

FINANCIALS



LEUKEMIA &
LYMPHOMA
SOCIETY®

ANNUAL REPORT 2019

Table of Contents

INDEPENDANT AUDITORS' REPORT	3
CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED STATEMENT OF ACTIVITIES	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8

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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in note 1(t) to the consolidated financial statements, in 2019 The Leukemia & Lymphoma Society, Inc. adopted new accounting guidance,

Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the The Leukemia & Lymphoma Society, Inc. 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in note 1(t) that were applied to adopt Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* retrospectively in the 2018 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

November 5, 2019

Consolidated Balance Sheet

The Leukemia & Lymphoma Society, Inc. / June 30, 2019 (with comparative amounts at June 30, 2018) (In thousands)

Assets	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 24,735	27,628
Prepaid expenses and other assets	4,653	2,767
Contribution and other receivables, net (note 7)	15,489	32,255
Investments (note 4)	407,903	319,662
Fixed assets, net (note 10)	<u>9,161</u>	<u>8,614</u>
Total assets	<u>\$ 461,941</u>	<u>390,926</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,487	21,907
Deferred revenue (note 8)	13,739	16,243
Awards and grants payable (note 2)	50,974	51,673
Co-Pay assistance payable (note 3)	94,957	54,696
Other long-term liabilities (note 11)	<u>4,715</u>	<u>3,835</u>
Total liabilities	<u>187,872</u>	<u>148,354</u>
Commitments and contingencies (notes 2, 3, 12 and 14)		
Net assets:		
Without donor restrictions	178,099	149,199
With donor restrictions (notes 3 and 6)	<u>95,970</u>	<u>93,373</u>
Total net assets	<u>274,069</u>	<u>242,572</u>
Total liabilities and net assets	<u>\$ 461,941</u>	<u>390,926</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

The Leukemia & Lymphoma Society, Inc. / Year ended June 30, 2019
(with summarized totals for the year ended June 30, 2018) (In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
Operating revenue:				
Contributions	\$ 273,691	20,832	294,523	282,108
Less direct donor benefit costs	(29,624)	—	(29,624)	(29,198)
Net campaign contributions	244,067	20,832	264,899	252,910
Co-Pay contributions (note 3)	—	90,930	90,930	159,851
Therapy Acceleration Program contractual return	4,495	—	4,495	3,855
Service revenue	14,936	—	14,936	9,230
Donated services, goods and media (note 9)	11,987	—	11,987	7,715
Legacies and other revenue	6,721	13,187	19,908	11,018
Net interest and dividend income	5,265	1,921	7,186	4,316
Net assets released from restrictions:				
Co-Pay assistance (note 3)	102,057	(102,057)	—	—
Satisfaction of other donor restrictions	22,456	(22,456)	—	—
Total operating revenue	411,984	2,357	414,341	448,895
Operating expenses:				
Program services:				
Research	71,119	—	71,119	66,865
Patient and community service	153,138	—	153,138	162,707
Public health education	45,130	—	45,130	39,557
Professional education	14,500	—	14,500	16,425
Total program services	283,887	—	283,887	285,554
Supporting services:				
Management and general	54,258	—	54,258	44,698
Fund raising	49,101	—	49,101	42,342
Total supporting services	103,359	—	103,359	87,040
Total operating expenses	387,246	—	387,246	372,594
Change in net assets from operating activities	24,738	2,357	27,095	76,301
Foreign currency translation adjustment and other	(38)	1	(37)	(99)
Net increase in fair value of investments	4,200	239	4,439	7,060
Change in net assets	28,900	2,597	31,497	83,262
Net Assets:				
Beginning of period	149,199	93,373	242,572	159,310
End of period	\$ 178,099	95,970	274,069	242,572

See accompanying notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

The Leukemia & Lymphoma Society, Inc. / Year ended June 30, 2019 (with comparative totals for the year ended June 30, 2018) (In thousands)

