,902	22,123	3,939	88,797	21,018	11,524	315,506	308,728
Printing and production	-	266,714	2,947,638	624,581	-	11,944	-	4,200	3,855,077	3,499,184
Professional fees	133,403	423,009	388,878	633,454	1,683,896	13,362	977,423	123,173	4,376,598	3,048,358
Rent	234,876	438,426	634,921	501,116	113,351	135,805	298,373	196,008	2,552,876	2,444,584
Telecommunications	28,320	60,769	75,903	58,509	12,153	12,978	42,027	19,766	310,425	288,399
Temporary personnel	-	63,180	4,969	4,980	1,994	65,259	44,585	23,965	208,932	181,037
Travel, speakers and staff	203,078	1,118,526	64,685	129,372	152,427	12,059	104,410	56,863	1,841,420	1,828,902
Utilities and building maintenance	11,014	20,978	30,644	18,428	5,856	7,089	35,276	9,477	138,762	164,510
	\$ 54,556,901	\$ 18,130,349	\$ 11,622,941	\$ 8,585,386	\$ 4,444,488	\$ 2,134,975	\$ 5,017,314	\$ 4,646,576	\$ 109,138,930	\$ 87,218,647

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

	<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 and Educational Programs</u>	<u>Membership Development and Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,458,951	\$ 4,134,984	\$ 5,743,231	\$ 3,471,254	\$ 1,142,961	\$ 1,333,684	\$ 2,452,901	\$ 2,059,728	\$ 21,797,694
Audio-visual services	100,659	2,222,150	9,900	62,834	310,003	55,943	23,471	23,758	2,808,718
Bad debt expense	-	-	195,732	-	-	-	-	-	195,732
Commercial exhibits	-	342,624	-	-	-	-	-	-	342,624
Computer programming and maintenance	125,633	390,323	103,544	78,493	33,850	26,775	96,833	42,523	897,974
Credit card fees	-	475,966	128,049	2,724	429	88,295	3,256	9,663	708,382
Depreciation	13,131	43,643	39,323	29,347	8,119	8,561	71,870	12,665	226,659
Dues and subscriptions	2,714	1,267	106,365	209,693	18,817	540	43,099	17,832	400,327
Duplication, printing and supplies	47,811	168,191	47,497	123,772	40,924	170,580	58,988	48,187	705,950
Equipment rental	278	16,963	2,042	1,845	168	180	4,854	246	26,576
Grants and awards	35,328,144	326,415	-	-	179,950	-	-	-	35,834,509
Honoraria	156,500	71,785	672,802	20,000	2,500	-	-	-	923,587
Hotel lodging and facilities rental	215,421	1,325,183	13,680	105,396	261,688	17,828	33,008	24,974	1,997,178
Insurance	11,919	53,675	31,655	21,827	7,368	7,750	13,545	11,181	158,920
Marketing and branding	13,864	1,151,938	228,462	1,705,207	38,670	82,591	3,237	866,593	4,090,562
Meetings and receptions	333,560	2,190,714	76,730	140,755	419,398	112,200	39,562	100,008	3,412,927
Miscellaneous	25,882	73,081	55,469	26,799	11,535	6,503	128,680	105,058	433,007
On-site transportation	12,373	443,232	-	19,174	5,543	7,484	5,649	164	493,619
Postage and freight	10,421	123,049	18,333	30,919	5,853	90,032	15,540	14,581	308,728
Printing and production	-	173,970	2,708,492	613,278	-	3,444	-	-	3,499,184
Professional fees	150,843	310,917	341,101	617,254	1,157,795	1,893	321,892	146,663	3,048,358
Rent	221,489	380,509	641,516	455,337	128,384	125,113	298,754	193,482	2,444,584
Telecommunications	23,737	43,832	68,763	72,962	15,911	11,995	34,063	17,136	288,399
Temporary personnel	3,135	49,323	19,283	481	-	66,905	25,472	16,438	181,037
Travel, speakers and staff	193,347	1,098,357	74,199	120,627	196,738	6,690	64,468	74,476	1,828,902
Utilities and building maintenance	10,917	21,543	33,683	23,725	6,748	7,493	50,745	9,656	164,510
	<u>\$ 38,460,729</u>	<u>\$ 15,633,634</u>	<u>\$ 11,359,851</u>	<u>\$ 7,953,703</u>	<u>\$ 3,993,352</u>	<u>\$ 2,232,479</u>	<u>\$ 3,789,887</u>	<u>\$ 3,795,012</u>	<u>\$ 87,218,647</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 15,125,507	\$ 7,009,134
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Net realized (gain) loss on sale of investments	(5,309,475)	256,793
Net unrealized gain on investments	(5,119,508)	(2,894,250)
Bad debt expense	71,301	195,732
Depreciation	113,054	226,659
Contributions restricted for long-term purposes	(22,000)	(778,000)
Change in value of gift annuity obligations	2,181	2,210
(Increase) decrease in		
Accounts receivable	(15,772,167)	1,666,636
Prepaid expenses and other	(57,049)	(548,995)
Increase (decrease) in		
Accounts payable and other accrued expenses	1,044,839	1,218,891
Grants payable	14,790,720	(527,494)
Deferred income	583,259	447,486
Net cash provided by operating activities	<u>5,450,662</u>	<u>6,274,802</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	33,769,774	4,325,609
Purchase of investments	(46,282,810)	(5,217,799)
Acquisition of property and equipment	<u>(164,599)</u>	<u>(89,226)</u>
Net cash used for investing activities	<u>(12,677,635)</u>	<u>(981,416)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for endowment	<u>22,000</u>	<u>978,000</u>
Net change in cash	(7,204,973)	6,271,386
CASH BALANCE		
Beginning of year	<u>19,131,898</u>	<u>12,860,512</u>
End of year	<u>\$ 11,926,925</u>	<u>\$ 19,131,898</u>
SUPPLEMENTAL INFORMATION		
Income taxes paid	<u>\$ 20,000</u>	<u>\$ 45,000</u>

