



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2017

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

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, 2017, 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 November 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 27, 2017

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2017

(with comparative amounts at June 30, 2016)

(In thousands)

Assets	2017	2016
Cash and cash equivalents	\$ 41,401	18,596
Prepaid expenses and other assets	3,613	2,906
Contribution and other receivables, net (note 5)	17,785	17,244
Investments (note 3)	209,421	168,293
Fixed assets, net (note 8)	10,119	16,946
Total assets	\$ 282,339	223,985
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,711	13,655
Deferred revenue (note 6)	14,028	12,916
Awards and grants payable (note 2)	64,052	60,451
Co-Pay assistance payable (note 2)	20,071	13,469
Other long-term liabilities (note 9)	3,167	1,638
Total liabilities	123,029	102,129
Commitments and contingencies (notes 2 and 10)		
Net assets (note 4):		
Unrestricted	126,993	84,178
Temporarily restricted	29,161	34,241
Permanently restricted	3,156	3,437
Total net assets	159,310	121,856
Total liabilities and net assets	\$ 282,339	223,985

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Activities

Year ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2017	2016
Operating revenue:					
Campaign contributions	\$ 237,443	21,077	5	258,525	258,839
Less direct donor benefit costs	(25,955)	—	—	(25,955)	(26,348)
Net campaign contributions	211,488	21,077	5	232,570	232,491
Co-Pay contributions (note 2)	—	77,779	—	77,779	46,379
Therapy acceleration program contractual return (note 1)	29,548	—	—	29,548	—
Donated services, goods and media (note 7)	14,594	—	—	14,594	11,175
Legacies and other revenue	5,276	15	—	5,291	7,946
Service revenue	3,847	—	—	3,847	—
Net interest and dividend income	2,730	136	—	2,866	1,352
Net assets released from restrictions (note 2):					
Co-Pay assistance	78,591	(78,591)	—	—	—
Satisfaction of other donor restrictions	26,426	(26,426)	—	—	—
Total operating revenue	372,500	(6,010)	5	366,495	299,343
Operating expenses (notes 7 and 11):					
Program services:					
Research	65,067	—	—	65,067	54,691
Patient and community service	125,677	—	—	125,677	89,209
Public health education	48,138	—	—	48,138	42,881
Professional education	21,698	—	—	21,698	15,373
Total program services	260,580	—	—	260,580	202,154
Supporting services:					
Management and general	29,049	—	—	29,049	27,553
Fund raising	47,656	—	—	47,656	44,749
Total supporting services	76,705	—	—	76,705	72,302
Total operating expenses	337,285	—	—	337,285	274,456
Change in net assets from operating activities	35,215	(6,010)	5	29,210	24,887
Foreign currency translation adjustment	(180)	(4)	—	(184)	(110)
Net increase (decrease) in fair value of investments (note 3)	7,780	648	—	8,428	(4,157)
Net assets transferred and reclassified	—	286	(286)	—	552
Change in net assets	42,815	(5,080)	(281)	37,454	21,172
Net assets:					
Beginning of year	84,178	34,241	3,437	121,856	100,684
End of year	\$ 126,993	29,161	3,156	159,310	121,856

