



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2014

(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, 2014, 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, 2014, 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 September 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 15, 2014

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2014

(with comparative amounts at June 30, 2013)

(In thousands)

Assets	2014	2013
Cash and cash equivalents (note 6)	\$ 28,771	27,300
Prepaid expenses and other assets	5,362	5,555
Legacies and contributions receivable, net (note 5)	9,113	8,026
Investments (notes 3 and 6)	188,885	190,555
Fixed assets, net (note 7)	16,604	10,853
Total assets	\$ 248,735	242,289
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,685	21,388
Deferred revenue (note 6)	26,745	35,074
Awards and grants payable (note 2)	84,201	74,825
Co-Pay assistance payable (note 2)	16,698	7,237
Total liabilities	148,329	138,524
Commitments and contingencies (notes 2 and 9)		
Net assets (note 4):		
Unrestricted	68,842	91,217
Temporarily restricted	27,989	9,105
Permanently restricted	3,575	3,443
Total net assets	100,406	103,765
Total liabilities and net assets	\$ 248,735	242,289

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Activities

Year ended June 30, 2014

(with summarized totals for the year ended June 30, 2013)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2014	2013
Operating revenue:					
Campaign contributions	\$ 250,433	20,654	—	271,087	276,098
Less direct donor benefit costs	(28,784)	—	—	(28,784)	(35,510)
Net campaign contributions	221,649	20,654	—	242,303	240,588
Co-pay contributions	—	67,100	—	67,100	48,143
Legacies	4,050	1,505	—	5,555	4,226
Donated services and media (note 6)	10,985	—	—	10,985	7,750
Net interest and dividend income	1,365	44	79	1,488	2,075
Net assets released from restrictions:					
Co-pay assistance	55,393	(55,393)	—	—	—
Satisfaction of other donor restrictions	15,239	(15,239)	—	—	—
Total operating revenue	308,681	18,671	79	327,431	302,782
Operating expenses (note 10):					
Program services:					
Research	85,034	—	—	85,034	76,494
Patient and community service	104,170	—	—	104,170	104,830
Public health education	47,585	—	—	47,585	46,080
Professional education	19,656	—	—	19,656	20,729
Total program services	256,445	—	—	256,445	248,133
Supporting services:					
Management and general	28,734	—	—	28,734	28,009
Fund raising	54,353	—	—	54,353	49,620
Total supporting services	83,087	—	—	83,087	77,629
Total operating expenses	339,532	—	—	339,532	325,762
Change in net assets from operating activities	(30,851)	18,671	79	(12,101)	(22,980)
Write-off of contribution receivable (note 5)	(3,507)	—	—	(3,507)	—
Foreign currency translation adjustment	(153)	—	—	(153)	(84)
Net increase in fair value of investments (note 3)	12,136	213	53	12,402	9,689
Change in net assets	(22,375)	18,884	132	(3,359)	(13,375)
Net assets:					
Beginning of year	91,217	9,105	3,443	103,765	117,140
End of year	\$ 68,842	27,989	3,575	100,406	103,765

See accompanying notes to consolidated financial statements.

THE LUDWIG & LYNNE MUSEUM SOCIETY, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2014
(with comparative data for the year ended June 30, 2013)

(in thousands)

	Program services			Supporting services			Total			Direct donor benefit costs		
	Research	Patient and community services	Public health education	Preclinical education	Management and general	Fund raising	2014	2013	Total	2014	2013	2013
Awards and grants (note 2)	\$ 63,716	—	—	—	—	—	63,716	57,655	—	—	—	—
Therapy acceleration program (note 2)	16,107	—	—	—	—	—	16,107	14,912	—	—	—	—
Financial aid to patients	—	2,504	—	—	—	—	2,504	2,504	—	—	—	—
Co-pay assistance (note 2)	—	49,246	—	—	—	—	49,246	42,650	—	—	—	—
Co-pay counseling fees	67	1,159	—	—	—	—	1,226	4,599	—	—	—	—
Donated services and media (note 6)	1,128	21,024	748	329	755	2,264	24,030	24,030	—	—	—	—
Salaries	2,591	21,024	20,471	7,461	10,115	11,703	77,567	71,465	—	—	—	—
Employee benefits and taxes (note 8)	173	1,267	4,073	1,911	1,600	3,996	21,135	21,432	—	—	—	—
Temporary services	97	1,467	1,075	949	1,086	2,170	6,568	4,023	—	—	—	—
Occupancy (note 10)	21	2,817	2,295	607	1,596	1,033	9,104	9,132	—	—	—	—
Insurance	2	151	114	148	109	130	674	678	—	—	—	—
Telephone	6	664	724	617	473	795	3,285	3,438	—	—	—	—
Tuition	124	1,723	1,285	469	719	1,773	5,479	4,330	—	—	—	—
Printing, advertising, and supplies	40	2,052	4,058	1,854	3,307	9,946	22,313	25,400	—	—	—	—
Equipment rental and maintenance	3	784	696	125	311	606	3,376	2,635	—	—	—	—
Postage and shipping	3	870	2,099	127	989	3,685	8,665	10,226	—	—	—	—
Meeting	602	552	323	323	300	763	4,116	4,657	—	—	—	—
Professional fees	346	5,964	1,377	1,666	3,619	7,635	21,109	29,065	—	—	—	—
Miscellaneous	1	1,043	640	282	737	824	3,215	3,006	—	—	—	—
Depreciation and amortization	1	265	251	1,051	75	824	1,989	1,050	—	—	—	—
Total expenses	\$ 81,034	\$ 104,170	\$ 47,535	\$ 19,656	\$ 28,724	\$ 54,353	\$ 332,532	\$ 325,363	\$ 28,794	\$ 28,794	\$ 35,510	\$ 35,510

