

**NATIONAL FOUNDATION FOR
CANCER RESEARCH, INC.
AND AFFILIATES
DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Foundation for Cancer Research, Inc.
Bethesda, Maryland

We have audited the accompanying consolidated financial statements of the National Foundation for Cancer Research, Inc. and Affiliates (collectively, the Foundation) which comprises the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 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 audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Foundation for Cancer Research, Inc. and Affiliates as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Squire, Lemkin + Company, LLP

April 17, 2013

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	DECEMBER 31,	
	2012	2011 (Restated)
Cash and cash equivalents	\$ 2,481,706	\$ 830,144
Accounts receivable	154,996	169,900
Contribution receivable	1,300,000	189,532
Prepaid expenses and other assets	455,575	449,396
Furniture and equipment, net of accumulated depreciation	43,714	50,837
Investments	7,108,227	7,373,894
Amounts held in trust by others	1,923,156	1,728,899
TOTAL ASSETS	\$ 13,467,374	\$ 10,792,602
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other liabilities	\$ 736,569	\$ 580,636
Research grants and contracts payable	2,234,418	1,710,118
Accrued compensation and benefits	122,954	116,086
TOTAL LIABILITIES	\$ 3,093,941	\$ 2,406,840
NET ASSETS:		
Unrestricted:		
Designated for research	\$ 4,454,840	\$ 4,521,709
Undesignated	2,503,932	1,739,800
Total unrestricted	\$ 6,958,772	\$ 6,261,509
Temporarily restricted	1,842,766	718,616
Permanently restricted	1,571,895	1,405,637
TOTAL NET ASSETS	\$ 10,373,433	\$ 8,385,762
TOTAL LIABILITIES AND NET ASSETS	\$ 13,467,374	\$ 10,792,602

The accompanying notes are an integral part of these financial statements.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

	FOR THE YEAR ENDED DECEMBER 31, 2012				FOR THE YEAR ENDED DECEMBER 31, 2011 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:								
Public support	\$ 9,955,535	\$ 1,728,146	\$ -	\$ 11,683,681	\$ 11,581,307	\$ 676,421	\$ -	\$ 12,257,728
Bequests	2,352,946	-	-	2,352,946	800,169	102,044	-	902,213
Noncash support	549,981	-	-	549,981	649,361	-	-	649,361
Mailing list rentals	339,611	-	-	339,611	343,924	-	-	343,924
Net investment income	671,121	-	-	671,121	50,977	-	-	50,977
Change in value of split-interest agreements	(20,498)	27,999	166,258	173,759	(29,249)	(13,004)	(86,332)	(128,585)
Other revenue	284,749	-	-	284,749	296,789	-	-	296,789
Net assets released from restrictions	631,995	(631,995)	-	-	833,140	(833,140)	-	-
TOTAL REVENUE AND SUPPORT	\$ 14,765,440	\$ 1,124,150	\$ 166,258	\$ 16,055,848	\$ 14,526,418	\$ (67,679)	\$ (86,332)	\$ 14,372,407
EXPENSES:								
Program services:								
Research	\$ 5,070,789	\$ -	\$ -	\$ 5,070,789	\$ 4,823,367	\$ -	\$ -	\$ 4,823,367
Public education and information	5,081,937	-	-	5,081,937	5,720,799	-	-	5,720,799
Total program services	\$ 10,152,726	\$ -	\$ -	\$ 10,152,726	\$ 10,544,166	\$ -	\$ -	\$ 10,544,166
Supporting services:								
Fundraising	\$ 2,891,461	\$ -	\$ -	\$ 2,891,461	\$ 3,923,938	\$ -	\$ -	\$ 3,923,938
Management and general	1,023,990	-	-	1,023,990	883,654	-	-	883,654
Total supporting services	\$ 3,915,451	\$ -	\$ -	\$ 3,915,451	\$ 4,807,592	\$ -	\$ -	\$ 4,807,592
TOTAL EXPENSES	\$ 14,068,177	\$ -	\$ -	\$ 14,068,177	\$ 15,351,758	\$ -	\$ -	\$ 15,351,758
CHANGE IN NET ASSETS	\$ 697,263	\$ 1,124,150	\$ 166,258	\$ 1,987,671	\$ (825,340)	\$ (67,679)	\$ (86,332)	\$ (979,351)
NET ASSETS, BEGINNING OF YEAR	6,261,509	718,616	1,405,637	8,385,762	7,086,849	786,295	1,491,969	9,365,113
NET ASSETS, END OF YEAR	\$ 6,958,772	\$ 1,842,766	\$ 1,571,895	\$ 10,373,433	\$ 6,261,509	\$ 718,616	\$ 1,405,637	\$ 8,385,762

