



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2015

(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, 2015, 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 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, 2015, 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 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 21, 2015

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2015

(with comparative amounts at June 30, 2014)

(In thousands)

Assets	2015	2014
Cash and cash equivalents (note 3)	\$ 52,897	28,771
Prepaid expenses and other assets	6,049	5,362
Legacies and contributions receivable, net (note 5)	8,989	9,113
Investments (note 3)	137,941	188,885
Fixed assets, net (note 7)	14,826	16,604
Total assets	<u>\$ 220,702</u>	<u>248,735</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 18,416	20,685
Deferred revenue (note 6)	17,802	26,745
Awards and grants payable (note 2)	69,335	84,201
Co-Pay assistance payable (note 2)	14,465	16,698
Total liabilities	<u>120,018</u>	<u>148,329</u>
Commitments and contingencies (notes 2 and 9)		
Net assets (note 4):		
Unrestricted	72,848	68,842
Temporarily restricted	24,146	27,989
Permanently restricted	3,690	3,575
Total net assets	<u>100,684</u>	<u>100,406</u>
Total liabilities and net assets	<u>\$ 220,702</u>	<u>248,735</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.
Consolidated Statement of Activities
Year ended June 30, 2015
(with summarized totals for the year ended June 30, 2014)
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2015	2014
Operating revenue:					
Campaign contributions	\$ 236,171	23,258	—	259,429	271,087
Less direct donor benefit costs	(24,606)	—	—	(24,606)	(28,784)
Net campaign contributions	211,565	23,258	—	234,823	242,303
Co-pay contributions	—	43,000	—	43,000	67,100
Legacies	9,998	159	—	10,157	5,555
Donated services and media (note 6)	9,864	—	—	9,864	10,985
Net interest and dividend income	1,802	59	43	1,904	1,488
Net assets released from restrictions (note 2):					
Co-pay assistance	41,804	(41,804)	—	—	—
Satisfaction of other donor restrictions	28,755	(28,755)	—	—	—
Total operating revenue	303,788	(4,083)	43	299,748	327,431
Operating expenses (note 10):					
Program services:					
Research	71,540	—	—	71,540	84,967
Patient and community service	95,526	—	—	95,526	107,578
Public health education	36,249	—	—	36,249	46,837
Professional education	16,829	—	—	16,829	19,327
Total program services	220,144	—	—	220,144	258,709
Supporting services:					
Management and general	31,006	—	—	31,006	29,723
Fund raising	46,205	—	—	46,205	51,100
Total supporting services	77,211	—	—	77,211	80,823
Total operating expenses	297,355	—	—	297,355	339,532
Change in net assets from operating activities	6,433	(4,083)	43	2,393	(12,101)
Write-off of contribution receivable (note 5)	—	—	—	—	(3,507)
Foreign currency translation adjustment	(530)	—	—	(530)	(153)
Net (decrease) increase in fair value of investments (note 3)	(1,897)	240	72	(1,585)	12,402
Change in net assets	4,006	(3,843)	115	278	(3,359)
Net assets:					
Beginning of year	68,842	27,989	3,575	100,406	103,765
End of year	\$ 72,848	24,146	3,690	100,684	100,406

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

(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	2015	2014	2015	2014
Awards and grants (note 2)	\$ 53,717	—	—	—	53,717	—	—	—	53,717	63,716	—	—
Therapy acceleration program (note 2)	13,503	—	—	—	13,503	—	—	—	13,503	16,107	—	—
Financial aid to patients	—	430	—	—	430	—	—	—	430	2,524	—	—
Co-pay assistance (note 2)	—	41,804	—	—	41,804	—	—	—	41,804	49,246	—	—
Co-pay processing fees	—	4,581	—	—	4,581	—	—	—	4,581	4,567	—	—
Donated services and media (note 6)	556	3,912	540	—	5,008	—	4,856	4,856	9,864	10,985	—	—
Salaries	2,457	20,103	16,184	9,094	47,838	12,055	13,084	25,139	72,977	77,557	—	—
Employee benefits and taxes (note 8)	160	4,390	3,473	1,380	9,403	3,986	3,130	7,116	16,519	21,135	—	—
Temporary services	114	1,754	1,453	596	3,917	1,156	1,149	2,305	6,222	6,568	—	—
Occupancy (note 9)	26	2,793	2,347	747	5,913	1,822	1,831	3,653	9,566	9,104	—	—
Insurance	3	199	90	—	292	244	129	373	665	674	—	—
Telephone	7	720	339	257	1,323	416	537	953	2,276	3,285	—	—
Travel	129	1,419	1,328	622	3,498	753	963	1,716	5,214	5,479	2,630	4,432
Printing, advertising, and supplies	41	3,454	2,960	1,132	7,587	2,202	7,657	9,859	17,446	22,215	4,181	5,017
Equipment rentals and maintenance	3	1,136	613	434	2,186	724	670	1,394	3,580	3,276	—	—
Postage and shipping	1	1,438	1,260	166	2,865	285	4,261	4,546	7,411	8,665	—	—
Meetings	537	459	712	415	2,123	277	240	517	2,640	4,116	11,135	11,179
Professional fees	282	4,696	3,593	1,760	10,331	3,889	6,024	9,913	20,244	23,109	1,299	1,741
Miscellaneous	1	893	622	207	1,723	716	477	1,193	2,916	3,215	5,361	6,415
Depreciation and amortization	3	1,345	735	19	2,102	2,481	1,197	3,678	5,780	3,989	—	—
Total expenses	\$ 71,540	95,526	36,249	16,829	220,144	31,006	46,205	77,211	297,355	339,532	24,606	28,784