	Program Services				Supporting Services			Year ended		Direct donor benefit costs	
	Research	Patient and community service	Public health education	Professional education	Management and general	Fund raising	Total	June 30,	June 30,	2019	2018
								2019	2018	2019	2018
Awards and grants	\$ 45,687	—	—	—	—	—	45,687	44,517	—	—	—
Therapy acceleration program	2,433	—	—	—	—	—	2,433	5,834	—	—	—
Clinical trial	10,468	—	—	—	—	—	10,468	5,899	—	—	—
Financial aid to patients	—	4,228	—	—	—	—	4,228	2,007	—	—	—
Co-Pay assistance	—	97,151	—	—	—	—	97,151	108,442	—	—	—
Co-Pay processing fees	—	4,088	—	—	—	—	4,088	6,571	—	—	—
Donated services, goods and media	628	2,572	3,786	222	415	4,364	7,208	11,987	—	—	—
Salaries and employee benefits and taxes	4,969	27,744	22,993	8,505	30,256	22,674	64,211	117,141	108,350	—	—
Professional fees	4,755	4,803	4,606	2,042	7,441	4,514	16,206	28,161	23,558	4,468	4,395
Printing, advertising, and supplies	133	3,611	5,809	1,046	2,561	9,156	10,599	22,316	18,516	6,725	6,286
Occupancy, telephone and insurance	222	3,147	2,775	908	2,596	2,467	7,052	12,115	11,731	—	—
Travel and meetings	614	2,221	2,056	1,005	1,358	1,426	5,896	8,680	7,267	16,463	16,043
Equipment rentals and maintenance	1,005	739	336	136	4,511	1,238	2,216	7,965	5,442	—	—
Postage and shipping	23	1,408	1,693	229	581	2,279	3,353	6,213	7,040	—	—
Miscellaneous	174	1,285	949	368	602	871	2,776	4,249	4,206	1,968	2,474
Depreciation and amortization	8	141	127	39	3,937	112	315	4,364	5,499	—	—
Total expenses	\$ 71,119	153,138	45,130	14,500	54,258	49,101	283,887	387,246	372,594	29,624	29,198

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

The Leukemia & Lymphoma Society, Inc. / Year ended June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 31,497	83,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net increase in fair value of investments	(3,497)	(7,341)
Depreciation and amortization	4,364	5,499
Provision for uncollectible accounts	396	(630)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,886)	846
Contributions and other receivables, net	16,370	(13,840)
Accounts payable and accrued expenses	1,580	196
Other long-term liabilities	880	668
Deferred revenue	(2,504)	2,215
Awards and grants payable	(699)	(12,379)
Co-Pay assistance payable	<u>40,261</u>	<u>34,625</u>
Net cash provided by operating activities	<u>86,762</u>	<u>93,121</u>
Cash flows from investing activities:		
Purchases of fixed assets	(4,911)	(3,994)
Purchases of long-term investments	(92,600)	(150,533)
Sales of investments	<u>7,856</u>	<u>47,633</u>
Net cash used in investing activities	<u>(89,655)</u>	<u>(106,894)</u>
Net decrease in cash and cash equivalents	(2,893)	(13,773)
Cash and cash equivalents at beginning of period	<u>27,628</u>	<u>41,401</u>
Cash and cash equivalents at end of period	<u>\$ 24,735</u>	<u>27,628</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount 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. 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 and LLSRF 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.

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, 2019 and 2018.

(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 allocation of expenses, and valuation of donated goods, services and media. Actual results could differ from those estimates.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

(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 2019 and 2018 was funded by six donors, respectively. In addition, the Beat AML Master Trial was primarily funded by seven donors in 2019 and 2018, respectively.

(f) Summarized Financial Information

The consolidated financial statements are presented with 2018 summarized 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, 2018 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2018 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, 2019 through November 5, 2019, 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 two net asset categories as follows:

Net assets without donor restrictions: 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.

Net assets with donor restrictions: Consist of funds that are restricted by donors for a specific time period and/or purpose. Also included in this category are net assets subject to donor imposed restrictions, which stipulate that the principal be maintained by LLS, but permits LLS to expend part or all of the income and gains derived there from. Expirations of restrictions are reported as net assets released from restrictions when the donor stipulated purpose has been fulfilled and/or the amount has been appropriated in compliance with the Board approved spending policy (note 6).

Revenue and gains and losses on investments and other assets and liabilities are reported as changes in net assets without restrictions unless limited by explicit donor imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions.

LLS delineates changes in net assets without donor restrictions as operating or non operating activities. Operating activities include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets released from donor restrictions to support operating expenditures. The measure of operations include support for operating activities from both with donor restrictions and without donor restrictions designated for long term investment according to LLS's spending rate policy (note 6). Non operating activities include changes in fair value of investments and foreign currency translation adjustment and other nonrecurring items.

(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.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

(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 revenues with donor restrictions. When a donor restriction is met through the passage of time or fulfillment of a purpose restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions expected to be received after one year are discounted at a risk adjusted rate of return. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor imposed restrictions, if any, on the contributions.

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

(l) 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 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 9).

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

(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 PSA's (note 9).

(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 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 11), straight line rent of office leases (note 12), and capital leases.

(s) Professional Fees

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

(t) Adopted 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. LLS adopted the main provisions of this guidance which include, the reduction of the number of net asset classes from three to two: with donor restrictions, previously reported as temporally restricted net assets of \$90,221 and permanently restrictions net assets of \$3,152, in 2018, and without donor restrictions, previously reported as unrestricted net assets of \$149,199, in 2018; the presentation of expenses by their function and their natural classification in one location; and quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

(u) Upcoming Accounting Standards

ASU No. 2014 09, *Revenue from Contract with Customers (Topic 606)* – This ASU, effective for LLS's fiscal year ending June 30, 2020, will require LLS to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which LLS expects to be entitled in exchange for those goods or services. Management is evaluating the effect ASU 2014 09 will have on its consolidated financial statements.

