



**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Consolidated Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Directors  
The Leukemia & Lymphoma Society, Inc.:

We have audited the accompanying consolidated financial statements of The Leukemia & Lymphoma Society, Inc. (LLS), which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 organization'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 organization'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 Leukemia & Lymphoma Society, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### **Report on Summarized Comparative Information**

We have previously audited LLS's consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*KPMG LLP*

November 2, 2016

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Consolidated Balance Sheet

June 30, 2016

(with comparative amounts at June 30, 2015)

(In thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents (note 1)	\$ 18,596	52,897
Prepaid expenses and other assets	2,906	6,049
Legacies and contributions receivable, net (note 5)	17,244	8,989
Investments (note 3)	168,293	137,941
Fixed assets, net (note 7)	16,946	14,826
Total assets	<u>\$ 223,985</u>	<u>220,702</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,655	16,975
Deferred revenue (note 6)	12,916	17,802
Awards and grants payable (note 2)	60,451	69,335
Co-Pay assistance payable (note 2)	13,469	14,465
Other long-term liabilities (note 1)	1,638	1,441
Total liabilities	<u>102,129</u>	<u>120,018</u>
Commitments and contingencies (notes 2 and 9)		
Net assets (note 4):		
Unrestricted	84,178	72,848
Temporarily restricted	34,241	24,146
Permanently restricted	3,437	3,690
Total net assets	<u>121,856</u>	<u>100,684</u>
Total liabilities and net assets	<u>\$ 223,985</u>	<u>220,702</u>

See accompanying notes to consolidated financial statements.

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**  
Consolidated Statement of Activities  
Year ended June 30, 2016  
(with summarized totals for the year ended June 30, 2015)  
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2016	2015
Operating revenue:					
Campaign contributions	\$ 235,036	23,739	64	258,839	259,429
Less direct donor benefit costs	(26,348)	—	—	(26,348)	(24,606)
Net campaign contributions	208,688	23,739	64	232,491	234,823
Co-pay contributions	—	46,379	—	46,379	43,000
Legacies	5,159	2,787	—	7,946	10,157
Donated services and media (note 6)	11,175	—	—	11,175	9,864
Net interest and dividend income	1,347	5	—	1,352	1,904
Net assets released from restrictions (note 2):					
Co-pay assistance	44,673	(44,673)	—	—	—
Satisfaction of other donor restrictions	18,102	(18,062)	(40)	—	—
Total operating revenue	289,144	10,175	24	299,343	299,748
Operating expenses (notes 6 and 10):					
Program services:					
Research	54,691	—	—	54,691	71,540
Patient and community service	89,209	—	—	89,209	95,526
Public health education	42,881	—	—	42,881	36,249
Professional education	15,373	—	—	15,373	16,829
Total program services	202,154	—	—	202,154	220,144
Supporting services:					
Management and general	27,553	—	—	27,553	31,006
Fund raising	44,749	—	—	44,749	46,205
Total supporting services	72,302	—	—	72,302	77,211
Total operating expenses	274,456	—	—	274,456	297,355
Change in net assets from operating activities	14,688	10,175	24	24,887	2,393
Foreign currency translation adjustment	(30)	(80)	—	(110)	(530)
Net decrease in fair value of investments (note 3)	(4,157)	—	—	(4,157)	(1,585)
Net assets transferred and reclassified (note 1)	829	—	(277)	552	—
Change in net assets	11,330	10,095	(253)	21,172	278
Net assets:					
Beginning of year	72,848	24,146	3,690	100,684	100,406
End of year	\$ 84,178	34,241	3,437	121,856	100,684

See accompanying notes to consolidated financial statements.