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2014

(with comparative amounts for the year ended June 30, 2013)

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,359)	(13,375)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net increase in fair value of investments	(12,402)	(9,689)
Depreciation and amortization	3,989	3,050
Provision for uncollectible accounts	(304)	14
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	193	1,161
Legacies and contributions receivable	(783)	(2,627)
Accounts payable and accrued expenses	(703)	1,192
Deferred revenue	(8,329)	17,337
Awards and grants payable	9,376	6,510
Co-Pay assistance payable	9,461	1,586
Net cash (used in) provided by operating activities	<u>(2,861)</u>	<u>5,159</u>
Cash flows from investing activities:		
Purchases of fixed assets	(9,740)	(7,049)
Purchases of investments	(77,132)	(54,862)
Sales of investments	91,204	58,080
Net cash provided by (used in) investing activities	<u>4,332</u>	<u>(3,831)</u>
Net increase in cash and cash equivalents	1,471	1,328
Cash and cash equivalents at beginning of year	<u>27,300</u>	<u>25,972</u>
Cash and cash equivalents at end of year	\$ <u>28,771</u>	<u>27,300</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

(1) Organization and Summary of Significant Accounting Policies

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.

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, 2014 and 2013.

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.

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, the allowance for uncollectible accounts, the allocation of expenses, and the valuation of donated services and media. Actual results could differ from those estimates.

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Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

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 2014 and 2013 was funded by six and five donors, respectively.

Summarized Financial Information

The consolidated financial statements are presented with 2013 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, 2013 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2013 consolidated financial statements from which the summarized information was derived.

Subsequent Events

LLS evaluated subsequent events after the balance sheet date of June 30, 2014 through October 15, 2014, which was the date the consolidated financial statements were issued, and concluded that no additional disclosures are required.

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 purpose has been fulfilled and/or the amount has been appropriated in compliance with the Board-approved spending policy (note 4).

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June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

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.

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.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of LLS's interest therein, its classification in Level 2 or 3 is based on LLS's ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term, the investment is classified as Level 2. 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.

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

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Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

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.

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.

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.

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.

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.

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).

Professional Fees

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

Reclassifications

Certain reclassifications of 2013 amounts have been made to conform to the 2014 presentation.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

(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 \$67,590,000 at June 30, 2014 which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$84,201,000 and \$74,825,000 at June 30, 2014 and 2013, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$821,000 and \$1,844,000 as of June 30, 2014 and 2013, 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 \$28,575,000 and \$40,964,000 at June 30, 2014 and 2013, 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:		
2015	\$	50,448
2016		30,765
2017		12,268
2018 and thereafter		2,684
Total	\$	<u>96,165</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 \$11,707,000 in temporarily restricted revenue in the current year for which the corresponding expense will not be recognized until the subsequent fiscal year as patients are approved in the program. The Co-Pay Assistance payable of \$16,698,000 and \$7,237,000 has been established based on approved patient

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June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

applications received through June 30, 2014 and 2013, respectively. At June 30, 2014, temporarily restricted net assets include \$11,707,000 received in 2014 which are available for expenditure and are intended to be awarded in fiscal 2015.

The following summarizes the activities of the Co-Pay Assistance program in 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Grant commitments	\$ 67,100	48,143
Amount expended during the year:		
Direct assistance to patients	(49,246)	(42,650)
Other expenses incurred and reimbursed under the contract	(6,147)	(5,493)
Amounts available for expenditures in the next year	\$ 11,707	—

(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, 2014 and 2013 (in thousands):

	<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	—	—
U.S. Treasury Inflation-Protected Security fund (TIPS) and other	3,431	1,057	2,374	—
Equities:				
Large cap equity	5,594	5,594	—	—
International equity	6,905	6,905	—	—
Small/mid cap equity	1,717	1,717	—	—
Alternative investments:				
Multi strategy hedge funds	40,769	—	40,769	—
Long/short equities	3,705	—	—	3,705
Real assets	8,826	—	8,826	—
Limited partnership equity indices	2,869	—	2,869	—
	\$ 188,885	130,342	54,838	3,705

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Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