See accompanying notes

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(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 and Educational 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, 2017 and 2016

(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 three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions. Included in unrestricted net assets are two Board designated funds, the Reserve and Innovation funds. The Reserve Fund is to be used as a reserve for future years' operations. The Innovation Fund is to implement novel initiatives and projects that are aligned with AACR's strategic plan. These funds can be increased or decreased annually at the discretion of the Board of Directors and have no other restrictions as to their use.

Temporarily restricted net assets

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as *net assets released from restrictions*.

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that neither expire by passage of time nor can be satisfied by actions of the AACR and Affiliates.

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.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 unrestricted, temporarily restricted or permanently restricted net assets 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 unrestricted.

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 supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited, primarily based upon the relative time spent by the AACR and Affiliates employees on each function.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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. During 2017 and 2016, the AACR incurred \$10,452 and \$31,261, respectively, of unrelated business income tax resulting from net advertising revenue. 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**).

(3) INVESTMENTS

Investments at December 31, consisted of the following:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 51,197	\$ 604,001
U.S. Treasury securities	5,986,100	-
Common stocks	4,955,352	6,006,843
Mutual funds		
Fixed income	22,460,696	12,692,559
Equity	32,563,876	19,926,651
Limited partnerships	<u>26,773,402</u>	<u>30,618,550</u>
	<u>\$92,790,623</u>	<u>\$69,848,604</u>

Investment income (loss) was comprised of the following:

	<u>2017</u>	<u>2016</u>
Net realized gain (loss)	\$ 5,309,475	\$ (256,793)
Net unrealized gain	5,119,508	2,894,250
Interest and dividends	<u>1,223,411</u>	<u>1,069,234</u>
	<u>\$11,652,394</u>	<u>\$ 3,706,691</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Limited partnerships consisted of the following at December 31, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
S&P 500 index hedge fund (a)	\$11,517,511	none	quarterly	60 days
Equity long/short hedge funds (b)	7,850,066	none	daily, semi-annual	90 days
Multi strategy hedge fund (c)	3,260,994	none	daily	5 days
Emerging markets hedge fund (d)	2,486,787	none	monthly	30 days
Private equity funds (e)	<u>1,658,044</u>	880,100	none	none
	<u>\$26,773,402</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, 2017 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, 2017.

(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, 2017.

(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, 2017 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.

