



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2018

(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, 2018, 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

November 7, 2018

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2018

(with comparative amounts at June 30, 2017)

(In thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 27,628	41,401
Prepaid expenses and other assets	2,767	3,613
Contributions and other receivables, net (note 6)	32,255	17,785
Investments (note 4)	319,662	209,421
Fixed assets, net (note 9)	8,614	10,119
Total assets	\$ 390,926	282,339
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,907	21,711
Deferred revenue (note 7)	16,243	14,028
Awards and grants payable (note 2)	51,673	64,052
Co-Pay assistance payable (note 3)	54,696	20,071
Other long-term liabilities (note 10)	3,835	3,167
Total liabilities	148,354	123,029
Commitments and contingencies (notes 2, 3 and 11)		
Net assets (note 5):		
Unrestricted	149,199	126,993
Temporarily restricted	90,221	29,161
Permanently restricted	3,152	3,156
Total net assets	242,572	159,310
Total liabilities and net assets	\$ 390,926	282,339

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Activities

Year ended June 30, 2018

(with summarized totals for the year ended June 30, 2017)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2018	2017
Operating revenue:					
Contributions	\$ 251,770	30,338	—	282,108	258,525
Less direct donor benefit costs	(29,198)	—	—	(29,198)	(25,955)
Net campaign contributions	222,572	30,338	—	252,910	232,570
Co-Pay contributions (note 3)	—	159,851	—	159,851	77,779
Therapy acceleration program contractual return (note 2)	3,792	63	—	3,855	29,548
Service revenue	9,230	—	—	9,230	3,847
Donated services, goods and media (note 8)	7,715	—	—	7,715	14,594
Legacies and other revenue	9,645	1,373	—	11,018	5,291
Net interest and dividend income	3,895	421	—	4,316	2,866
Net assets released from restrictions (note 3):					
Co-Pay assistance	115,797	(115,797)	—	—	—
Satisfaction of other donor restrictions	15,530	(15,530)	—	—	—
Total operating revenue	388,176	60,719	—	448,895	366,495
Operating expenses (note 8):					
Program services:					
Research	69,752	—	—	69,752	65,067
Patient and community service	165,496	—	—	165,496	125,677
Public health education	42,940	—	—	42,940	48,138
Professional education	18,388	—	—	18,388	21,698
Total program services	296,576	—	—	296,576	260,580
Supporting services:					
Management and general	31,831	—	—	31,831	29,049
Fundraising	44,468	—	—	44,468	47,656
Total supporting services	76,299	—	—	76,299	76,705
Total operating expenses	372,875	—	—	372,875	337,285
Change in net assets from operating activities	15,301	60,719	—	76,020	29,210
Foreign currency translation adjustment	267	(362)	(4)	(99)	(184)
Net increase in fair value of investments (note 4)	6,638	703	—	7,341	8,428
Change in net assets	22,206	61,060	(4)	83,262	37,454
Net assets:					
Beginning of period	126,993	29,161	3,156	159,310	121,856
End of period	\$ 149,199	90,221	3,152	242,572	159,310

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.
Consolidated Statement of Functional Expenses
Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)
(In thousands)

