

NSABP Foundation, Inc.

Financial Statements and
Supplementary Information

June 30, 2019 and 2018

NSABP Foundation, Inc.

Table of Contents
June 30, 2019 and 2018

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	24
Schedule of Findings and Questioned Costs	26

Independent Auditors' Report

To the Board of Directors of
NSABP Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of NSABP Foundation, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NSABP Foundation, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the 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 January 16, 2020 on our consideration of NSABP Foundation, Inc.'s 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 NSABP Foundation, Inc.'s 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 NSABP Foundation, Inc.'s internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
January 16, 2020

NSABP Foundation, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 9,606,887	\$ 9,595,393
Investments	65,777,303	66,714,321
Receivables	9,006	1,588,507
Receivable from NRG Oncology Foundation, Inc.	794,854	663,419
Interest in net assets of NRG Oncology Foundation, Inc.	775,430	688,013
Prepaid expenses and other assets	1,310,616	1,196,618
Property and equipment, net	<u>1,355,506</u>	<u>1,837,526</u>
Total assets	<u>\$ 79,629,602</u>	<u>\$ 82,283,797</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 7,110,065	\$ 9,227,556
Deferred revenue	<u>38,124,000</u>	<u>35,156,990</u>
Total liabilities	45,234,065	44,384,546
Net Assets		
Without donor restrictions	<u>34,395,537</u>	<u>37,899,251</u>
Total liabilities and net assets	<u>\$ 79,629,602</u>	<u>\$ 82,283,797</u>

See notes to financial statements

NSABP Foundation, Inc.

Statements of Activities

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue and Public Support		
Federal research programs	\$ 3,743,620	\$ 4,318,033
Industry research programs	23,975,090	24,185,231
State tobacco grants	205,195	102,994
Contributions and sponsorships	7,775	13,400
Other income	516,311	379,667
	<u>28,447,991</u>	<u>28,999,325</u>
Expenses		
Research programs:		
Federal	3,743,620	4,318,033
Industry	27,095,868	27,380,279
State	205,195	102,994
General and administrative	3,897,907	3,658,124
	<u>34,942,590</u>	<u>35,459,430</u>
Total expenses	<u>34,942,590</u>	<u>35,459,430</u>
Operating loss	<u>(6,494,599)</u>	<u>(6,460,105)</u>
Investment and Other Income		
Interest and dividend income	1,920,848	1,713,360
Realized and unrealized gain on investments	982,620	1,934,845
Change in value of interest in net assets of NRG Oncology Foundation, Inc.	87,417	46,820
	<u>2,990,885</u>	<u>3,695,025</u>
Total investment and other income	<u>2,990,885</u>	<u>3,695,025</u>
Change in net assets	(3,503,714)	(2,765,080)
Net Assets, Beginning	<u>37,899,251</u>	<u>40,664,331</u>
Net Assets, Ending	<u>\$ 34,395,537</u>	<u>\$ 37,899,251</u>

See notes to financial statements

NSABP Foundation, Inc.Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Federal</u>	<u>Industry</u>	<u>State</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,781,768	\$ 5,332,201	\$ 66,583	\$ 3,260,751	\$ 10,441,303
Professional fees	159,299	1,050,822	-	1,916,714	3,126,835
Purchased services	17,777	276,797	10,750	1,742,900	2,048,224
Travel	58,393	405,207	-	198,915	662,515
Office and other costs	2,584	66,801	32	435,312	504,729
Insurance	-	-	-	146,911	146,911
Program costs	23,312	176,861	101,069	20	301,262
Purchased service agreements	564,000	5,777,861	-	1,338	6,343,199
Subcontracts	375,482	9,843,650	12,124	32,051	10,263,307
Depreciation	-	68,235	-	1,036,070	1,104,305
Facilities and administrative allocation	761,005	4,097,433	14,637	(4,873,075)	-
Total expenses	<u>\$ 3,743,620</u>	<u>\$ 27,095,868</u>	<u>\$ 205,195</u>	<u>\$ 3,897,907</u>	<u>\$ 34,942,590</u>