(4) CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

	<u>2017</u>	<u>2016</u>
In less than one year	\$29,468,548	\$12,522,832
In one to five years	<u>2,678,950</u>	<u>5,123,833</u>
	32,147,498	17,646,665
Less allowance for uncollectible contributions receivable	<u>(40,000)</u>	<u>(40,000)</u>
	<u>\$32,107,498</u>	<u>\$17,606,665</u>

No discount has been recorded on contributions receivable at December 31, 2017 and 2016.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(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>2017</u>	<u>2016</u>
To be paid in less than one year	\$21,866,920	\$12,096,255
To be paid in one to five years	<u>9,954,689</u>	<u>4,934,634</u>
	<u>\$31,821,609</u>	<u>\$17,030,889</u>

(6) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and periods:

	<u>Balance</u> <u>December 31, 2016</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31, 2017</u>
Purpose restrictions				
Research Grants and Fellowships	\$ 7,825,147	\$7,521,356	\$(6,565,900)	\$ 8,780,603
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	-	(40,000)	530,000
Time restrictions				
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>\$8,691,856</u>	<u>\$(8,895,068)</u>	<u>\$10,888,108</u>

	<u>Balance</u> <u>December 31, 2015</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31, 2016</u>
Purpose restrictions				
Research Grants and Fellowships	\$ 6,349,474	\$6,163,099	\$(4,687,426)	\$ 7,825,147
Meetings and Educational Workshops	1,626,630	710,000	(1,241,500)	1,095,130
Education and Training	1,292,543	126,000	(1,087,500)	331,043
Other	580,000	-	(10,000)	570,000
Time restrictions				
Future periods	<u>257,427</u>	<u>1,270,000</u>	<u>(257,427)</u>	<u>1,270,000</u>
	<u>\$10,106,074</u>	<u>\$8,269,099</u>	<u>\$(7,283,853)</u>	<u>\$11,091,320</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(7) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Endowment		
Cash	\$ -	\$ 978,000
Investments	1,753,850	610,475
Gift annuity	<u>13,485</u>	<u>6,728</u>
	<u>\$1,767,335</u>	<u>\$1,595,203</u>

The AACR Foundation's permanently restricted endowment provides income to support the programs, services and mission of the AACR. The endowment intends to pay out 5% annually. In 2017 and 2016, \$56,000 and \$36,000, respectively, of income was spent for these purposes.

Permanently restricted net assets also consist of a charitable gift annuity. Upon the death of the donor, the remaining balance of the annuity will be used to fund an endowment.

(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 (both donor-restricted endowment funds and unrestricted 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 permanently restricted 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 endowment assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
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>
Endowment net assets, December 31, 2017	<u>\$2,729,062</u>	<u>\$1,753,850</u>	<u>\$4,482,912</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, December 31, 2015	\$ -	\$ 787,566	\$ 787,566
Additions	2,425,634	778,000	3,203,634
Investment income	173,432	58,909	232,341
Spending policy distribution	<u>(120,000)</u>	<u>(36,000)</u>	<u>(156,000)</u>
Endowment net assets, December 31, 2016	<u>\$2,479,066</u>	<u>\$1,588,475</u>	<u>\$4,067,541</u>

(9) 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 \$1,019,986 and \$935,617 for 2017 and 2016, 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 \$1,718,655 at December 31, 2017 and \$1,716,447 at December 31, 2016.

(10) 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 may be renewed for a three-year period. Each lease requires the AACR to pay its share of escalations in real estate taxes and operating expenses. Rent expense was \$2,552,876 and \$2,444,584 for 2017 and 2016, 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,

2018	\$ 2,409,744
2019	2,448,187
2020	2,406,291
2021	2,442,906
2022	2,479,715
Thereafter	<u>8,595,520</u>
Total	<u>\$20,782,363</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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.

(11) 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 \$344 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 2017, AACR distributed over \$27 million in payments to fund Stand Up To Cancer Research Grants.