ASU No. 2018 08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contribution Received and Contributions Made* – This ASU, effective for the LLS's fiscal year ending June 30, 2020, is intended to clarify how entities determine whether to account for a transfer of assets (or a reduction, settlement, or cancellation of a liability) as an exchange transaction or a contribution based on whether commensurate value has been received or transferred. The new guidance also clarifies that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of a promisor's obligation to transfer assets. Management is evaluating the effect ASU 2018 08 will have on its consolidated financial statements.

ASU No. 2016 02, *Leases (Topic 842)* – This guidance, effective for LLS's fiscal year ending June 30, 2022, requires a lessee to recognize a right of use asset and a lease liability, initially measured at the present value of the lease payments on the consolidated balance sheet and disclosing key information about leasing arrangements. Management is evaluating the effect ASU 2016 02 will have on its consolidated financial statements.

(v) Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly certain costs attributable to more than one program or supporting services function are allocated using cost allocation methods such as square footage and estimate of time and effort.

LLS allocates expenses relating to the operation and maintenance of plant and depreciation using building square footage based on functional use.

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 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 \$39,093 at June 30, 2019, which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$50,974 and \$51,673 at June 30, 2019 and 2018, respectively, which are anticipated to be paid in the next year. Grant refunds of approximately \$1,665 and \$984 as of June 30, 2019 and 2018, 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 \$14,471 and \$12,745 at June 30, 2019 and 2018, respectively, that are conditioned upon future events and, accordingly, are not recorded. Grant refunds of approximately \$320 and \$591 as of June 30, 2019 and June 30, 2018, respectively have been netted against therapy acceleration program contractual return.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

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:		
2020	\$	30,206
2021		17,868
2022		5,323
2023 and thereafter		167
Total	\$	<u>53,564</u>

For the year ended June 30, 2019 and 2018, LLS received \$4,495, and \$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 \$94,957 and \$54,696 has been established based on approved patient applications received through June 30, 2019 and 2018, respectively. At June 30, 2019, net assets with donor restrictions include \$43,279 received through June 30, 2019, which are available for expenditure and are intended to be awarded in future periods.

The following summarizes the activities of the Co-Pay Assistance program as of June 30, 2019.

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Beginning balance	\$ 52,528	8,148
Contributions	90,930	159,851
Investment Gains	1,878	326
Amount expended during the year:		
Direct assistance to patients	(97,151)	(108,442)
Other expenses incurred and reimbursed under the contract	<u>(4,906)</u>	<u>(7,355)</u>
Amounts available for expenditures in subsequent periods	<u>\$ 43,279</u>	<u>52,528</u>

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

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, 2019 and June 30, 2018:

	<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 239,287	239,287	—	—
Fixed income:				
Corporate bonds	63,201	63,201	—	—
Equities:				
Large cap equity	39,198	39,198	—	—
International equity	26,695	26,695	—	—
Small/mid cap equity	26,273	26,273	—	—
Commodities	4,935	4,935	—	—
	<u>399,589</u>	<u>\$ 399,589</u>	<u>—</u>	<u>—</u>

Investments reported at NAV:

 Multi strategy hedge funds

8,314

\$ 407,903

	<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	3,665	3,665	—	—
	<u>311,596</u>	<u>\$ 311,596</u>	<u>—</u>	<u>—</u>

Investments reported at NAV:

 Multi strategy hedge funds

8,066

\$ 319,662

Within the investment balance as of June 30, 2019 and June 30, 2018 are \$123,297 and \$89,492 restricted to Co-Pay, respectively.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

LLS's alternative investments strategy:

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.

This 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.

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, 2019 and 2018, the following table summarizes the redemption provisions for those investments reported at NAV:

	<u>2019</u>	<u>2018</u>
Redemption period:		
Monthly	\$ 1,600	—
Quarterly	4,000	6,380
Semi-Annual	1,000	—
Annual	<u>1,714</u>	<u>1,686</u>
Total	<u>\$ 8,314</u>	<u>8,066</u>

As of June 30, 2019 and 2018, LLS had no unfunded commitments on its alternative investments.

5) Financial Assets

LLS goal is to maintain financial assets to meet the requirements of all outstanding commitments, excluding Co-Pay, both current and conditional as well as a minimum of 25-50% of annual general expenditures. LLS considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures, excluding expenditures related to LLS Co-Pay Program. As part of LLS liquidity plan, excess cash is invested in short term investments, including money market accounts, fixed income and equities.