See notes to financial statements

NSABP Foundation, Inc.Statement of Functional Expenses
Year Ended June 30, 2018

	<u>Federal</u>	<u>Industry</u>	<u>State</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,718,473	\$ 5,344,757	\$ 35,529	\$ 3,112,589	\$ 10,211,348
Professional fees	311,382	995,923	-	1,724,160	3,031,465
Purchased services	37,499	353,170	11,704	1,491,688	1,894,061
Travel	55,762	221,709	-	292,071	569,542
Office and other costs	1,963	51,159	7	448,124	501,253
Insurance	-	-	-	136,085	136,085
Program costs	96,628	96,201	12,318	250	205,397
Purchased service agreements	690,700	7,494,781	-	-	8,185,481
Subcontracts	394,170	9,373,978	24,286	-	9,792,434
Depreciation	-	67,898	-	864,466	932,364
Facilities and administrative allocation	1,011,456	3,380,703	19,150	(4,411,309)	-
Total expenses	<u>\$ 4,318,033</u>	<u>\$ 27,380,279</u>	<u>\$ 102,994</u>	<u>\$ 3,658,124</u>	<u>\$ 35,459,430</u>

See notes to financial statements

NSABP Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (3,503,714)	\$ (2,765,080)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,104,305	932,364
Realized and unrealized gain on investments, net	(982,620)	(1,934,845)
Change in value of interest in net assets of NRG Oncology Foundation, Inc.	(87,417)	(46,820)
(Increase) decrease in:		
Receivables	1,579,501	(1,421,592)
Receivable from NRG Oncology Foundation, Inc.	(131,435)	26,274
Prepaid expenses and other assets	(113,998)	(86,116)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(2,117,491)	4,384,567
Deferred revenue	2,967,010	(2,734,855)
Net cash used in operating activities	<u>(1,285,859)</u>	<u>(3,646,103)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(622,285)	(349,447)
Purchases of investments	(7,577,312)	(10,601,077)
Proceeds from sale of investments	9,496,950	14,008,272
Net cash provided by investing activities	<u>1,297,353</u>	<u>3,057,748</u>
Net change in cash and cash equivalents	11,494	(588,355)
Cash and Cash Equivalents, Beginning	<u>9,595,393</u>	<u>10,183,748</u>
Cash and Cash Equivalents, Ending	<u>\$ 9,606,887</u>	<u>\$ 9,595,393</u>

See notes to financial statements

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

NSABP Foundation, Inc. (Foundation or NSABP) was organized as a not-for-profit organization on November 21, 1995 to develop scientific protocols that guide clinical trials and studies related to the causes, diagnosis, treatment, prevention or control of breast, colon and rectal cancer, to publish and otherwise transfer its discoveries and knowledge to the benefit of the public, and to attract research awards and contributions in support of its scientific mission.

The Foundation is a not-for-profit corporation without members and through its network of research collaborators conducts federal and non-federal clinical trials. The Foundation has over 160 research collaborators, including community-based organizations, academic healthcare centers, and other U.S. and international organizations. The Foundation negotiates contracts with pharmaceutical companies to develop and conduct clinical trials solely supported by pharmaceutical companies. The non-federal clinical trials are conducted by the various research collaborators and their affiliated sites through enrollment of participants to each approved protocol.

During the year ended June 30, 2014, NSABP, in conjunction with two other organizations, assisted in the creation of a new entity, NRG Oncology Foundation, Inc. (NRG). Collectively, the three organizations are referred to as the legacy groups, all of which had established histories as National Cancer Institute (NCI) grant recipients. Changes to the structure of NCI grants issued necessitated this change, the effect of which is the consolidation of federal grants for adult cancer trials into fewer grantees. NRG receives NCI funding to support the NRG National Clinical Trials Network (NCTN) group and the three legacy groups are subrecipients of these grants for the purpose of the development and conduct of the NCI supported clinical trials.