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Consolidated Statement of Functional Expenses

Year ended June 30, 2016

(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Program services				Supporting services			Total		Direct donor benefit costs		
	Research	Patient and community service	Public health education	Professional education	Total	Management and general	Fund raising	Total	2016	2015	2016	2015
Awards and grants (note 2)	\$ 40,011	—	—	—	40,011	—	—	—	40,011	53,717	—	—
Therapy acceleration program (note 2)	9,343	—	—	—	9,343	—	—	—	9,343	13,503	—	—
Financial aid to patients	—	1,299	—	—	1,299	—	—	—	1,299	430	—	—
Co-pay assistance (note 2)	—	40,030	—	—	40,030	—	—	—	40,030	41,804	—	—
Co-pay processing fees	—	3,375	—	—	3,375	—	—	—	3,375	4,581	—	—
Donated services and media (note 6)	113	2,754	831	—	3,698	—	7,477	7,477	11,175	9,864	—	—
Salaries	2,714	19,096	18,331	7,243	47,384	12,826	13,888	26,714	74,098	79,199	—	—
Employee benefits and taxes (note 8)	547	4,327	4,161	1,655	10,690	2,760	3,075	5,835	16,525	16,519	—	—
Occupancy (note 9)	76	2,711	2,543	902	6,232	1,285	1,709	2,994	9,226	9,566	—	—
Insurance	55	163	84	27	329	273	52	325	654	665	—	—
Telephone	47	659	459	187	1,352	293	338	631	1,983	2,276	—	—
Travel and meetings	531	1,699	1,791	848	4,869	1,282	1,331	2,613	7,482	7,854	13,672	13,765
Printing, advertising, and supplies	124	3,200	3,858	926	8,108	2,143	6,543	8,686	16,794	17,446	4,715	4,181
Equipment rentals and maintenance	91	1,569	1,159	463	3,282	710	836	1,546	4,828	3,580	—	—
Postage and shipping	39	1,410	2,222	331	4,002	464	2,836	3,300	7,302	7,411	—	—
Professional fees	715	3,953	4,717	1,649	11,034	2,992	4,632	7,624	18,658	20,244	1,687	1,299
Miscellaneous	138	1,293	1,060	460	2,951	1,461	811	2,272	5,223	2,916	6,274	5,361
Depreciation and amortization	147	1,671	1,665	682	4,165	1,064	1,221	2,285	6,450	5,780	—	—
<b>Total expenses</b>	<b>\$ 54,691</b>	<b>89,209</b>	<b>42,881</b>	<b>15,373</b>	<b>202,154</b>	<b>27,553</b>	<b>44,749</b>	<b>72,302</b>	<b>274,456</b>	<b>297,355</b>	<b>26,348</b>	<b>24,606</b>

See accompanying notes to consolidated financial statements.

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Consolidated Statement of Cash Flows

Year ended June 30, 2016

(with comparative amounts for the year ended June 30, 2015)

(In thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 21,172	278
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net decrease in fair value of investments	4,157	1,585
Depreciation and amortization	6,450	5,780
Provision for uncollectible accounts	(445)	126
Change in long-term liability	197	(425)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	3,143	(687)
Legacies and contributions receivable	(7,810)	(2)
Accounts payable and accrued expenses	(3,320)	(1,844)
Deferred revenue	(4,886)	(8,943)
Awards and grants payable	(8,884)	(14,866)
Co-Pay assistance payable	(996)	(2,233)
Net cash provided by (used in) operating activities	<u>8,778</u>	<u>(21,231)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(8,570)	(4,002)
Purchases of long-term investments	(238,736)	(36,640)
Sales of investments	204,227	85,999
Net cash (used in) provided by investing activities	<u>(43,079)</u>	<u>45,357</u>
Net (decrease) increase in cash and cash equivalents	(34,301)	24,126
Cash and cash equivalents at beginning of year	<u>52,897</u>	<u>28,771</u>
Cash and cash equivalents at end of year	<u>\$ 18,596</u>	<u>52,897</u>

See accompanying notes to consolidated financial statements.



# THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

## Notes to Consolidated Financial Statements

June 30, 2016

### (1) Organization and Summary of Significant Accounting Policies

#### (a) Organization

The Leukemia & Lymphoma Society, Inc. (LLS) is the world's largest voluntary health agency dedicated to finding cures for blood cancers. LLS's mission is to cure leukemia, lymphoma, Hodgkin's disease, and myeloma and improve the quality of life of patients and their families. LLS research grants have funded many of today's most promising advances for the treatment of blood cancer patients, including targeted therapies and immunotherapies. LLS is a leading source of publicly available information regarding blood cancer, and education and support programs. LLS influences public policies that accelerate the development and approval of new blood cancer therapies and advocates for all blood cancer patients and their families, helping patients navigate their cancer treatments and access to quality, affordable and coordinated care. LLS is dedicated to removing barriers to care by representing the healthcare and medical research interests of patients and families to policy makers at all levels of government.

#### (b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LLS, which encompasses the National Office of LLS and its fifty-six chapters in the United States, and LLS's not-for-profit affiliates, The Leukemia & Lymphoma Society of Canada, Inc. (LLSC) and its five chapters in Canada, The Leukemia & Lymphoma Society Research Programs, Inc. (LLSRP), The Leukemia & Lymphoma Society Research Foundation (LLSRF), Beat AML (BAML) and PearlPoint Cancer Support, Inc. (PPCS). Effective March 28, 2016, LLS became the sole member of PPCS. As part of the assumption of control, LLS recognized a transfer of net assets of approximately \$552,000. All significant intercompany and intra-LLS accounts and transactions have been eliminated in consolidation.

#### (c) Tax-Exempt Status

LLS, LLSRP, LLSRF and PPCS qualify as charitable organizations as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, are exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since these organizations are publicly supported, contributions qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

LLSC is registered as a charitable organization under the Income Tax Act (Canada) and is, therefore, not subject to income taxes if certain disbursement requirements are met.

BAML is a single-member limited liability company and is a disregarded pass-through entity. Accordingly, all revenue and expenses are included in LLS. Income of BAML is exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3) consistent with LLS.

LLS and PPCS recognize the effect of income tax positions only if those tax positions are more likely than not to be sustained. Income generated from activities unrelated to exempt purposes are subject to tax under Internal Revenue Code Section 511. There were no entities that recognized any unrelated business income tax liability for the years ended June 30, 2016 and 2015.

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### Notes to Consolidated Financial Statements

June 30, 2016

**(d) Estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires LLS's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The significant estimates made in the preparation of these consolidated financial statements include the fair value of alternative investments, allowance for uncollectible accounts, allocation of expenses, and valuation of donated services and media. Actual results could differ from those estimates.

**(e) Risks and Uncertainties**

LLS invests in various investment securities. Investment securities are exposed to various risks such as interest rate risks, fluctuations in market values, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

LLS's principal source of revenue is contributions by the general public. Accordingly, LLS's operations are dependent upon individual contributions, that are affected by general economic conditions, employment levels, and other factors over which LLS has little or no control. By contrast to the granularity of the general public donations, the co-pay program in 2016 and 2015 was funded by nine and eight donors, respectively.

**(f) Summarized Financial Information**

The consolidated financial statements are presented with 2015 summarized or comparative information. With respect to the consolidated statement of activities, such prior year information is not presented by net asset class and, in the consolidated statement of functional expenses, 2015 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2015 consolidated financial statements from which the summarized information was derived.

**(g) Subsequent Events**

LLS evaluated subsequent events after the balance sheet date of June 30, 2016 through November 2, 2016, which was the date the consolidated financial statements were issued.

On August 23, 2016, LLS received a payment triggered by a change in control clause within a Therapy Acceleration Program (TAP) agreement. LLS funded several phases of research and clinical trials as part of this agreement. In addition to the payment received, LLS may receive additional payments contingent on the advancement of drug FDA approval and commercialization.

**(h) Net Asset Classifications**

To ensure observance of limitations and restrictions placed on the use of resources available to LLS, funds that have similar characteristics have been classified into three net asset categories as follows:

*Unrestricted net assets:* Consist of funds that are fully available, at the discretion of LLS's Board of Directors, for LLS to utilize in any of its programs or supporting services.

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Notes to Consolidated Financial Statements

June 30, 2016

*Temporarily restricted net assets:* Consist of funds that are restricted by donors for a specific time period and/or purpose.