	Program services					Supporting services			Year ended		Direct donor benefit costs	
	Research	Patient and community service	Public health education	Professional education	Total	Management and general	Fundraising	Total	June 30, 2018	June 30, 2017	2018	2017
Awards and grants (note 2)	\$ 44,517	—	—	—	44,517	—	—	—	44,517	42,219	—	—
Therapy acceleration program (note 2)	5,834	—	—	—	5,834	—	—	—	5,834	4,711	—	—
Clinical Trial	5,899	—	—	—	5,899	—	—	—	5,899	2,142	—	—
Financial aid to patients	—	2,007	—	—	2,007	—	—	—	2,007	1,703	—	—
Co-Pay assistance (note 3)	—	108,442	—	—	108,442	—	—	—	108,442	72,969	—	—
Co-Pay processing fees	—	6,571	—	—	6,571	—	—	—	6,571	4,595	—	—
Donated services, goods, and media (note 8)	645	2,636	1,510	290	5,081	417	2,217	2,634	7,715	14,584	—	—
Salaries and employee benefits and taxes (note 10)	6,660	27,371	22,372	10,714	67,117	19,390	21,843	41,233	108,350	101,702	—	—
Professional fees	3,179	4,429	4,961	2,431	15,000	3,613	4,945	8,558	23,558	22,707	4,395	3,306
Printing, advertising, and supplies	80	3,571	4,661	1,070	9,382	2,224	6,910	9,134	18,516	17,581	6,286	5,090
Occupancy, telephone, and insurance (note 11)	381	3,279	2,925	1,126	7,721	1,729	2,281	4,010	11,731	11,912	—	—
Travel and meetings	583	1,767	1,579	1,041	4,960	1,163	1,144	2,307	7,267	10,166	16,043	14,877
Equipment rentals and maintenance	1,187	946	782	406	3,321	1,177	944	2,121	5,442	6,316	—	—
Postage and shipping	24	1,815	1,920	318	4,077	542	2,421	2,963	7,040	6,580	—	—
Miscellaneous	239	1,328	950	485	3,002	678	807	1,485	4,487	4,374	2,474	2,683
Impairment of fixed asset (note 5)	—	—	—	—	—	—	—	—	—	5,434	—	—
Depreciation and amortization	514	1,344	1,280	507	3,645	898	956	1,854	5,499	7,580	—	—
Total expenses	\$ 69,752	165,496	42,940	18,388	296,576	31,831	44,468	76,299	372,875	337,285	29,198	25,956

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2018

(with comparative amounts for the year ended June 30, 2017)

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 83,262	37,454
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net increase in fair value of investments	(7,341)	(8,428)
Impairment of fixed asset	—	5,434
Depreciation and amortization	5,499	7,580
Provision for uncollectible accounts	(630)	188
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	846	(707)
Contributions and other receivables	(13,840)	(729)
Accounts payable and accrued expenses	196	8,056
Other long-term liability	668	1,529
Deferred revenue	2,215	1,112
Awards and grants payable	(12,379)	3,601
Co-Pay assistance payable	34,625	6,602
Net cash provided by operating activities	<u>93,121</u>	<u>61,692</u>
Cash flows from investing activities:		
Purchases of fixed assets	(3,994)	(6,187)
Purchases of investments	(150,533)	(117,279)
Sales of investments	47,633	84,579
Net cash used in investing activities	<u>(106,894)</u>	<u>(38,887)</u>
Net (decrease) increase in cash and cash equivalents	(13,773)	22,805
Cash and cash equivalents at beginning of period	<u>41,401</u>	<u>18,596</u>
Cash and cash equivalents at end of period	\$ <u>27,628</u>	<u>41,401</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2018

(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), 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 in 2016. Effective February 8, 2018, PPCS was dissolved. 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, as 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.

LLS and its related entities 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, 2018 and 2017.

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Notes to Consolidated Financial Statements

June 30, 2018

(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 allowance for uncollectible accounts, allocation of functional expenses, and valuation of donated services, goods, 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, market risk, political risks, 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 2018 and 2017 was funded by six and eight donors, respectively. In addition, the Beat AML Master Trial was primarily funded by seven and five donors in 2018 and 2017, respectively.

(f) Summarized Financial Information

The consolidated financial statements are presented with 2017 summarized for 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, 2017 expenses by natural classification are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2017 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, 2018 through November 7, 2018, 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 for 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, 2018

(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 5).

(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) Topic 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 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, 2018

(In thousands)

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

(l) 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.

(m) Donated Services and Goods

LLS has determined that certain of the donated services and goods 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 8).

(n) 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 PSAs (note 8).

(o) 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.

(p) 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 Topic 820. These values are reviewed and evaluated by management.

(q) 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).

(r) 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 10) and straight-line rent of office leases (note 11).

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Notes to Consolidated Financial Statements

June 30, 2018

(In thousands)

(s) Professional Fees

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

(t) New Authoritative Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which among other things, changes how not-for-profit entities report net asset classes, expenses and liquidity in their financial statements. The significant requirements of the new ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the Consolidated Balance Sheet; and retaining the option to present operating cash flows in the Consolidated Statement of Cash Flows using either the direct or indirect method. LLS plans to adopt ASU 2016-14 for the year ending June 30, 2019.