Pharmaceutical contracts are also used to provide supplemental support to NCI-approved trials which are conducted by NRG. Support from pharmaceutical companies has made it possible to provide additional funding to members for conducting trials and to fund additional education and scientific correlative studies designed to answer scientific questions that would have remained unanswered under primary NCI-funded protocols.

The Foundation directly maintains, administers and distributes these funds in support of the NCI-approved clinical trials research.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include depreciation of property and equipment, fair value of investments, purchased service agreement accruals, and the allocation of expenses by function. Actual results could differ from those estimates.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Basis of Accounting and Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions

Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Board of Directors (the Board), or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions

Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restriction.

The Foundation had no net assets with donor restrictions as of June 30, 2019 and 2018.

As of June 30, 2018, the Board of the Foundation has designated \$14,000,000 of net assets without restrictions for Board approved programs developed to initiate activities which will increase the growth of the Foundation and achieve and maintain the financial stability of the Foundation. As of June 30, 2019, the Foundation had \$13,362,456 of net assets without restrictions designated for Board approved programs.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents. These include insured deposits in checking accounts and cash in temporary investment accounts. The Foundation receives deposits from the Pennsylvania Department of Health which are required by contract to be held in a separate bank account. These amounts were approximately \$147,000 and \$347,000 at June 30, 2019 and 2018, respectively.

Investments

Investments are carried at fair value and consist of U.S. Government and other debt securities, equity securities, mutual funds and alternative investments. Gains and investment income are recognized in the period earned and are classified as with or without donor restrictions with respect to stipulations imposed by the donor at the date of the donation or applicable state law.

Risks and Uncertainties

Investments are exposed to several risks, such as interest rates, and market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's financial statements.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Receivables

Receivables consist primarily of expenses incurred on clinical trials for which reimbursements have not been received from pharmaceutical and other funding sources. Management reviews receivables periodically, and amounts deemed uncollectible are charged to expense. An allowance for doubtful accounts has not been established, because management believes all receivables at year-end are fully collectible. However, it is possible that management's estimate could change in the future.

Receivable from NRG Oncology Foundation, Inc.

Receivable from NRG consist of expenses incurred on federally-funded clinical trials and other programmatic and administrative services, for which reimbursements have not been received from NRG.

Interest in the Net Assets of NRG Oncology Foundation, Inc.

The Foundation and the two other legacy groups each provided capital to NRG during the year ended June 30, 2014 in the amount of \$700,000. No additional capital contributions have been made.

The Foundation recognizes its proportionate interest in the net assets of NRG and adjusts that interest according to the change in the net assets of NRG in a manner similar to the equity method. The increase in the value of the interest in the net assets of NRG was approximately \$87,000 and \$47,000 for the years ended June 30, 2019 and 2018, respectively.

Property and Equipment, Net

Purchased equipment and leasehold improvements are recorded at the lower of cost or fair value. Depreciation is provided using the straight-line method over estimated useful lives ranging from 3-15 years. Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred. Software development costs are capitalized and recorded at fair value. Amortization is provided on the straight-line method over estimated useful lives.

Accrued Liabilities

Accrued liabilities are comprised of amounts related to purchased service agreements with member sites and subcontract expenses that management has estimated at the end of the fiscal year to fairly state the liabilities and corresponding expenses related to these programmatic expenses.

Deferred Revenue

Deferred revenue consists of awards from pharmaceutical companies received in advance for which project expenditures have not yet been incurred.

Contributions

Contributions are recognized when a donor makes a promise to give to the Foundation that is unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Revenue Recognition

Revenues from both governmental and pharmaceutical sources are considered to be exchange transactions. Direct revenues are recognized to the extent of related expenditures. Indirect revenues from governmental sources are recognized as a predetermined percentage of direct costs based upon an approved indirect revenue percentage approved by the Division of Cost Allocation, Department of Health and Human Services.

Income Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income tax is recorded in the accompanying financial statements.

The Foundation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

Fair Value Measurement

The Foundation's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Fair Value Measurement guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in accordance with the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Foundation's significant market assumptions. The levels of the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Foundation, using available market information and appropriate valuation methodologies, has determined the estimated fair value of its financial instruments. However, considerable judgment is required in interpreting data to develop the estimates of fair value.