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2015

(with comparative amounts for the year ended June 30, 2014)

(In thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 278	(3,359)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net decrease (increase) in fair value of investments	1,585	(12,402)
Depreciation and amortization	5,780	3,989
Provision for uncollectible accounts	126	(304)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(687)	193
Legacies and contributions receivable	(2)	(783)
Accounts payable and accrued expenses	(2,269)	(703)
Deferred revenue	(8,943)	(8,329)
Awards and grants payable	(14,866)	9,376
Co-Pay assistance payable	(2,233)	9,461
Net cash used in operating activities	<u>(21,231)</u>	<u>(2,861)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(4,002)	(9,740)
Purchases of investments	(36,640)	(77,132)
Sales of investments	85,999	91,204
Net cash provided by investing activities	<u>45,357</u>	<u>4,332</u>
Net increase in cash and cash equivalents	24,126	1,471
Cash and cash equivalents at beginning of year	<u>28,771</u>	<u>27,300</u>
Cash and cash equivalents at end of year	<u>\$ 52,897</u>	<u>28,771</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2015

(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 for blood cancer, education and support, and influences policies that accelerate the development and approval of new blood cancer therapies. LLS advocates for all blood cancer patients and their families, helping patients navigate their cancer treatments and ensuring they have 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) Tax-Exempt Status

LLS qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since LLS is publicly supported, contributions to LLS qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

The Leukemia & Lymphoma Society of Canada, Inc. (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.

LLS recognizes 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 LLS's exempt purpose is subject to tax under Internal Revenue Code Section 511. LLS did not recognize any unrelated business income tax liability for the years ended June 30, 2015 and 2014.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LLS, which encompasses the National Office of LLS and its fifty-four chapters in the United States, and LLS's not-for-profit affiliates, LLSC and its five chapters in Canada, The Leukemia & Lymphoma Society Research Programs, Inc., and The Leukemia & Lymphoma Society Research Foundation. All significant intercompany and intra-LLS accounts and transactions have been eliminated in consolidation.

(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.

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(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 amounts contributed by the general public. Accordingly, LLS's operations are affected by individual contributions, which 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 2015 and 2014 was funded by eight and six donors, respectively.

(f) ***Summarized Financial Information***

The consolidated financial statements are presented with 2014 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, 2014 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2014 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, 2015 through October 21, 2015, which was the date the consolidated financial statements were issued, and noted one additional required disclosure.

On September 15, 2015, LLS entered into a 15 year lease for 41,868 square feet of space for its National Office beginning no earlier than April 1, 2016. The lease terms provide for one year of rent abatement. Future minimum rental lease commitments under the lease are approximately \$1,005,000 annually for the next five years.

(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.

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 are recorded as temporarily restricted net assets and are released from restriction when the donor stipulated

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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.

The carrying value of cash and cash equivalents, accounts payable and accrued expenses, and grants payable approximates fair value because of their short term nature.

In 2015, LLS early adopted the provisions of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. LLS applied the provision of the update retrospectively to 2014.

(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

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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. 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.

(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 financial statements, was estimated based on the placement, audience, and demographics of the PSA's.