The accompanying notes are an integral part of these financial statements.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

Description	Cancer Research	Public Education and Information	Fundraising	Management and General	Total
Accounting and audit fees	\$ -	\$ -	\$ -	\$ 45,928	\$ 45,928
Bank and payroll service fees	-	-	-	125,566	125,566
Creative fees	-	6,897	4,169	-	11,066
CPAF	373,671	-	-	-	373,671
Data services	26,012	474,176	187,824	11,888	699,900
Depreciation and amortization	10,847	7,325	2,560	4,086	24,818
Dues, subscriptions, and professional development	10,046	2,195	10	11,726	23,977
Insurance - business	14,944	9,810	3,529	5,576	33,859
Investment fees	-	-	-	52,181	52,181
Legal fees and expenses	3,804	-	-	66,665	70,469
Licenses and permits	-	-	-	21,489	21,489
List processing fees	-	58,437	34,606	-	93,043
List rental	-	342,597	107,847	-	450,444
Lockbox and data entry	-	112,877	68,780	-	181,657
Major donor outreach	-	-	10,334	65,683	76,017
Mailshop fees	-	262,768	588,412	-	851,180
Miscellaneous	76,000	282	-	20,039	96,321
Occupancy	156,841	102,411	37,033	58,422	354,707
Office supplies and expense	26,686	10,729	3,643	13,912	54,970
Personnel	1,003,837	669,587	241,564	375,397	2,290,385
Postage	460	1,594,897	820,662	7,462	2,423,481
Planned giving outreach	-	-	2,750	7,333	10,083
Printing and publications	-	1,137,455	643,283	9,384	1,790,122
Production fees	-	53,951	45,324	-	99,275
Professional fees and expenses	2,509	160,587	69,025	58,129	290,250
Public education materials and web-site	172	68,580	17,835	10	86,597
Research - contracts and grants	2,747,348	-	-	-	2,747,348
Research - university support	549,981	-	-	-	549,981
Telephone services	9,506	6,376	2,271	27,716	45,869
Travel and business meetings	58,125	-	-	35,398	93,523
TOTALS	\$ 5,070,789	\$ 5,081,937	\$ 2,891,461	\$ 1,023,990	\$ 14,068,177

The accompanying notes are an integral part of these financial statements.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

Description	Cancer Research	Public Education and Information	Fundraising	Management and General	Total
Accounting and audit fees	\$ -	\$ -	\$ -	\$ 41,020	\$ 41,020
Bank and payroll service fees	-	-	-	125,903	125,903
Creative fees	-	10,667	10,483	-	21,150
CPAF	160,000	-	-	-	160,000
Data services	23,869	483,070	290,358	10,722	808,019
Depreciation and amortization	12,274	10,634	1,966	5,128	30,002
Dues, subscriptions, and professional development	9,379	-	-	13,761	23,140
Insurance - business	14,071	12,179	2,255	5,878	34,383
Investment fees	-	-	-	52,601	52,601
Legal fees and expenses	9,473	-	-	59,714	69,187
Licenses and permits	-	-	-	23,902	23,902
List processing fees	-	45,068	34,024	-	79,092
List rental	-	342,163	117,344	-	459,507
Lockbox and data entry	-	117,363	89,374	-	206,737
Major donor outreach	-	-	10,929	2,612	13,541
Mailshop fees	-	309,788	744,698	-	1,054,486
Miscellaneous	-	-	-	9,856	9,856
Occupancy	142,856	123,701	22,873	59,674	349,104
Office supplies and expense	14,293	12,312	2,255	13,144	42,004
Personnel	873,037	755,782	139,335	364,370	2,132,524
Postage	925	1,906,112	1,130,344	11,224	3,048,605
Planned giving outreach	-	-	3,290	24,818	28,108
Printing and publications	-	1,426,067	1,171,634	13,395	2,611,096
Production fees	-	317	433	-	750
Professional fees and expenses	2,585	134,521	148,279	6,539	291,924
Public education materials and web-site	-	23,244	2,616	-	25,860
Research - contracts and grants	2,816,870	-	-	-	2,816,870
Research - university support	649,361	-	-	-	649,361
Telephone services	9,014	7,811	1,448	3,770	22,043
Travel and business meetings	85,360	-	-	35,623	120,983
TOTALS	\$ 4,823,367	\$ 5,720,799	\$ 3,923,938	\$ 883,654	\$ 15,351,758