New Accounting Standard Adopted

During 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosure around liquidity and availability of resources. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The financial statements include a disclosure about liquidity and availability of resources at June 30, 2019;
- The statements of functional expenses include expenses reported by both nature and function.

New Accounting Standards Not Yet Adopted

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. The Foundation may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Foundation is currently assessing the effect that ASU No. 2014-09 and ASU No. 2015-14 will have on its results from operations, financial position and cash flows.

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases in the statements of financial position. A lessee should recognize in the statements of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. During October 2019, the FASB approved a one year deferral of ASU No. 2016-02. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the Foundation for the fiscal years beginning after December 15, 2018. The Foundation is currently assessing the impact that ASU No. 2018-08 will have on its results of operations, financial position and cash flows.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Foundation has evaluated subsequent events for recognition or disclosure through January 16, 2020, the date these financial statements were available to be issued.

2. Investments and Fair Value Measurements

Investments are presented in the accompanying statements of financial position at their fair value. The carrying value of investments is summarized as follows at June 30, 2019 and 2018:

	2019	
	Cost Basis	Fair Value
Common stocks	\$ 3,236,348	\$ 5,348,630
Mutual funds	19,909,198	29,887,929
Alternative fixed income fund	44,812	112,156
International bonds	819,833	784,475
Corporate bonds	1,892,935	1,904,775
U.S. Treasury notes	27,306,055	27,739,338
Total	<u>\$ 53,209,181</u>	<u>\$ 65,777,303</u>

	2018	
	Cost Basis	Fair Value
Government agency bonds AA rated	\$ 3,920,537	\$ 3,920,207
Common stocks	2,212,526	4,685,193
Mutual funds	18,182,362	28,735,719
Alternative equity fund	6,572	11,002
Alternative fixed income fund	69,951	151,937
International bonds	796,067	748,057
Corporate bonds	3,719,235	3,670,762
U.S. Treasury notes	24,853,889	24,791,444
Total	<u>\$ 53,761,139</u>	<u>\$ 66,714,321</u>

The Foundation paid investment management fees of approximately \$152,000 and \$154,000 during the years ended June 30, 2019 and 2018, respectively, which is netted against interest and dividend income on the statements of activities.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Fair values of investments measured on a recurring basis are as follows at June 30, 2019 and 2018:

	2019			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks:				
Consumer goods and services	\$ 1,672,050	\$ 1,672,050	\$ -	\$ -
Energy	794,800	794,800	-	-
Technology and communications	2,060,590	2,060,590	-	-
Science and technology	821,190	821,190	-	-
	<u>5,348,630</u>	<u>5,348,630</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Equity funds	17,108,223	17,108,223	-	-
International equity fund	4,328,783	4,328,783	-	-
Bond funds	7,471,107	7,471,107	-	-
Other funds	979,816	979,816	-	-
	<u>29,887,929</u>	<u>29,887,929</u>	<u>-</u>	<u>-</u>
Alternative fixed income fund	112,156	-	-	112,156
International bonds	784,475	784,475	-	-
Corporate bonds	1,904,775	-	1,904,775	-
U.S. Treasury notes	27,739,338	-	27,739,338	-
	<u>29,831,744</u>	<u>784,475</u>	<u>1,904,775</u>	<u>112,156</u>
Total	<u>\$ 65,777,303</u>	<u>\$ 36,021,034</u>	<u>\$ 29,644,113</u>	<u>\$ 112,156</u>