(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) Professional Fees

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

(r) Reclassifications

Certain reclassifications of 2014 amounts have been made to conform to the 2015 presentation.

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Notes to Consolidated Financial Statements

June 30, 2015

(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 \$51,612,000 at June 30, 2015 which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$69,335,000 and \$84,201,000 at June 30, 2015 and 2014, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$3,104,000 and \$821,000 as of June 30, 2015 and 2014, respectively, have been netted against awards and grants expense.

Therapy Acceleration Program (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 \$20,842,000 and \$28,575,000 at June 30, 2015 and 2014, 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:		
2016	\$	40,749
2017		22,279
2018 and thereafter		9,426
Total	\$	<u>72,454</u>

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Notes to Consolidated Financial Statements

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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 \$7,254,000 and \$11,707,000 in temporarily restricted revenue as of June 30, 2015 and 2014, respectively, for which the corresponding expense is not recognized until the subsequent fiscal year as patients are approved in the program. The Co-Pay Assistance payable of \$14,465,000 and \$16,698,000 has been established based on approved patient applications received through June 30, 2015 and 2014, respectively. At June 30, 2015, temporarily restricted net assets include \$7,254,000 received in 2015 which are available for expenditure and are intended to be awarded in fiscal 2016.

The following summarizes the activities of the Co-Pay Assistance program in 2015 and 2014 (in thousands).

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 11,707	—
Grant commitments	43,000	67,100
Amount expended during the year:		
Direct assistance to patients	(41,804)	(49,246)
Other expenses incurred and reimbursed under the contract	<u>(5,649)</u>	<u>(6,147)</u>
Amounts available for expenditures in the next year	<u>\$ 7,254</u>	<u>11,707</u>

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Notes to Consolidated Financial Statements

June 30, 2015

(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, 2015 and 2014 (in thousands):

	<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	958	958	—	—
Equities:				
Large cap equity	7,577	7,577	—	—
International equity	5,355	5,355	—	—
Small/mid cap equity	223	223	—	—
	<u>90,478</u>	<u>\$ 90,478</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
U.S. Treasury Inflation-Protected Security fund	1,327			
Multi strategy hedge funds	38,075			
Long/short equities	2,423			
Real assets	<u>5,638</u>			
Total investments reported at net asset value	<u>47,463</u>			
	<u>\$ 137,941</u>			

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	<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 25,633	25,633	—	—
Fixed income:				
Long duration fixed income (mutual fund)	55,513	55,513	—	—
Short duration fixed income (mutual fund)	33,923	33,923	—	—
Government securities	1,057	1,057	—	—
Equities:				
Large cap equity	5,594	5,594	—	—
International equity	6,905	6,905	—	—
Small/mid cap equity	1,717	1,717	—	—
	<u>130,342</u>	<u>\$ 130,342</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
U.S. Treasury Inflation-Protected Security fund	2,374			
Multi strategy hedge funds	40,769			
Long/short equities	3,705			
Real assets	8,826			
Limited partnership equity indices	2,869			
	<u>58,543</u>			
Total investments reported at net asset value	<u>58,543</u>			
	<u>\$ 188,885</u>			

In 2015, LLS liquidated approximately \$50,000,000 of its investment portfolio in anticipation of funding grant commitments in fiscal 2016 as discussed in note 2. Such amount is included in cash and cash equivalents at June 30, 2015.

Investment expenses of \$866,000 and \$1,338,000 have been netted against the net (decrease) increase in fair value of investments for the years ended June 30, 2015 and 2014, respectively. The unrealized (losses) gains were \$(4,851,000) and \$6,573,000 for the years ended June 30, 2015 and 2014, respectively.

LLS's alternative investments are diversified across four 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.
3. *Real asset strategy* – passively managed real asset portfolios comprise Real Estate Investment Trust Index, commodities, and global natural resource stocks.

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Notes to Consolidated Financial Statements

June 30, 2015

4. *Limited partnership equity indices* – the underlying holdings of the limited partnership equity indices are principally domestic and international marketable 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.