The accompanying notes are an integral part of these financial statements.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,	
	2012	2011 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,987,671	\$ (979,351)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net (gain) loss on investments	(402,041)	270,058
Depreciation	24,818	30,002
Decrease in accounts receivable	14,904	151,469
Increase in contributions receivable	(1,110,468)	(189,532)
Increase in prepaid expenses and other assets	(6,179)	(240,453)
Increase in amounts held in trust by others	(194,257)	(2,708)
Increase (decrease) in accounts payable and other liabilities	155,933	(286,325)
Increase in research grants and contracts payable	524,300	123,066
Increase in accrued compensation and benefits	6,868	7,364
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 1,001,549	\$ (1,116,410)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	\$ (1,863,174)	\$ (2,297,986)
Proceeds from sales or maturities of investments	2,530,882	2,417,997
Purchase of furniture and equipment	(17,695)	(17,505)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 650,013	\$ 102,506
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,651,562	\$ (1,013,904)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	830,144	1,844,048
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,481,706	\$ 830,144

The accompanying notes are an integral part of these financial statements.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies**

The Organization - The National Foundation for Cancer Research, Inc. (NFCR) was incorporated in Massachusetts in 1973 to support basic science cancer research projects including the theories of Dr. Albert Szent-Gyorgyi, who discovered Vitamin C. The purposes of the NFCR are to conduct basic science cancer research and to provide educational information about cancer to the public.

The NFCR established seven tax exempt entities: the Cancer Research Laboratories Foundation, Inc. (established in 1996), the Cancer Research Coalition (established in 1997), the Fund for Inherited Disease Research (FIDR), the Consortium for Clinical Diagnostics (CCDx), NFCR Western Chapter, NFCR Mid-Atlantic Chapter and the Asian Fund for Cancer Research Limited (AFCR). Both the Cancer Research Laboratories Foundation, Inc. and the Cancer Research Coalition were inactive for the years ended December 31, 2012 and 2011. The Fund for Inherited Disease Research, Inc. (FIDR) was incorporated in October 2000 as a tax-exempt supporting organization to the Foundation. The Western and Mid-Atlantic chapters were created in 2011.

FIDR conducts research focused on the correction of genetic mutations in chromosomal DNA. On or about March 31, 2007, in an effort to streamline research related to these types of cancer, FIDR transitioned its cancer related research operations to other organizations and is in the process of dissolving the organization.

AFCR, created in 2005, is based in Hong Kong and has received its tax exemption status as a legal charity. AFCR is committed to fighting cancer through research in prevention, earlier diagnostic techniques, more effective treatments and ultimately, achieving one of medicine's greatest goals; curing cancer.

CCDx is a partnership of scientists at research institutions and biopharmaceutical companies dedicated to facilitating genomic research and developing new diagnostic tools. CCDx provides a centralized infrastructure and expertise in genomics and molecular imaging as well as translational medicine.

The NFCR Western Chapter and NFCR Mid-Atlantic Chapter were created in 2011 to assist with fundraising for the organization.

FIDR, AFCR, NFCR Western Chapter, NFCR Mid-Atlantic Chapter, and CCDx activities have been consolidated with those of NFCR. All significant intercompany transactions and accounts have been eliminated. The consolidated financial statements of the National Foundation for Cancer Research, Inc. and Affiliates (collectively, the Foundation) have been prepared on the accrual basis of accounting.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

Basis of Presentation - The Foundation presents its financial statements in accordance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification topics *Accounting for Contributions Received and Contributions Made*, and *Financial Statements of Not-for-Profit Organizations*. Accordingly, the net assets of the Foundation are reported in each of the following three classes: (a) unrestricted, (b) temporarily restricted, and (c) permanently restricted net assets.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

Under these provisions, non-contingent contributions and the associated gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 subject to permanent donor imposed stipulations prohibiting expenditure of the assets pledged or donated.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less, and intended to be used for operations, to be cash equivalents. Accordingly, cash equivalents include amounts invested in an overnight sweep account. Money market funds held in the investment portfolio are classified as investments because they are held for investment purposes.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

Accounts Receivable - Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. At December 31, 2012 and 2011, the Foundation had no receivable balances greater than 90 days outstanding. Recoveries of receivables previously written off are recorded when received. Management believes the amount in accounts receivable is fully collectible.