*Permanently restricted net assets:* Consist of funds that contain donor-imposed restrictions requiring that the principal be invested in perpetuity. Income earned on these funds is recorded as temporarily restricted net assets and is released from restriction when the donor stipulated purpose has been fulfilled and/or the amount has been appropriated in compliance with the Board-approved spending policy (note 4).

**(i) Foreign Currency Translation**

LLSC uses the Canadian dollar as its functional currency. Accordingly, the currency translation of the financial statements of LLSC to U.S. dollars is included as a translation adjustment in the consolidated statement of activities.

**(j) Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 unobservable inputs for the asset or liability.

LLS follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, for its alternative investments that do not have readily determinable fair values, including hedge funds, limited partnerships, and other funds. This guidance allows, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent, as reported by the investment managers.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

**(k) Contributions, Grants and Deferred Revenue**

Contributions are recorded as revenue, at their fair value, when received or promised unconditionally. Contributions received with donor restrictions that limit their use are reported as either temporarily or permanently restricted revenue. When a donor restriction is met through the passage of time or fulfillment of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

# THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

## Notes to Consolidated Financial Statements

June 30, 2016

Conditional contributions are recognized as revenue when the conditions have been substantially met. Certain grants are accounted for as exchange transactions whereby revenue is recognized when the related expenses are incurred. Amounts received under these arrangements but not yet expended are reported as deferred revenue.

**(l) Donated Services**

LLS has determined that certain of the donated services it receives meet the criteria for recognition in the consolidated financial statements. The value of contributed services was determined for volunteers that possess specialized skills, and would otherwise need to be purchased. These services are recognized as revenue and expense (note 6).

**(m) Donated Media**

LLS has conducted national public service announcements (PSA) media campaigns and benefited from donated media time that was aired on television and radio. The value of contributed media, which is recognized in the consolidated financial statements, was estimated based on the placement, audience, and demographics of the PSA's (note 6).

**(n) Cash Equivalents**

Cash equivalents consist of short-term investments with an original maturity of three months or less from date of purchase, except for amounts held in investments.

**(o) Investments**

Investments are stated at fair value based upon quoted market prices, except for the fair values of alternative investments which are based on net asset values provided by the fund managers or general partners, based upon the underlying net assets of the funds consistent with the concepts of ASC 820. These values are reviewed and evaluated by management.

**(p) Fixed Assets and Depreciation**

Fixed assets, which consist principally of equipment, software, and leasehold improvements, are recorded at cost, and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the terms of the leases, if shorter, ranging 2 to 10 years (leasehold improvements 7 years; furniture, fixtures, and office equipment 7 to 10 years, and computer equipment and software 2 to 5 years).

**(q) Other Long-Term Liabilities**

Other long-term liabilities represent LLS's liability for the Internal Revenue Code Section 457 deferred compensation plans recorded at fair market value (note 8) and straight-line rent of office leases (note 9).

**(r) Professional Fees**

Professional fees included in the consolidated financial statements principally include professional fund-raising fees, contracted software development, and legal and auditing fees.

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Notes to Consolidated Financial Statements

June 30, 2016

(s) **Reclassifications**

Certain reclassifications of 2015 amounts have been made to conform to the 2016 presentation.

(2) **Research and Co-Pay Assistance Program**

LLS has various activities that are utilized to carry out its mission as presented below:

**Research**

Awards and Grants: Awards and grants for research are approved by LLS's Board of Directors and are recognized as expense when contractual conditions have been satisfied. The budgets for multi-year grants, which are generally two to five years in length, are approved on an annual basis and may be terminated at the discretion of LLS's Board of Directors. LLS has multi-year grant commitments of \$56,541,000 at June 30, 2016, which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$60,451,000 and \$69,335,000 at June 30, 2016 and 2015, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$450,000 and \$3,104,000 as of June 30, 2016 and 2015, respectively, have been netted against awards and grants expense.