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

	2018			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government agency bonds AA rated	\$ 3,920,207	\$ -	\$ 3,920,207	\$ -
Common stocks:				
Consumer goods and services	1,828,609	1,828,609	-	-
Technology and communications	2,011,490	2,011,490	-	-
Science and technology	845,094	845,094	-	-
	<u>4,685,193</u>	<u>4,685,193</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Equity funds	16,982,161	16,982,161	-	-
International equity fund	3,986,574	3,986,574	-	-
Bond funds	7,292,384	7,292,384	-	-
Other funds	474,600	474,600	-	-
	<u>28,735,719</u>	<u>28,735,719</u>	<u>-</u>	<u>-</u>
Alternative equity fund	11,002	-	-	11,002
Alternative fixed income fund	151,937	-	-	151,937
International bonds	748,057	748,057	-	-
Corporate bonds	3,670,762	-	3,670,762	-
U.S. Treasury notes	24,791,444	-	24,791,444	-
	<u>66,714,321</u>	<u>34,168,969</u>	<u>32,382,413</u>	<u>162,939</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018:

Common stocks, U.S. Treasury notes, corporate bonds and international bonds are valued at quoted closing price reported on the active markets on which the individual securities are traded.

Government agency bonds are valued using the current unit values applied to the quantity held at the measurement date as reported in the inactive markets on which the bonds are traded.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Alternative equity and fixed income funds are valued at the net asset value of shares held as determined by the fund, as of the valuation date, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

The following tables set forth a summary of changes in the fair value of Level 3 assets for the years ended June 30, 2019 and 2018:

	2019	
	Alternative Equity Fund	Alternative Fixed Income Fund
Beginning balance	\$ 11,002	\$ 151,937
Capital distributions	(12,159)	(56,400)
Total realized and unrealized gains	1,157	16,619
Total	\$ -	\$ 112,156

	2018	
	Alternative Equity Fund	Alternative Fixed Income Fund
Beginning balance	\$ 258,351	\$ 225,766
Capital distributions	(87,656)	(56,926)
Total unrealized losses	(159,693)	(16,903)
Total	\$ 11,002	\$ 151,937

The unrealized appreciation (depreciation) related to Level 3 investments still held was \$16,619 and \$(176,596) at June 30, 2019 and 2018, respectively.

The investment in alternative equity fund represents shares held in a multi-strategy hedge fund valued at net asset value as of June 30, 2019 and 2018. The fund seeks to provide investors with net returns in excess of its benchmark (LIBOR) plus 500 basis points and to maintain significant regional diversification. Redemptions of fund shares are permitted annually at each December 31, given written notice of 90 days. Payment of withdrawal amounts may be subject to restrictions imposed by one of the underlying investments in which the fund invests. All shares were redeemed as of June 30, 2019.

The alternative fixed income fund is an investment in a private investment fund. The goal of the fund is to pursue fund holdings of restructured debt, distressed debt and other non-stressed debt holdings to provide a desired internal rate of return to investors. Under the provisions of the fund agreement, the Foundation is committed to making total purchases of \$1,000,000 in the fund, of which approximately \$152,600 in outstanding commitments still remain as of June 30, 2019 and 2018.

The most significant unobservable inputs affecting the fair value of the alternative equity fund and the alternative fixed income fund (the funds) are the changes in the fair value of the assets comprising the funds. Significant changes in these inputs could result in a significant change in the fair value.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

3. Property and Equipment, Net

Property and equipment include the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 4,700,414	\$ 6,477,286
Software	5,706,841	7,369,170
Leasehold improvements	<u>1,081,024</u>	<u>975,835</u>
	11,488,279	14,822,291
Less accumulated depreciation and amortization	<u>10,132,773</u>	<u>12,984,765</u>
Total	<u>\$ 1,355,506</u>	<u>\$ 1,837,526</u>

Depreciation and amortization expense totaled approximately \$1,104,000 and \$932,400 for the years ended June 30, 2019 and 2018, respectively.

4. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort and depreciation and facility costs, which are allocated based on indirect cost rates as approved by grantors.