Contributions Receivable - Contributions receivable consists of a bequest that cleared probate, but the funds had not been received by the Foundation as of December 31, 2012. Management expects to collect the balance within the next 12 months.

Bequests - The Foundation is the beneficiary under various wills and trust agreements. The Foundation records such amounts when notified that the amounts have cleared probate.

Prepaid Expenses - Prepaid expenses generally include insurance, rent, and unused postage purchased prior to December 31.

Furniture and Equipment - Furniture and equipment are recorded at cost less accumulated depreciation. Expenditures for software, furniture, and equipment are capitalized at cost using a capitalization threshold of \$500. Software, furniture and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets of 3 - 10 years. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Maintenance and repairs are expensed in the year incurred.

Leasehold improvements are capitalized at cost and amortized on the straight-line basis over the remaining life of the lease.

Investments - Investments, which are recorded at fair value, based on quoted market prices, consist of corporate stocks and bonds, government securities with maturities greater than 90 days and money market funds. Investment income or loss is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

The Foundation also holds investments in equity securities whose value is not readily determinable. These investments are recorded at cost and evaluated for impairment. If the impairment is considered other than temporary, these investments are reported at the lower of cost or estimated fair value.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

The Foundation invests in equities, corporate bonds and government bonds. Such investments are exposed to various risks such as market and credit fluctuation. 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 changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

The *Fair Value Measurements* topic of the FASB Accounting Standards Codification defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy under *Fair Value Measurements* topic are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
Level 2	Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

Amounts Held in Trust by Others - Amounts held in trust by others include perpetual trusts and interest in charitable remainder trusts. The perpetual trusts are stated at fair value of the assets of the trust based on quoted market prices of the underlying assets of the trust. The Foundation's interest in charitable remainder trusts is stated at fair value based on quoted market prices of the underlying assets of the trust, representing the estimated amount to be received at the termination of the trusts.

Revenue Recognition - Revenue from mailing list rentals is recognized at the time these lists are mailed out by the entities that requested them. Mailing list rental income is recorded net of the fee charged by the mailing list broker.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

Contributions - Public support is recorded as revenue when contributions, which include unconditional promises to give (pledges), are unconditionally committed. The Foundation has adopted a policy of recording donor-restricted contributions as unrestricted revenue when the restrictions are met in the same reporting period as the gift is received.

Research Contracts and Grants - The Foundation awards both research contracts and grants.

Research Contracts - The Foundation enters into agreements with universities and other institutions to conduct scientific research on their premises, in accordance with policies established by the governing board of the Foundation. Research contracts payable represents research expenses incurred during the years ended December 31, 2012 and 2011 under these contracts, but not yet paid to the institutions by December 31, 2012 and 2011. The Foundation records the expenses on these contracts as costs are incurred based on expenditure reports submitted by these institutions.

Grants - The Foundation awards certain research grants to selected scientists to fund their research programs in accordance with policies established by the governing board of the Foundation. The Foundation records these as expenses once the grants are awarded. Grants payable represents such awards that have not yet been paid to the respective scientists by December 31, 2012 and 2011.

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. The Foundation is also required to make estimates and assumptions that affect reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Income Taxes - NFCR has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Internal Revenue Code Section 501(c)(3), except on unrelated business income, if any. It qualifies as a public charity under Section 509(a). FIDR and CCDx have been recognized by the IRS as exempt from federal income tax under Section 501(c)(3), except for unrelated business income, if any. They are supporting organizations to the Foundation under Section 509(a)(3). The AFCR is exempt from Hong Kong Profits Tax under Section 88 of the Inland Revenue Ordinance. NFCR Western Chapter, a California nonprofit corporation, and NFCR Mid-Atlantic Chapter, a District of Columbia nonprofit corporation, were added in 2011 by NFCR to its roster of subordinate organizations covered under the group exemption ruling, dated April 26, 2010, the Internal Revenue Service issued to NFCR. Both chapters are exempted from federal income tax as organizations described under section 501(c)(3) of the Internal Revenue Code of 1986 as amended.