TAP: TAP is LLS's strategic initiative to speed the development of blood-cancer treatments and supportive diagnostics by creating business alliances with biotechnology and pharmaceutical companies. TAP provides funding for investigational new drug-enabling studies and clinical-stage projects. TAP contracts are recognized as an expense in the year program milestones are achieved. Multi-year contracts, which are generally two to three years in length, are reviewed against milestones on a quarterly basis and may be terminated at the discretion of LLS's Board of Directors. LLS has contract commitments of \$10,214,000 and \$20,842,000 at June 30, 2016 and 2015, respectively, that are conditioned upon future events and, accordingly, are not recorded.

Commitments for the awards and grants and TAP programs are contingent upon the satisfactory completion of milestones and/or other conditions in the grant and contract agreements. If such conditions are satisfied, the amounts are estimated to be paid as follows (in thousands):

Year ending June 30:		
2017	\$	34,812
2018		17,298
2019 and thereafter		<u>14,645</u>
Total	\$	<u><u>66,755</u></u>

**Co-Pay Assistance Program**

Co-Pay Assistance Program: The Co-Pay Assistance program offers financial assistance to patients in meeting their insurance co-pay obligations for prescription medications or private/public health insurance premiums. Amounts awarded under the program are expensed in the year approved based on the available funding in the program. Revenue is recognized when the grants are received while expenses are recognized as patients are approved for participation according to program criteria. Accordingly, LLS has recognized \$8,960,000 and \$7,254,000 in temporarily restricted revenue as of June 30, 2016 and 2015, respectively, for which the corresponding expense is not recognized until the subsequent fiscal year as patients are approved

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Notes to Consolidated Financial Statements

June 30, 2016

in the program. The Co-Pay Assistance payable of \$13,469,000 and \$14,465,000 has been established based on approved patient applications received through June 30, 2016 and 2015, respectively. At June 30, 2016, temporarily restricted net assets include \$8,960,000 received in 2016, which are available for expenditure and are intended to be awarded in fiscal 2017.

The following summarizes the activities of the Co-Pay Assistance program in 2016 and 2015 (in thousands).

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 7,254	11,707
Grant commitments	46,379	43,000
Amount expended during the year:		
Direct assistance to patients	(40,030)	(41,804)
Other expenses incurred and reimbursed under the contract	<u>(4,643)</u>	<u>(5,649)</u>
Amounts available for expenditures in the next year	\$ <u>8,960</u>	<u>7,254</u>

**(3) Investments**

The following tables present LLS's fair value hierarchy of investments measured at fair value on an annual basis as of June 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 58,704	58,704	—	—
Fixed income:				
Corporate bonds	36,228	36,228	—	—
Government securities and other	2,032	2,032	—	—
Equities:				
Large cap equity	22,466	22,466	—	—
International equity	20,406	20,406	—	—
Small/mid cap equity	10,429	10,429	—	—
Real estate	5,293	5,293	—	—
Commodities	2,996	2,996	—	—
	<u>158,554</u>	\$ <u>158,554</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
Multi strategy hedge funds	7,503			
Long/short equities	<u>2,236</u>			
Total investments reported at net asset value	<u>9,739</u>			
	\$ <u>168,293</u>			

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Notes to Consolidated Financial Statements

June 30, 2016

	<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 18,544	18,544	—	—
Fixed income:				
Long duration fixed income (mutual fund)	27,599	27,599	—	—
Short duration fixed income (mutual fund)	30,222	30,222	—	—
Government securities and other	2,285	2,285	—	—
Equities:				
Large cap equity	7,577	7,577	—	—
International equity	5,355	5,355	—	—
Small/mid cap equity	223	223	—	—
Real assets	5,638	5,638	—	—
	<u>97,443</u>	<u>\$ 97,443</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
Multi strategy hedge funds	38,075			
Long/short equities	<u>2,423</u>			
Total investments reported at net asset value	<u>40,498</u>			
	<u>\$ 137,941</u>			

In 2016, LLS transitioned from a traditional Investment custodian to an Outsourced Chief Investment Officer. In this process, LLS liquidated its investment portfolio and re-invested all funds.

Investment expenses of \$560,000 and \$866,000 have been netted against the net decrease in fair value of investments for the years ended June 30, 2016 and 2015, respectively. The unrealized gains (losses) were \$3,513,000 and \$(4,851,000) for the years ended June 30, 2016 and 2015, respectively.