The FASB is issuing Accounting Standards Update (ASU) 2018-08, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. LLS plans to adopt ASU 2018-08 for the year ending June 30, 2020. LLS is continuing to evaluate the impact of adopting this guidance on its financial statements.

(2) Research

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 multiyear 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 multiyear grant commitments of \$52,216 at June 30, 2018, that are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$51,673 and \$64,052 at June 30, 2018 and 2017, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$984 and \$923 as of June 30, 2018 and 2017, respectively, have been netted against awards and grants expense.

TAP: Therapy Acceleration Program (TAP) is LLS's strategic initiative to speed the development of blood-cancer treatments and supportive diagnostics by creating business alliances with biotechnology, pharmaceutical companies, and universities. 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. Multiyear 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. LLS has contract commitments of \$12,745 and \$9,144 at June 30, 2018 and 2017, respectively, that are conditioned upon

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Notes to Consolidated Financial Statements

June 30, 2018

(In thousands)

future events and, accordingly, are not recorded. Grant refunds of approximately \$591 as of June 30, 2018 have been netted against therapy acceleration program contractual return.

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:		
2019	\$	31,328
2020		19,710
2021		11,354
2022		2,569
Total	\$	<u>64,961</u>

TAP Contractual Return: In January 2009, as part of its 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 contract in Celator was \$25,328. The remaining \$4,220 of TAP contractual return for the year ended June 30, 2017 comes from various other TAP contracts.

For the year ended June 30, 2018, LLS received \$3,855 of TAP contractual returns from various TAP contracts.

(3) 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. Revenue is recognized when donations are received while expenses are recognized as patient applications are approved for participation according to program criteria and on availability of funding. The Co-Pay Assistance payable of \$54,696 and \$20,071 has been established based on approved patient applications received through June 30, 2018 and 2017, respectively. At June 30, 2018, temporarily restricted net assets include \$52,528 received in 2018, which are available for expenditure and are intended to be awarded in fiscal year 2019.

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Notes to Consolidated Financial Statements

June 30, 2018

(In thousands)

The following summarizes the activities of the Co-Pay Assistance program in 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 8,148	8,960
Co-Pay contributions	159,851	77,779
Investments gains	326	—
Amount expended during the year:		
Direct assistance to patients	(108,442)	(72,969)
Other expenses incurred and reimbursed under the contract	<u>(7,355)</u>	<u>(5,622)</u>
Amounts available for expenditures in the next year	\$ <u>52,528</u>	<u>8,148</u>

(4) Investments

The following tables present LLS's fair value hierarchy of investments measured at fair value on an annual basis as of June 30, 2018 and 2017:

	<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 158,371	158,371	—	—
Fixed income:				
Corporate bonds	56,758	56,758	—	—
Government securities and other	849	849	—	—
Equities:				
Large cap equity	35,644	35,644	—	—
International equity	33,437	33,437	—	—
Small/mid-cap equity	22,872	22,872	—	—
Commodities	<u>3,665</u>	<u>3,665</u>	—	—
	<u>311,596</u>	\$ <u>311,596</u>	—	—
Investments reported at net asset value:				
Multi strategy hedge funds	<u>8,066</u>			
Total investments reported at net asset value	<u>8,066</u>			
	\$ <u>319,662</u>			

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Notes to Consolidated Financial Statements

June 30, 2018

(In thousands)

	<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>			

Investment expenses totaled \$318 and \$376 for the years ended June 30, 2018 and 2017, respectively. The unrealized gains were \$1,802 and \$4,504 for the years ended June 30, 2018 and 2017, respectively.

LLS's alternative investments strategy is as follows:

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.

The strategy creates 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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(In thousands)

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, 2018 and 2017, the following table summarizes the redemption provisions for those investments reported at NAV:

	June 30	
	2018	2017
Redemption period:		
Quarterly	\$ 6,380	6,265
Annual	1,686	1,595
Total	<u>\$ 8,066</u>	<u>7,860</u>

As of June 30, 2018 and 2017, LLS had no unfunded commitments on its alternative investments.