5. Research Awards and Contracts

The Foundation has the following awards from the National Institutes of Health (NIH)/NCI:

Federal Subrecipient Awards from:

- NIH/NCI NRG Oncology Network Group Operation Center
- NIH/NCI NRG Oncology NCORP Research Base
- NIH/NCI NRG Oncology Biospecimen Bank
- Integrated Translational Genoproteomics Center at Washington University

The Foundation also has contracts with pharmaceutical companies.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

6. Employee Benefit Plans

The Foundation maintains a 401(k) profit sharing plan, which covers substantially all employees. The Foundation makes matching contributions equal to 50 percent of each participant's salary reductions up to 8 percent of each participant's salary. Additionally, the Foundation makes discretionary contributions on behalf of eligible employees based upon a percentage scale using an age and years of service criteria. Total matching and additional profit sharing contributions made by the Foundation for the years ended June 30, 2019 and 2018 were approximately \$936,000 and \$922,000, respectively.

The Foundation maintains a 457(b) deferred compensation plan which included five Foundation employees as active participants for the years ended June 30, 2019 and 2018. Participants may contribute up to 100 percent of allowable compensation, up to the maximum amount allowed by law. No employer contributions are provided for by the Foundation.

7. Lease Commitments

The Foundation is obligated under the terms of various operating leases for office and laboratory space, certain utilities and equipment. Rent expense approximated \$1,065,000 and \$963,000 for the years ended June 30, 2019 and 2018, respectively, and is included in purchased services in the statements of functional expenses. The Foundation's leases for office and laboratory space terminate during the years ending June 30, 2029 and 2024, respectively.

Future minimum rentals under non-cancelable operating leases are as follows:

Years ending June 30:		
2020	\$	1,049,702
2021		1,071,536
2022		1,093,836
2023		1,116,621
2024		979,786
Thereafter		<u>4,593,105</u>
Total	\$	<u>9,904,586</u>

8. Concentrations

Revenue earned from federal awards accounted for approximately 13 percent and 15 percent of total revenue for the years ended June 30, 2019 and 2018, respectively.

Two pharmaceutical companies accounted for approximately 49 percent and 48 percent of total revenue for the years ended June 30, 2019 and 2018, respectively.

One pharmaceutical company accounted for 100 percent of receivables at June 30, 2018. There were no significant concentrations of receivables at June 30, 2019.

The Foundation maintains its cash and cash equivalents in bank deposit accounts, which at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to its cash and cash equivalents.

NSABP Foundation, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

9. Related Party Transactions

The Foundation received cash from its subcontract with NRG in the amount of \$3,607,699 and \$4,527,061 during the years ended June 30, 2019 and 2018, respectively. Amounts receivable under this subcontract are disclosed in Note 1. Revenues approximated cash received.

As described in Note 1, the Foundation provided \$700,000 of capital to NRG during the year ended June 30, 2014. This amount is included in interest in net assets of NRG Oncology Foundation Inc. in the June 30, 2019 and 2018 statements of financial position, which totaled \$775,430 and \$688,013, respectively.

10. Liquidity and Availability of Resources

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures are as follows as of June 30, 2019:

Cash and cash equivalents	\$ 9,606,887
Receivables	803,860
Investments	<u>65,777,303</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 76,188,050</u>

As part of the Foundation's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due.

At June 30, 2019, management identified approximately \$45,234,065 of current liabilities, including accounts payable, accrued expenses, and deferred revenue which will impact the overall liquidity identified above.

NSABP Foundation, Inc.Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Passed Through Agency	Passed Through Agency ID	Trial Number	Federal Expenditures	Expenditures to Subrecipients
Research & Development Cluster						
U.S. Department of Health & Human Services						
National Institutes of Health						
National Cancer Institute						
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180868-05	1005-01	\$ 2,146,317	\$ 230,894
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180868-06	1006-01	171,941	-
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180868-06	1006-02	257,167	-
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180868-06	1006-03	24,761	-
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180868-06	1006-04	42,958	-
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5U10CA180860-05	1205-01	74,495	14,567
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5UG1CA189867-04	1304-01	95,366	-
Cancer Treatment Research	93.395	NRG Oncology, Inc.	5UG1CA189867-05	1305-01	424,593	-
Total Cancer Treatment Research					3,237,598	245,461
Cancer Detection and Diagnosis Research	93.394	NRG Oncology, Inc.	U24CA196067-04	1404-01	381,162	114,715
Cancer Detection and Diagnosis Research	93.394	NRG Oncology, Inc.	U24CA196067-04	1404-02	132,779	29,996
Cancer Detection and Diagnosis Research	93.394	NRG Oncology, Inc.	U24CA196067-05	1405-01	74,927	4,856
Total Cancer Detection and Diagnosis Research					588,868	149,567
Total expenditures of federal awards					\$ 3,826,466	\$ 395,028