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.
Consolidated Statement of Functional Expenses
Year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)
(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	2017	2016	2017	2016
Awards and grants (note 2)	\$ 42,219	—	—	—	42,219	—	—	—	42,219	40,011	—	—
Therapy acceleration program (note 2)	4,711	—	—	—	4,711	—	—	—	4,711	9,343	—	—
Clinical trial	2,142	—	—	—	2,142	—	—	—	2,142	—	—	—
Financial aid to patients	—	1,703	—	—	1,703	—	—	—	1,703	1,299	—	—
Co-Pay assistance (note 2)	—	72,969	—	—	72,969	—	—	—	72,969	40,030	—	—
Co-Pay processing fees	—	4,595	—	—	4,595	—	—	—	4,595	3,375	—	—
Donated services, goods and media (note 7)	4,021	2,563	4,095	245	10,924	279	3,391	3,670	14,594	11,175	—	—
Salaries and employee benefits and taxes (note 9)	5,840	25,488	24,124	12,572	68,024	16,212	17,466	33,678	101,702	90,623	—	—
Professional fees	2,946	3,891	4,798	2,473	14,108	3,580	5,019	8,599	22,707	18,658	3,305	1,725
Printing, advertising, and supplies	97	3,489	3,819	1,292	8,697	2,166	6,718	8,884	17,581	16,794	5,090	5,052
Occupancy, telephone and insurance (note 10)	367	3,174	2,882	1,186	7,609	1,719	2,583	4,302	11,911	11,863	—	—
Travel and meetings	817	2,056	2,329	1,625	6,827	1,854	1,485	3,339	10,166	7,482	14,877	13,672
Equipment rentals and maintenance	1,109	1,256	1,209	689	4,263	1,032	1,021	2,053	6,316	4,828	—	—
Postage and shipping	17	1,309	1,878	362	3,566	390	2,624	3,014	6,580	7,302	—	—
Miscellaneous	170	1,233	1,026	556	2,985	689	701	1,390	4,375	5,223	2,683	5,899
Impairment of fixed assets (note 8)	—	—	—	—	—	—	5,434	5,434	5,434	—	—	—
Depreciation and amortization	611	1,951	1,978	698	5,238	1,128	1,214	2,342	7,580	6,450	—	—
Total expenses	\$ 65,067	125,677	48,138	21,698	260,580	29,049	47,656	76,705	337,285	274,456	25,955	26,348

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 37,454	21,172
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net (increase) decrease in fair value of investments	(8,428)	4,157
Impairment of fixed assets	5,434	—
Depreciation and amortization	7,580	6,450
Provision for uncollectible accounts	188	(445)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(707)	3,143
Contributions and other receivables	(729)	(7,810)
Accounts payable and accrued expenses	8,056	(3,320)
Other long-term liabilities	1,529	197
Deferred revenue	1,112	(4,886)
Awards and grants payable	3,601	(8,884)
Co-Pay assistance payable	6,602	(996)
Net cash provided by operating activities	<u>61,692</u>	<u>8,778</u>
Cash flows from investing activities:		
Purchases of fixed assets	(6,187)	(8,570)
Purchases of long-term investments	(117,279)	(238,736)
Sales of investments	84,579	204,227
Net cash used in investing activities	<u>(38,887)</u>	<u>(43,079)</u>
Net increase (decrease) in cash and cash equivalents	22,805	(34,301)
Cash and cash equivalents at beginning of year	<u>18,596</u>	<u>52,897</u>
Cash and cash equivalents at end of year	\$ <u><u>41,401</u></u>	\$ <u><u>18,596</u></u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(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 and providing services to blood cancer patients, their families, and caregivers. 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 that encompass the National Office of LLS and its fifty-six chapters in the United States, and LLS's not-for-profit affiliates, including 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, LLC (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 \$552. 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, 2017 and 2016.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(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 goods, 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 2017 and 2016 was funded by eight and nine donors, respectively. In addition, the Beat AML Master Trial was primarily funded by five donors in 2017.

(f) Summarized Financial Information

The consolidated financial statements are presented with 2016 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, 2016 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2016 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, 2017 through October 27, 2017, which was the date the consolidated financial statements were issued, and concluded that no additional disclosures are required.

(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.

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Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

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 or published 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 or published 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 (NAV) 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. 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

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Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

related expenses are incurred. Amounts received under these arrangements but not yet expended are reported as deferred revenue.

(l) Therapy Acceleration Program Contractual Return

In January 2009, as part of its Therapy Acceleration Program (TAP), LLS entered into an agreement with Celator Pharmaceuticals, Inc. (Celator) through which LLS provided funding of approximately \$4,100 to Celator in support of the Phase 2 study of Celator's lead compound Vyxeos™ (daunorubicin and cytarabine liposome for injection) for the treatment of Acute Myeloid Leukemia (AML). From 2012 through 2016, LLS provided funding of an additional \$5,000 for the Phase 3 clinical study of Vyxeos™. LLS provisions of funding to Celator were based on clinical milestones.