(5) 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, 2018 and 2017:

	2018		2017	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Time restrictions	\$ 13,702	—	6,297	—
Research	13,209	3,100	7,097	3,035
Patient service	10,025	—	7,533	—
Co-Pay assistance	52,528	—	8,148	—
Other	757	52	86	121
Total	<u>\$ 90,221</u>	<u>3,152</u>	<u>29,161</u>	<u>3,156</u>

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, 2018 and 2017 was 4% of ending balance at June 30, 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.

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(In thousands)

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2018:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at July 1	\$ 3,126	3,156	6,282
Investment income	551	—	551
Foreign currency translation adjustment	(3)	(4)	(7)
Appropriation for expenditure	<u>(249)</u>	<u>—</u>	<u>(249)</u>
Endowment net assets at June 30	<u>\$ 3,425</u>	<u>3,152</u>	<u>6,577</u>

The following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2017:

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

(6) Contribution and Other Receivables

LLS's contribution and other receivables at June 30, 2018 and 2017 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>2018</u>	<u>2017</u>
Contributions	\$ 1,539	2,749
Co-Pay contributions	15,100	6,000
Other restricted contributions	15,266	8,080
Service revenue and other	<u>350</u>	<u>956</u>
	<u>\$ 32,255</u>	<u>17,785</u>

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(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>2018</u>	<u>2017</u>
Less than 1 year	\$ 24,400	13,688
1 to 5 years	10,076	5,186
After 5 years	<u>—</u>	<u>25</u>
Subtotal	34,476	18,899
Less:		
Allowance for uncollectible accounts	(987)	(357)
Discount to present value (1.5% to 5.0%)	<u>(1,234)</u>	<u>(757)</u>
Total	\$ <u><u>32,255</u></u>	<u><u>17,785</u></u>

As of June 30, 2018 and 2017, 77% and 53% of gross legacies and contributions receivable were from two funding sources, respectively.

(7) 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, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Grants	\$ —	45
Service revenue	3,857	2,100
Special events	<u>12,386</u>	<u>11,883</u>
	\$ <u><u>16,243</u></u>	<u><u>14,028</u></u>

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(In thousands)

(8) Donated Services, Goods, and Media

The value of donated goods for the Beat AML Master Trial and campaign supplies, 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>2018</u>	<u>2017</u>
Donated goods	\$ 1,483	3,552
Donated services	2,950	2,430
Donated media	<u>3,282</u>	<u>8,612</u>
Total	\$ <u>7,715</u>	<u>14,594</u>

(9) Fixed Assets, Net

Fixed assets at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 2,079	1,795
Furnitures, fixtures, and other office equipment	4,154	3,547
Computer equipment and software	<u>39,231</u>	<u>36,350</u>
Total	45,464	41,692
Less accumulated depreciation and amortization	<u>(36,850)</u>	<u>(31,573)</u>
Fixed assets, net	\$ <u>8,614</u>	<u>10,119</u>

In 2017, an impairment of fixed assets of \$5,434 was recorded for the write-off of a fundraising platform that will no longer be utilized by LLS. There was no such impairment in 2018.

(10) 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 \$2,336 and \$2,149 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017. The assets and liabilities of the 457 Plans are included in investments and other long-term liabilities in the accompanying consolidated balance sheet and amounted to approximately \$1,586 and \$1,574 at June 30, 2018 and 2017, respectively.

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(In thousands)

(11) 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.

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

Year ending June 30:	
2019	\$ 7,450
2020	7,037
2021	6,632
2022	5,855
2023	4,191
Thereafter	<u>10,780</u>
Total	\$ <u>41,945</u>

(12) Joint Costs Allocation

For the years ended June 30, 2018 and 2017, 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, coin boards, and media campaigns. Such costs are allocated based on applicable accounting standards and were allocated as follows:

	<u>2018</u>	<u>2017</u>
Fundraising	\$ 7,463	12,832
Patient and community services	3,496	2,666
Public health education	<u>4,884</u>	<u>5,002</u>
Total	\$ <u>15,843</u>	<u>20,500</u>