LLS's alternative investments are diversified across two investment strategies, as follows:

1. *Multi strategy hedge funds* – represent investments in a broad range of investment strategies that seek to exploit opportunities as they occur in the markets due to temporary dislocations or structural inefficiencies and include event-driven strategies, distressed debt, merger and other arbitrage, and value investing.
2. *Long/short equities* – primarily investments in funds that, in turn, invest in liquid, marketable securities, attempting to realize gains through the identification of mispriced securities.

These strategies create indirect exposure to LLS through short sales of securities, trading in future and forward contracts, and other derivative products. Derivatives are investment contracts used to hedge risk. While these financial instruments may contain varying degrees of risk, LLS's risk with respect to such transactions is limited to its capital balance in each investment.

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Notes to Consolidated Financial Statements

June 30, 2016

LLS's alternative investments contain various redemption restrictions with required written notice ranging from 45-95 days. By contrast, all of LLS's nonalternative investments are highly liquid and can be redeemed daily without restriction. As of June 30, 2016 and 2015, the following table summarizes the redemption provisions for those investments reported at net asset value (in thousands):

	<u>2016</u>	<u>2015</u>
Redemption period:		
Quarterly	\$ 6,003	38,075
Annual	3,736	2,423
Total	<u>\$ 9,739</u>	<u>40,498</u>

In accordance with ASU 2015-10, *Technical Corrections and Improvements*, LLS removed \$6,965,000 as of June 30, 2015 from investments reported at net asset value (or its equivalent) and included these amounts in Level 1 to correct the fair value hierarchy table.

As of June 30, 2016 and 2015, LLS has no unfunded commitments on its alternative investments.

**(4) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets and the income earned on permanently restricted net assets are available for the following purposes at June 30, 2016 and 2015 (in thousands):

	<u>2016</u>		<u>2015</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Time restrictions	\$ 272	—	607	—
Research	19,377	3,280	11,738	3,543
Patient service	5,367	—	4,432	—
Co-pay assistance	8,960	—	7,254	—
Other	265	157	115	147
Total	<u>\$ 34,241</u>	<u>3,437</u>	<u>24,146</u>	<u>3,690</u>

LLS follows the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA), which imposes guidelines on the management and investment of endowment funds. LLS has interpreted the relevant law as allowing LLS to appropriate for expenditure or accumulate so much of an endowment fund as LLS determines is prudent considering the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

LLS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to protect the original value of the gift. The spending rate policy at June 30, 2016 and 2015 was 4%, plus any additional amounts advised by donors. Under this policy, the endowment assets are invested in a manner that is intended to produce results consistent with LLS's overall investment strategy.



**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Notes to Consolidated Financial Statements

June 30, 2016

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2016 (in thousands):

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets at July 1	\$ 3,086	3,690	6,776
Investment (loss) income	(164)	64	(100)
Net appreciation	280	—	280
Reclassifications	—	(277)	(277)
Appropriation for expenditure	(240)	(40)	(280)
Endowment net assets at June 30	\$ <u>2,962</u>	<u>3,437</u>	<u>6,399</u>

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2015 (in thousands):

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets at July 1	\$ 3,164	3,575	6,739
Investment income	61	43	104
Net appreciation	82	72	154
Appropriation for expenditure	(221)	—	(221)
Endowment net assets at June 30	\$ <u>3,086</u>	<u>3,690</u>	<u>6,776</u>

**(5) Legacies and Contributions Receivable**

LLS's legacies and contributions receivable at June 30, 2016 and 2015 consist of unconditional promises to give and legacies for which the underlying wills have been declared valid by the probate court and no other conditions are required to be met. Contributions receivables are originally recorded based on discounted cash flows using a risk adjusted discount rate. Amounts are scheduled to be received as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Less than one year	\$ 10,723	7,111
1 to 5 years	7,272	2,413
After 5 years	50	575
Subtotal	18,045	10,099
Less:		
Allowance for uncollectible accounts	(169)	(614)
Discount to present value (1.5% to 5.0%)	(632)	(496)
Total	\$ <u>17,244</u>	<u>8,989</u>

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Notes to Consolidated Financial Statements

June 30, 2016

As of June 30, 2016, 65% of gross legacies and contributions receivable were from two funding sources.