LLS’s alternative investments contain various redemption restrictions with required written notice ranging from 1 to 90 days. By contrast, all of LLS’s nonalternative investments are highly liquid and can be redeemed daily without restriction. As of June 30, 2015 and 2014, the following table summarizes the redemption provisions for those investments reported at net asset value (in thousands):

	<u>2015</u>		<u>2014</u>
Redemption period:			
Daily	\$ 6,965	\$	11,200
Monthly	—		2,869
Quarterly	38,075		40,769
Annual	<u>2,423</u>		<u>3,705</u>
Total	\$ <u>47,463</u>	\$	<u>58,543</u>

As of June 30, 2015 and 2014, 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, 2015 and 2014 (in thousands):

	<u>2015</u>		<u>2014</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Time restrictions	\$ 607	—	1,295	—
Research	11,738	3,543	10,724	3,270
Patient service	4,432	—	2,802	—
Co-pay assistance	7,254	—	11,707	—
Other	<u>115</u>	<u>147</u>	<u>1,461</u>	<u>305</u>
Total	\$ <u>24,146</u>	<u>3,690</u>	<u>27,989</u>	<u>3,575</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.

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Notes to Consolidated Financial Statements

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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, 2015 and 2014 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 following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2015 (in thousands):

	Temporarily restricted	Permanently restricted	Total
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>

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2014 (in thousands):

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at July 1	\$ 3,122	3,443	6,565
Investment income	44	79	123
Net appreciation	213	53	266
Appropriation for expenditure	(215)	—	(215)
Endowment net assets at June 30	\$ <u>3,164</u>	<u>3,575</u>	<u>6,739</u>

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(5) Legacies and Contributions Receivable

LLS's legacies and contributions receivable at June 30, 2015 and 2014 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 which is considered a Level 3 input in the fair value hierarchy. Amounts are scheduled to be received as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 7,111	5,301
1 to 5 years	2,413	4,137
After 5 years	<u>575</u>	<u>650</u>
Subtotal	10,099	10,088
Less:		
Allowance for uncollectible accounts	(614)	(488)
Discount to present value (1.5% to 5.0%)	<u>(496)</u>	<u>(487)</u>
Total	<u>\$ 8,989</u>	<u>9,113</u>

In 2014, a foundation notified LLS that it intended to cancel a grant commitment that was made in the previous year due to a change in the foundation's objectives. Accordingly, LLS wrote off the balance of the contribution receivable in the amount of \$3,507,000.

(6) Deferred Revenue, Donated Services and Media

During 2013, LLS received a \$20,000,000 grant with the contractual agreement to be utilized on research which is jointly identified by the grantor and LLS. At June 30, 2015 and 2014, the unexpended balance of the grant of \$4,504,000 and \$13,700,000, 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>2015</u>	<u>2014</u>
Donated services	\$ 4,468	4,985
Donated media	<u>5,396</u>	<u>6,000</u>
Total	<u>\$ 9,864</u>	<u>10,985</u>

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(7) Fixed Assets, Net

Fixed assets at June 30, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Leasehold improvements	\$ 1,109	1,135
Furniture, fixtures, and other office equipment	2,629	2,646
Computer equipment and software	31,829	27,913
Total	35,567	31,694
Less accumulated depreciation and amortization	(20,741)	(15,090)
Fixed assets, net	\$ 14,826	16,604

(8) Retirement Plans

LLS has a defined contribution 403(b) pension plan covering all employees meeting age and service requirements. Contributions are based on a percentage of each eligible employee's salary and years of service. Expenses under this plan aggregated \$1,858,000 and \$4,214,000 for the years ended June 30, 2015 and 2014, respectively.

LLS has 457 deferred compensation plans (the 457 Plans) for its executive staff. The 457 Plans are nonqualified deferred compensation plans subject to the provisions of the Internal Revenue Code Section 457. Expenses under the 457 Plans approximated \$10,000 and \$296,000 for the years ended June 30, 2015 and 2014, respectively. The assets and liabilities of the 457 Plans are included in investments and accounts payable and accrued expenses in the accompanying consolidated balance sheet and amounted to approximately \$1,380,000 and \$1,589,000 at June 30, 2015 and 2014, respectively.

(9) Lease Commitments

The leases for premises, which LLS's National Office and chapters occupy, expire on various dates through September 30, 2023 and provide for certain payments subject to escalation and periodic rate increases relating to real estate taxes, operating expenses, and utilities.

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

Year ending June 30:	
2016	\$ 7,483
2017	5,047
2018	3,625
2019	2,567
2020	2,064
Thereafter	4,321
Total	\$ 25,107

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(10) Joint Costs Allocation

For the years ended June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Fund raising	\$ 15,294	12,645
Patient and community service	1,152	1,513
Public health education	<u>3,179</u>	<u>8,456</u>
Total	<u>\$ 19,625</u>	<u>22,614</u>