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

Functional Allocation of Expenses - The costs of providing the Foundation's programs and services are summarized on a functional basis in the accompanying consolidated financial statements. Accordingly, certain costs have been allocated between the programs and services benefited (see Note 9).

Subsequent Events - The Foundation evaluated subsequent events for potential required disclosure through April 17, 2013, which is the date the financial statements were available to be issued.

Note 2. **Concentration of Credit Risk** - Financial instruments that potentially subject the Foundation to concentrations of credit risk include cash deposits with commercial banks. The Foundation's cash management policies limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may, however, exceed the FDIC insurable limits at times throughout the year. Management does not consider this a significant concentration of credit risk.

Note 3. **Furniture and Equipment** - Furniture and equipment at December 31, 2012 and 2011, consists of the following:

	2012	2011
Computer equipment and software	\$ 169,886	\$ 152,193
Office furniture and equipment	188,862	188,862
Leasehold improvements	19,786	19,786
Totals	\$ 378,534	\$ 360,841
Less, Accumulated depreciation and amortization	(334,820)	(310,004)
Total furniture and equipment	\$ 43,714	\$ 50,837

Note 4. **Investments** - The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy at December 31, 2012:

	Total	Level 1	Level 2	Level 3
Money market	\$ 257,128	\$ 257,128	\$ --	\$ --
Corporate bonds	2,493,318	2,493,318	--	--
Government bonds	919,118	--	919,118	--
Common and preferred stocks	3,271,221	3,271,221	--	--
Equity securities with no readily determinable fair value, at cost	167,442	--	--	167,442
Totals	\$ 7,108,227	\$ 6,021,667	\$ 919,118	\$ 167,442

NATIONAL FOUNDATION FOR CANCER RESEARCH, INC.

AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 4. **Investments** (Continued)

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy at December 31, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 356,102	\$ 356,102	\$ --	\$ --
Corporate bonds	2,678,659	2,678,659	--	--
Government bonds	849,942	--	849,942	--
Common and preferred stocks	3,321,749	3,321,749	--	--
Equity securities with no readily determinable fair value, at cost	<u>167,442</u>	<u>--</u>	<u>--</u>	<u>167,442</u>
Totals	<u>\$ 7,373,894</u>	<u>\$ 6,356,510</u>	<u>\$ 849,942</u>	<u>\$ 167,442</u>

The activity of the Level 3 investments for the years ended December 31, 2012 and 2011, is summarized as follows:

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 167,442	\$ 167,442
Redeemed during the year	<u>--</u>	<u>--</u>
Ending balance	<u>\$ 167,442</u>	<u>\$ 167,442</u>

Net investment income for the years ended December 31, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 269,080	\$ 321,035
Realized gains	182,130	128,223
Unrealized gains	<u>219,911</u>	<u>(398,281)</u>
Totals	<u>\$ 671,121</u>	<u>\$ 50,977</u>

Note 5. **Amounts Held in Trust by Others** - The Foundation is the beneficiary of several split-interest agreements, including irrevocable perpetual trusts and charitable remainder trusts, as described in Internal Revenue Code Section 664. The Foundation does not exercise control over the trusts' assets, which are held and administered by third-party trustees.

Under the perpetual trusts, the donors established and funded a trust whereby the Foundation is the beneficiary of the income on the trust assets as earned in perpetuity with no restrictions on use. Under the charitable remainder trusts, the donors established and funded a trust whereby the Foundation receives income distributions from the trust and will receive a percentage of trust assets at the termination of the trust.

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Note 5. **Amounts Held in Trust by Others** (Continued)

Fair value of perpetual trusts at December 31, 2012 and 2011, is \$1,551,934 and \$1,385,638, respectively. The change in the beneficial interest in perpetual trusts for the years ended December 31, 2012 and 2011 is \$166,258 and (\$86,331), respectively.

The Foundation's interest in charitable remainder trusts at December 31, 2012 and 2011 is \$371,222 and \$343,261, respectively.