As part of the agreement, Celator was obligated to make payments to LLS relative to the timing of the product commercialization and other liquidity events. In July 2016, Jazz Pharmaceuticals (Jazz) completed the purchase of Celator, triggering a payment of \$13,716 to LLS. In late 2016, Jazz terminated the agreement with LLS triggering a one-time contract termination fee of \$11,612 to eliminate potential future royalty payments related to Vyxeos™. The total amount of the return to LLS from its TAP investment in Celator was \$25,328.

The remaining \$4,220 of TAP contractual return comes from various other TAP investments.

(m) Service Revenue

Service revenue is accounted for as an exchange transaction whereby revenue is recognized when the related expenses are incurred. Amounts received under these arrangements but not yet expended are reported as deferred revenue.

(n) Donated Goods and Services

LLS has determined that certain of the donated goods and services it receives meet the criteria for recognition in the consolidated financial statements. The value of contributed goods was determined based on fair market value estimates. The value of contributed services was determined for volunteers that possess specialized skills, and would otherwise need to be purchased. These goods and services are recognized as revenue and expense (note 7).

(o) 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 7).

(p) 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.

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Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(q) Investments

Investments are stated at fair value based upon quoted or published market prices, except for the fair values of alternative investments which are based on NAVs 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.

(r) 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).

(s) 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 9) and straight-line rent of office leases (note 10).

(t) Professional Fees

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

(u) Reclassifications

Certain reclassifications of 2016 amounts have been made to conform to the 2017 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 \$45,410 at June 30, 2017, which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$64,052 and \$60,451 at June 30, 2017 and 2016, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$923 and \$450 as of June 30, 2017 and 2016, respectively, have been netted against awards and grants expense.

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(Amounts in thousands)

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 \$9,144 and \$10,214 at June 30, 2017 and 2016, 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:

Year ending June 30:		
2018	\$	28,702
2019		19,101
2020 and thereafter		<u>6,751</u>
Total	\$	<u><u>54,554</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. The Co-Pay Assistance payable of \$20,071 and \$13,469 has been established based on approved patient applications received through June 30, 2017 and 2016, respectively. At June 30, 2017, temporarily restricted net assets include \$8,148 received in 2017, which are available for expenditure and are intended to be awarded in fiscal 2018.

The following summarizes the activities of the Co-Pay Assistance program in 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 8,960	7,254
Co-Pay contributions	77,779	46,379
Amount expended during the year:		
Direct assistance to patients	(72,969)	(40,030)
Other expenses incurred and reimbursed under the contract	<u>(5,622)</u>	<u>(4,643)</u>
Amounts available for expenditures in the next year	\$ <u><u>8,148</u></u>	<u><u>8,960</u></u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(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, 2017 and 2016:

	<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 63,155	63,155	—	—
Fixed income:				
Corporate bonds	49,312	49,312	—	—
Government securities and other	2,098	2,098	—	—
Equities:				
Large cap equity	32,356	32,356	—	—
International equity	30,261	30,261	—	—
Small/mid cap equity	20,813	20,813	—	—
Commodities	3,566	3,566	—	—
	<u>201,561</u>	<u>\$ 201,561</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
Multi strategy hedge funds	<u>7,860</u>			
Total investments reported at net asset value	<u>7,860</u>			
	<u>\$ 209,421</u>			
	<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>

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Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

	<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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>			

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 totaled \$376 and \$560 for the years ended June 30, 2017 and 2016, respectively. The unrealized gains were \$4,504 and \$3,513 for the years ended June 30, 2017 and 2016, 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.

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, 2017 and 2016, the following table summarizes the redemption provisions for those investments reported at NAV:

	<u>2017</u>	<u>2016</u>
Redemption period:		
Quarterly	\$ 6,265	6,003
Annual	<u>1,595</u>	<u>3,736</u>
Total	<u>\$ 7,860</u>	<u>9,739</u>

As of June 30, 2017 and 2016, LLS had no unfunded commitments on its alternative investments.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(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, 2017 and 2016:

	2017		2016	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Time restrictions	\$ 6,297	—	272	—
Research	7,097	3,035	19,377	3,280
Patient service	7,533	—	5,367	—
Co-Pay assistance	8,148	—	8,960	—
Other	86	121	265	157
Total	\$ 29,161	3,156	34,241	3,437