(12) 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:

<u>2017</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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>32,107,498</u>	<u>-</u>	<u>32,107,498</u>	<u>-</u>
Total assets	<u>\$124,898,121</u>	<u>\$60,031,121</u>	<u>\$38,093,598</u>	<u>\$ -</u>
Liabilities				
Grants payable	<u>\$ 31,821,609</u>	<u>\$ -</u>	<u>\$31,821,609</u>	<u>\$ -</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

2016	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	\$ 604,001	\$ 604,001	\$ -	\$ -
Marketable equity securities	6,006,843	6,006,843	-	-
Mutual funds				
Fixed income	12,692,559	12,692,559	-	-
Equity	19,926,651	19,926,651	-	-
Limited partnerships measured at net asset value (a)	<u>30,618,550</u>	N/A	N/A	N/A
Total investments	69,848,604	39,230,054	-	-
Contributions receivable	<u>17,606,665</u>	-	<u>17,606,665</u>	-
Total assets	<u>\$87,455,269</u>	<u>\$39,230,054</u>	<u>\$17,606,665</u>	<u>\$ -</u>
Liabilities				
Grants payable	<u>\$17,030,889</u>	-	<u>\$17,030,889</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.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 2, 2018, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2017 that required recognition in the financial statements.

ADDITIONAL INFORMATION

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2017

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Research and Development Cluster			
U.S. Department of Health and Human Services Direct Programs:			
<i>Cancer Biology Research</i>			
AACR Conference on The Science of Health Disparities in Racial/Ethnic Minorities and the Medically Underserved	93.396	N/A	\$ 66,000
MSI Faculty in the Field of Cancer Research			52,592
Young Minority Scientists in the Field of Cancer			<u>68,883</u>
			<u>187,475</u>
 <i>Cancer Research Manpower</i>			
Integrative Molecular Epidemiology Workshop	93.398	N/A	249,213
Methods in Clinical Cancer Research Workshop			224,999
Molecular Biology in Clinical Oncology Workshop			<u>249,978</u>
			<u>724,190</u>
 Total Expenditures of Federal Awards			 <u>\$911,665</u>

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2017

(1) GENERAL INFORMATION

The accompanying schedule of expenditures of federal awards presents the activities in all the federal financial assistance programs of the American Association for Cancer Research, Inc. and Affiliates. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies or nonprofit organizations are included on the schedule.

(2) BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

(3) RELATIONSHIP TO BASIC CONSOLIDATED FINANCIAL STATEMENTS

Federal awards expenditures are reported in the consolidated statement of activities as program services. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedule of expenditures of federal awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal awards.

(4) INDIRECT COSTS

The American Association for Cancer Research, Inc. and Affiliates has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended December 31, 2017

There were no audit findings for the year ended December 31, 2016.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American Association for Cancer Research, Inc. and Affiliates (nonprofit organizations), which comprise the consolidated statement of financial position as of December 31, 2017, 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, and have issued our report thereon dated May 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered American Association for Cancer Research, Inc. and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Association for Cancer Research, Inc. and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of American Association for Cancer Research, Inc. and Affiliates' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Association for Cancer Research, Inc. and Affiliates' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BBD, LLP.

Philadelphia, Pennsylvania
May 2, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Major Federal Program

We have audited American Association for Cancer Research, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on American Association for Cancer Research, Inc. and Affiliates' major federal program for the year ended December 31, 2017. American Association for Cancer Research, Inc. and Affiliates' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for American Association for Cancer Research, Inc. and Affiliates' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about American Association for Cancer Research, Inc. and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of American Association for Cancer Research, Inc. and Affiliates' compliance.

Opinion on Major Federal Program

In our opinion, American Association for Cancer Research, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of American Association for Cancer Research, Inc. and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered American Association for Cancer Research, Inc. and Affiliates internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American Association for Cancer Research, Inc. and Affiliates' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BBD, LLP.

Philadelphia, Pennsylvania
May 2, 2018

AMERICAN ASSOCIATION FOR CANCER RESEARCH, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of American Association for Cancer Research, Inc. and Affiliates were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the consolidated financial statements of American Association for Cancer Research, Inc. and Affiliates are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the consolidated financial statements of American Association for Cancer Research, Inc. and Affiliates were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the report on compliance for each major federal program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal program for the American Association for Cancer Research, Inc. and Affiliates expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance.
7. The following is the program tested as a major program:
 - U.S. Department of Health and Human Services
 - Research and Development Cluster – CFDA Numbers 93.396 and 93.398
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. American Association for Cancer Research, Inc. and Affiliates qualified as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None