**(6) Deferred Revenue, Donated Services and Media**

During 2013, LLS received a \$20,000,000 grant with the contractual agreement to be utilized for research that is jointly identified by the grantor and LLS. At June 30, 2016 and 2015, the unexpended balances of the grant of \$1,145,000 and \$4,504,000, respectively, are included in deferred revenue. Revenue under this grant is expected to be recognized over the next year, as expenses are incurred. The remaining balance of deferred revenue includes amounts received for special events that will be held subsequent to the fiscal year end.

The value of donated services for family support group facilitators and research grant reviewers, as well as donated media are included in both revenue and expense as shown below (in thousands):

	<u>2016</u>	<u>2015</u>
Donated services	\$ 2,867	4,468
Donated media	8,308	5,396
Total	<u>\$ 11,175</u>	<u>9,864</u>

**(7) Fixed Assets, Net**

Fixed assets at June 30, 2016 and 2015 consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 1,434	1,109
Furniture, fixtures, and other office equipment	3,397	2,629
Computer equipment and software	39,706	31,829
Total	44,537	35,567
Less accumulated depreciation and amortization	<u>(27,591)</u>	<u>(20,741)</u>
Fixed assets, net	<u>\$ 16,946</u>	<u>14,826</u>

**(8) Retirement Plans**

LLS has a defined contribution 403(b) plan covering all employees meeting age and service requirements. LLS contributions are based on a percentage of each eligible employee's salary and years of service. Expenses under this plan aggregated \$1,827,000 and \$1,858,000 for the years ended June 30, 2016 and 2015, respectively.

**THE LEUKEMIA & LYMPHOMA SOCIETY, INC.**

Notes to Consolidated Financial Statements

June 30, 2016

LLS has nonqualified deferred compensation plans for its executive staff subject to the provisions of the Internal Revenue Code Section 457 (the 457 Plans). Expenses under the 457 Plans approximated \$10,000 for the year ended June 30, 2015. There were no expenses incurred for the year ended June 30, 2016. The assets of the 457 Plans are included in investments in the accompanying consolidated balance sheet and amounted to approximately \$1,405,000 and \$1,490,000 at June 30, 2016 and 2015, respectively. The liabilities of the 457 Plans are included in other long-term liabilities in the accompanying consolidated balance sheet and amounted to approximately \$1,374,000 and \$1,380,000 at June 30, 2016 and 2015, respectively.

**(9) Lease Commitments**

The leases for premises, which LLS's National Office and chapters occupy, expire on various dates through March 31, 2031, and provide for certain payments subject to escalation and periodic rate increases relating to real estate taxes, operating expenses, and utilities. On September 15, 2015, LLS entered into a 15 year lease for 41,868 square feet of space for its National Office beginning March 2016. The lease terms provide for one year of rent abatement. Free rent periods, tenant improvement allowances, and charges are accounted for on a straight-line basis over the life of the lease.

The approximate minimum aggregate future annual rental commitments are summarized as follows (in thousands):

Year ending June 30:		
2017	\$	6,008
2018		5,584
2019		4,560
2020		4,071
2021		3,670
Thereafter		<u>15,286</u>
Total	\$	<u><u>39,179</u></u>

**(10) Joint Costs Allocation**

For the years ended June 30, 2016 and 2015, LLS incurred expenses to conduct activities that had both fundraising appeals as well as mission program and management and general components (joint activities). Those joint activities included direct mail, coinboards, and media campaigns. Such costs are allocated based on applicable accounting standards and were allocated as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Fund raising	\$ 13,901	15,294
Patient and community service	2,076	1,152
Public health education	<u>5,117</u>	<u>3,179</u>
Total	<u><u>\$ 21,094</u></u>	<u><u>19,625</u></u>