LLS follows the provisions of the New York Prudent Management of Institutional Funds Act, 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, 2017 and 2016 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, 2017:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at July 1	\$ 2,962	3,437	6,399
Investment income	428	—	428
Net appreciation	335	—	335
Contributions	—	5	5
Reclassifications	(347)	(286)	(633)
Appropriation for expenditure	(252)	—	(252)
Endowment net assets at June 30	\$ 3,126	3,156	6,282

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Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

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

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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>

(5) Contribution and Other Receivables

LLS's contribution and other receivables at June 30, 2017 and 2016 consist of unconditional promises to give, receivables associated with service revenue, 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 and other receivables consist of the following:

	<u>2017</u>	<u>2016</u>
Campaign contributions	\$ 2,749	4,248
Co-Pay contributions	6,000	6,450
Other restricted contributions	8,080	6,546
Service revenue and other	956	—
Total	\$ <u>17,785</u>	<u>17,244</u>

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(Amounts in thousands)

Contributions receivables are originally recorded based on discounted cash flows using a risk adjusted discount rate. Amounts are scheduled to be received as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 13,688	10,723
1 to 5 years	5,186	7,272
After 5 years	<u>25</u>	<u>50</u>
Subtotal	18,899	18,045
Less:		
Allowance for uncollectible accounts	(357)	(169)
Discount to present value (1.5% to 5.0%)	<u>(757)</u>	<u>(632)</u>
Total	\$ <u>17,785</u>	<u>17,244</u>

As of June 30, 2017 and 2016, 53% and 65% of gross legacies and contributions receivable were from two funding sources.

(6) Deferred Revenue

The majority of deferred revenue includes amounts received for special events that will be held subsequent to the fiscal year end. Deferred revenue as of June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Grants	\$ 45	1,145
Service revenue	2,100	—
Special events	<u>11,883</u>	<u>11,771</u>
Total	\$ <u>14,028</u>	<u>12,916</u>

(7) Donated Goods, Services and Media

The value of donated goods, 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:

	<u>2017</u>	<u>2016</u>
Donated goods	\$ 3,552	—
Donated services	2,430	2,867
Donated media	<u>8,612</u>	<u>8,308</u>
Total	\$ <u>14,594</u>	<u>11,175</u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts in thousands)

(8) Fixed Assets, Net

Fixed assets at June 30, 2017 and 2016 consist of the following (in thousands):

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 1,795	1,434
Furniture, fixtures, and other office equipment	3,547	3,397
Computer equipment and software	<u>36,350</u>	<u>39,706</u>
Total	41,692	44,537
Less accumulated depreciation and amortization	<u>(31,573)</u>	<u>(27,591)</u>
Fixed assets, net	<u>\$ 10,119</u>	<u>16,946</u>

In 2017, an impairment of fixed assets of \$5,434 was recorded for the write-off a fund-raising platform that will no longer be utilized by LLS.

(9) 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 \$2,149 and \$1,827 for the years ended June 30, 2017 and 2016, respectively.

LLS has nonqualified deferred compensation plans for its executive staff subject to the provisions of the Internal Revenue Code Section 457 (the 457 Plans). There were no expenses incurred for the years ended June 30, 2017 and 2016. The assets of the 457 Plans are included in investments in the accompanying consolidated balance sheet and amounted to approximately \$1,574 and \$1,405 at June 30, 2017 and 2016, respectively. The liabilities of the 457 Plans are included in other long-term liabilities in the accompanying consolidated balance sheet and amounted to approximately \$1,574 and \$1,374 at June 30, 2017 and 2016, respectively.

(10) 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.

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(Amounts in thousands)

The approximate minimum aggregate future annual rental commitments are summarized as follows:

Year ending June 30:		
2018	\$	7,106
2019		6,134
2020		5,636
2021		5,243
2022		4,477
Thereafter		<u>13,923</u>
Total	\$	<u><u>42,519</u></u>

(11) Joint Costs Allocation

For the years ended June 30, 2017 and 2016, 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:

	<u>2017</u>	<u>2016</u>
Fund raising	\$ 12,832	13,901
Patient and community service	2,666	2,076
Public health education	<u>5,002</u>	<u>5,117</u>
Total	<u><u>\$ 20,500</u></u>	<u><u>21,094</u></u>