Note 6. **Research Contracts** - At December 31, 2012 and 2011, the board of directors has designated unrestricted net assets in order to fulfill contract commitments to universities and institutions for research amounting to \$4,454,840 and \$4,521,709, respectively.

Note 7. **Net Assets** - Temporarily restricted net assets are available for the following purposes or periods at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u> (restated)
Net assets subject to time restrictions imposed by charitable remainder trusts	\$ 371,222	\$ 343,261
Net assets subject to research program restrictions	<u>1,471,544</u>	<u>375,355</u>
Totals	<u>\$ 1,842,766</u>	<u>\$ 718,616</u>

Temporarily restricted net assets released from restriction for the years ended December 31, 2012 and 2011, represent expenditures spent for specific types of cancer research that have accomplished the imposed restrictions.

Permanently restricted net assets consist of perpetual trusts for which the Foundation is named as a beneficiary. Investment income realized on the permanently restricted net assets balance of \$1,551,934 and \$1,385,638 as of December 31, 2012 and 2011, respectively, is unrestricted for use by the Foundation.

Note 8. **Retirement Plan** - The Foundation offers a 401(k) Savings Plan for the benefit of its employees. Eligible employees include all employees with at least 1,000 hours of service. The annual contribution to eligible plan participants, however, shall not be less than 12% of the participating employees' eligible salaries to the plan each year. The contribution is allocated to three classes of employees. In addition to annual contribution, the plan has been modified to allow for an additional discretionary employer contribution that will be annually determined by the Board. For the years ended December 31, 2012 and 2011, retirement expense was approximately \$239,000 and \$232,000, respectively.

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Note 9. **Allocation of Joint Costs** - For the years ended December 31, 2012 and 2011, the Foundation incurred joint costs of approximately \$5,884,765 and \$7,551,348 for informational materials and activities that included fundraising appeals, which were allocated at follows:

	2012	2011
Public education and information	\$ 3,822,283	\$ 4,399,326
Cancer research	172	--
Fundraising	2,062,300	3,152,022
Management and general	10	--
Totals	\$ 5,884,765	\$ 7,551,348

Note 10. **Lease Commitments** - The Foundation leases office space under a noncancelable operating lease. In accordance with the lease agreement, rent is scheduled to increase 3% each year for the remainder of the lease. A new lease was signed in February 2013, with base rent starting at \$16,224, increasing each year by 3% and includes two months of free rent each lease year. Future minimum lease payments under the operating lease as of December 31, 2012, are as follows:

Year Ending December 31,	
2013	\$ 188,801
2014	164,682
2015	169,619
2016	174,698
2017	179,941
2018	36,520
Total	\$ 914,261

Rent expense for the years ended December 31, 2012 and 2011, is \$354,707 and \$349,104, respectively.

Note 11. **Noncash Support** - Research contracts with universities and other institutions typically reimburse most out-of-pocket research costs; however, many institutions also agree to donate certain chemicals, materials, equipment, and contract rights for the use of databases, and supercomputer time. These donations, provided by the institutions, become a normal part of the research program and would ordinarily be costs incurred by the Foundation.

Control over these donated goods is provided through on-location project directors, who are responsible to the Foundation for the research projects at the institutions.

The effect of these donations is to allow the Foundation to expand the research that would otherwise be performed under the contract. The institutions provide the Foundation with a measurable basis in order to quantify the estimated fair value of the donated property.

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Note 11. **Noncash Support** (Continued)

For the years ended December 31, 2012 and 2011, noncash support consisted of the following:

	<u>2012</u>	<u>2011</u>
Contract rights for use of supercomputer time	\$ 196,350	\$ 196,264
Chemicals, materials and equipment	335,131	429,847
Contract rights for the use of databases	<u>18,500</u>	<u>23,250</u>
Totals	<u>\$ 549,981</u>	<u>\$ 649,361</u>

Note 12. **Restatement** - A temporarily restricted contribution of \$189,532 was unconditionally granted to CCDx in 2011, but was not included in the December 31, 2011 audited financial statements as receivable and temporarily restricted contributions. The December 31, 2011 temporarily restricted net assets, temporarily restricted public support revenue and contributions receivable have been adjusted to reflect the additional temporarily restricted net asset contribution in 2011.