	2013	Level 1	Level 2	Level 3
Money market funds and cash	\$ 1,071	1,071	—	—
Fixed income:				
Long duration fixed income (mutual fund)	63,003	63,003	—	—
Short duration fixed income (mutual fund)	32,316	32,316	—	—
U.S. Treasury Inflation-Protected Security fund (TIPS) and other	3,231	940	2,291	—
Equities:				
Large cap equity	6,901	6,901	—	—
International equity	9,739	9,739	—	—
Small/mid cap equity	2,022	2,022	—	—
Alternative investments:				
Multi strategy hedge funds	58,323	—	58,323	—
Long/short equities	3,358	—	—	3,358
Real assets	7,855	—	7,855	—
Limited partnership equity indices	2,736	—	2,736	—
	<u>\$ 190,555</u>	<u>115,992</u>	<u>71,205</u>	<u>3,358</u>

Investment expenses of \$1,338,000 and \$1,301,000 have been netted against the net increase in fair value of investments for the years ended June 30, 2014 and 2013, respectively. The unrealized gains were \$6,573,000 and \$3,810,000 for the years ended June 30, 2014 and 2013, 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.
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.

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Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

LLS's alternative investments contain various redemption restrictions with required written notice ranging from 1 to 95 days. By contrast, all of LLS's nonalternative investments are highly liquid and can be redeemed daily without restriction. As of June 30, 2014, the following table summarizes the composition of such alternative investments at fair value by the various redemption provisions (in thousands):

	<u>Amount</u>
Redemption period:	
Daily	\$ 8,826
Monthly	2,869
Quarterly	40,769
Annual	<u>3,705</u>
Total	\$ <u>56,169</u>

As of June 30 2014 and 2013, LLS has no unfunded commitments on its alternative investments.

The following table presents a reconciliation for all Level 3 assets measured at fair value as of June 30, 2014 and 2013 (in thousands):

	<u>Level 3 Assets</u>	
	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 3,358	3,042
Investment expense	(79)	(79)
Net increase in fair value	<u>426</u>	<u>395</u>
Balance at June 30	\$ <u>3,705</u>	<u>3,358</u>

(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, 2014 and 2013 (in thousands):

	<u>2014</u>		<u>2013</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Time restrictions	\$ 1,295	—	992	—
Research	10,724	3,270	5,721	3,201
Patient service	2,802	—	2,126	—
Co-pay assistance	11,707	—	—	—
Other	<u>1,461</u>	<u>305</u>	<u>266</u>	<u>242</u>
Total	\$ <u>27,989</u>	<u>3,575</u>	<u>9,105</u>	<u>3,443</u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

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, 2014 and 2013 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, 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>

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2013 (in thousands):

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at July 1	\$ 3,155	3,357	6,512
Investment income	64	26	90
Net appreciation	353	60	413
Appropriation for expenditure	(450)	—	(450)
Endowment net assets at June 30	\$ <u>3,122</u>	<u>3,443</u>	<u>6,565</u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

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(with comparative amounts as of and for the year ended June 30, 2013)

(5) Legacies and Contributions Receivable

LLS's legacies and contributions receivable at June 30, 2014 and 2013 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>2014</u>	<u>2013</u>
Less than one year	\$ 5,301	4,733
1 to 5 years	4,137	4,130
After 5 years	<u>650</u>	<u>600</u>
Subtotal	10,088	9,463
Less:		
Allowance for uncollectible accounts	(488)	(792)
Discount to present value (1.5% to 5.0%)	<u>(487)</u>	<u>(645)</u>
Total	\$ <u>9,113</u>	<u>8,026</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, 2014 and 2013, these funds were held equally between cash and investments. Revenue under this grant is expected to be recognized over the next three years, as expenses are incurred. At June 30, 2014 and 2013, the unexpended balance of the grant of \$13,700,000 and \$19,500,000, respectively, are included in deferred revenue. 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>2014</u>	<u>2013</u>
Donated services	\$ 4,985	5,492
Donated media	<u>6,000</u>	<u>2,258</u>
Total	\$ <u>10,985</u>	<u>7,750</u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2014

(with comparative amounts as of and for the year ended June 30, 2013)

(7) Fixed Assets, Net

Fixed assets at June 30, 2014 and 2013 consist of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 1,135	1,043
Furniture, fixtures, and other office equipment	2,646	2,626
Computer equipment and software	<u>27,913</u>	<u>18,432</u>
Total	31,694	22,101
Less accumulated depreciation and amortization	<u>(15,090)</u>	<u>(11,248)</u>
Fixed assets, net	<u>\$ 16,604</u>	<u>10,853</u>

(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 \$4,214,000 and \$4,173,000 for the years ended June 30, 2014 and 2013, 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 \$296,000 and \$195,000 for the years ended June 30, 2014 and 2013, 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 \$1,589,000 and \$1,357,000 at June 30, 2014 and 2013, 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.

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Notes to Consolidated Financial Statements

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(with comparative amounts as of and for the year ended June 30, 2013)

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

Year ending June 30:	
2015	\$ 8,010
2016	6,477
2017	3,826
2018	2,349
2019	1,258
2020 and thereafter	3,823
Total	<u>\$ 25,743</u>

(10) Joint Costs Allocation

For the years ended June 30, 2014 and 2013, 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):

	2014	2013
Fund raising	\$ 12,645	10,577
Patient and community service	1,513	1,895
Public health education	8,456	8,966
Total	<u>\$ 22,614</u>	<u>21,438</u>