See notes to schedule of expenditures of federal awards

NSABP Foundation, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

1. Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of NSABP Foundation, Inc. (the Foundation) under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Costs

The Foundation has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Independent Auditors' 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***

To the Board of Directors of
NSABP Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of NSABP Foundation, Inc. (the Foundation), which comprise the statements of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon January 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's 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 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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
January 16, 2020

**Independent Auditors' Report on Compliance
for Each Major Federal Program and Report on
Internal Control Over Compliance
Required by the Uniform Guidance**

To the Board of Directors of
NSABP Foundation, Inc.

Report on Compliance for the Major Federal Program

We have audited NSABP Foundation, Inc.'s (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2019. The Foundation's major federal program is identified in the summary of auditors' 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 programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's 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 auditing standards generally accepted in the United States of America, 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 (CFR) 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 the Foundation's 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 the Foundation's compliance.

Opinion on the Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Foundation 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 the Foundation's internal control over compliance with types of requirements that could have a direct and material effect on its 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 the Foundation's 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.

Purpose of this Report

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.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
January 16, 2020

NSABP Foundation, Inc.

Schedule of Findings and Questioned Costs
 Year Ended June 30, 2019

Section I - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal program:

CFDA Numbers	Name of Federal Program or Cluster
93.394 93.395	Research and Development Cluster: Cancer Detection and Diagnosis Research Cancer Treatment Research

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

NSABP Foundation, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section II - Financial Statement Finding

Finding 2019-001 - Internal Control Over Financial Reporting

Criteria: Accounting principles generally accepted in the United States of America require adequate controls over financial reporting. During the current year, the Foundation recorded an adjustment to correct an accrual related to a clinical trial. This adjustment was material, but isolated, to the financial statements taken as a whole, and accordingly is considered a significant deficiency in internal control over financial reporting.

Condition: Management did not sufficiently monitor its cash disbursements subsequent to year-end and adjust deferred accruals for clinical trials for services provided during the year ended June 30, 2019. This resulted in net revenue and expenditures that should have been recognized as revenue and expenditures in accordance with the terms of the trial contracts. The Foundation's management performed an analysis and determined the nature and amount of adjustment that was required in the current year.

Cause and Effect: The result of the above condition is that accounts payable and accrued liabilities, revenue and expenses were adjusted by a material amount for the year ended June 30, 2019.

Recommendation: Management should continue to monitor contractual obligations and record revenue in accordance with the terms of those contracts.

Management Response: See management's corrective action plan.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary of Prior Year Audit Findings

Finding 2018-001 - Internal Control Over Financial Reporting

Condition: Management in prior years did not monitor and adjust deferred revenue for clinical trials when the trials were completed. This resulted in net residual deferred revenue that should have been recognized as revenue in accordance with the terms of the trial contracts. The Foundation's new management performed an analysis and determined the nature and amount of adjustment that was required in the year ended June 30, 2018.

Status: Management has implemented procedures to monitor contractual obligations, and record revenue, in accordance with the terms of the Foundation's contracts. No similar findings were noted in the current year.

NSABP Corrective Action Plan

Internal Control Over Financial Reporting

Finding 2019-001

The error originated due to the manner in which the expenditure was paid, a wire as opposed to a check. Wire entries are not vouched into the AP system in the same manner as those paid via a check. The year end accrual process includes reviewing the service dates for invoices entered for check batches to ensure those that belong in prior period are posted correctly. Going forward the wire entries will be included in the service date review process to ensure that the revenue and expenditures are posted in the appropriate accounting period.