In addition to available financial assets, LLS operates with a balanced budget and anticipates collecting sufficient revenue to cover all general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of LLS' cash and shows positive cash generated by operations for fiscal years 2019 and 2018.

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

The following represents LLS's financial assets as of June 30, 2019:

	2019
Financial assets at year end:	
Cash and cash equivalents	\$ 24,735
Contributions and other receivable	15,489
Investments	407,903
Total financial assets	<u>448,127</u>
Less amounts not available to be used within one year:	
Contributions and other receivable with donor restrictions not to be met in less than a year	9,485
Alternative investments with redemptions greater than 12 months	1,714
Equity holdings not expected to be redeemed	8,866
Restricted to support Co-Pay patients	138,538
Perpetual donor restriction	<u>3,117</u>
Total financial assets not available for use	<u>161,720</u>
Financial assets available to meet general expenditures within one year of the balance sheet date	<u>\$ 286,407</u>

6) Net assets with donor restrictions

Net assets with donor restrictions and the income earned are available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Research	\$ 8,501	8,977
Patient and Community Service	4,544	4,609
Public Health Education	3,579	2,572
Professional Education	3,599	2,783
Beat AML Initiative	23,611	14,750
Children's Initiative	2,905	851
Beat AML Master Trial	5,623	6,144
Co-Pay	43,279	52,528
Other	<u>329</u>	<u>159</u>
Total net assets with donor restriction	<u>\$ 95,970</u>	<u>93,373</u>

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

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, 2019 and 2018 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Endowment net assets at July 1	\$ 6,577	6,282
Investment income	304	551
Foreign currency translation adjustment	2	(7)
Appropriation for expenditure	<u>(303)</u>	<u>(249)</u>
Endowment net assets at June 30	<u>\$ 6,580</u>	<u>6,577</u>

7) Contribution and other receivables

LLS's contribution and other receivables at June 30, 2019 and June 30, 2018 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>2019</u>	<u>2018</u>
Campaign contributions	\$ 2,909	1,539
Other restricted contributions	11,627	15,266
Co-Pay contributions	—	15,100
Service revenue	<u>953</u>	<u>350</u>
Total	<u>\$ 15,489</u>	<u>32,255</u>

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount 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>2019</u>	<u>2018</u>
Less than one year	\$ 11,027	24,400
One to five years	6,287	10,076
	<u>17,314</u>	<u>34,476</u>
Less:		
Allowance for uncollectible accounts	(641)	(987)
Discount to present value (1.5% to 5.0%)	(1,184)	(1,234)
Total	<u>\$ 15,489</u>	<u>32,255</u>

As of June 30, 2019 and 2018, 39% and 77% of contributions and other receivables were from one and two funding sources, respectively.

8) 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, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Special events	\$ 11,782	12,386
Service revenue	1,957	3,857
Total	<u>\$ 13,739</u>	<u>16,243</u>

9) Donated Services, Goods 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>2019</u>	<u>2018</u>
Donated goods	\$ 1,616	1,483
Donated services	2,924	2,950
Donated media	7,447	3,282
Total	<u>\$ 11,987</u>	<u>7,715</u>

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

10) Fixed Assets, Net

Fixed assets at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 2,577	2,079
Furniture, fixtures, and other office equipment	4,725	4,154
Computer equipment and software	<u>43,073</u>	<u>39,231</u>
Total	50,375	45,464
Less accumulated depreciation and amortization	<u>(41,214)</u>	<u>(36,850)</u>
Fixed assets, net	<u>\$ 9,161</u>	<u>8,614</u>

11) 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 \$2,432 and \$2,336 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018. The assets of the 457 Plans are included in investments in the accompanying consolidated balance sheet and amounted to approximately \$1,747 and \$1,586 at June 30, 2019 and 2018, respectively. The liabilities of the 457 Plans are included in other long term liabilities in the accompanying consolidated balance sheet and amounted to approximately \$1,747 and \$1,586 at June 30, 2019 and 2018, respectively.

12) 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:

2020	\$ 8,522
2021	8,092
2022	7,395
2023	5,733
2024	3,364
Thereafter	<u>10,433</u>
Total	<u>\$ 43,539</u>

(continues »)

Notes to Consolidated Financial Statements

The Leukemia & Lymphoma Society, Inc. / June 30, 2019
(with comparative amounts for the year ended June 30, 2018) (Amount in thousands)

13) Joint Costs Allocation

For the years ended June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
Fundraising	\$ 10,150	7,463
Patient and community service	2,978	3,496
Public health education	<u>7,164</u>	<u>4,884</u>
Total	<u>\$ 20,292</u>	<u>15,843</u>

14) Contingent Liabilities

LLS is a defendant in various lawsuits arising in the normal course of business. Management does not expect the ultimate resolution of these actions to have a material adverse effect on LLS's financial position.