



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Consolidated Financial Statements:	
Consolidated Balance Sheet	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 18



KPMG LLP
345 Park Avenue
New York, NY 10154

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, 2013, 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, 2013, 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 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

September 18, 2013

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2013

(with comparative amounts at June 30, 2012)

(In thousands)

Assets	2013	2012
Cash and cash equivalents (note 6)	\$ 27,300	25,972
Prepaid expenses and other assets	5,555	6,716
Legacies and contributions receivable, net (note 5)	8,026	5,413
Investments (notes 3 and 6)	190,555	184,084
Fixed assets, net (note 7)	10,853	6,854
Total assets	<u>\$ 242,289</u>	<u>229,039</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,388	20,196
Deferred revenue (note 6)	35,074	17,737
Grants payable (note 2)	82,062	73,966
Total liabilities	<u>138,524</u>	<u>111,899</u>
Commitments and contingencies (notes 2 and 9)		
Net assets (note 4):		
Unrestricted	91,217	101,620
Temporarily restricted	9,105	12,163
Permanently restricted	3,443	3,357
Total net assets	<u>103,765</u>	<u>117,140</u>
Total liabilities and net assets	<u>\$ 242,289</u>	<u>229,039</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.
Consolidated Statement of Activities
Year ended June 30, 2013
(with summarized totals for the year ended June 30, 2012)
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2013	2012
Revenue:					
Campaign contributions	\$ 261,258	14,840	—	276,098	275,812
Less direct donor benefit costs	(35,510)	—	—	(35,510)	(39,173)
Net campaign contributions	225,748	14,840	—	240,588	236,639
Co-pay contributions	—	48,143	—	48,143	54,600
Legacies	3,715	511	—	4,226	5,049
Donated services and media (note 6)	7,750	—	—	7,750	5,328
Net interest and dividend income	1,925	124	26	2,075	2,152
Net increase (decrease) in fair value of investments (note 3)	9,281	348	60	9,689	(155)
Grant refunds	1,844	—	—	1,844	1,477
Net assets released from restrictions:					
Co-pay assistance	42,650	(42,650)	—	—	—
Satisfaction of other donor restrictions	24,374	(24,374)	—	—	—
Total revenue	317,287	(3,058)	86	314,315	305,090
Expenses (note 10):					
Program services:					
Research	79,234	—	—	79,234	73,512
Patient and community service	117,769	—	—	117,769	115,727
Public health education	47,875	—	—	47,875	44,772
Professional education	9,330	—	—	9,330	8,785
Total program services	254,208	—	—	254,208	242,796
Supporting services:					
Management and general	27,258	—	—	27,258	24,869
Fund raising	46,140	—	—	46,140	43,557
Total supporting services	73,398	—	—	73,398	68,426
Total expenses	327,606	—	—	327,606	311,222
Change in net assets before foreign currency translation adjustment	(10,319)	(3,058)	86	(13,291)	(6,132)
Foreign currency translation adjustment	(84)	—	—	(84)	(133)
Change in net assets	(10,403)	(3,058)	86	(13,375)	(6,265)
Net assets:					
Beginning of year	101,620	12,163	3,357	117,140	123,405
End of year	\$ 91,217	9,105	3,443	103,765	117,140

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2013

(with comparative totals for the year ended June 30, 2012)

(In thousands)

	Program services				Supporting services			Total		Direct donor benefit costs		
	Research	Patient and community service	Public health education	Professional education	Total	Management and general	Fund raising	Total	2013	2012	2013	2012
	Awards and grants (note 2)	\$ 58,899	—	—	—	58,899	—	—	—	58,899	54,527	—
Therapy acceleration program (note 2)	14,912	—	—	—	14,912	—	—	—	14,912	13,871	—	—
Financial aid to patients	—	2,989	—	—	2,989	—	—	—	2,989	3,057	—	—
Co-pay assistance (note 2)	—	42,650	—	—	42,650	—	—	—	42,650	45,961	—	—
Donated services and media (note 6)	1,161	4,331	226	—	5,718	—	2,032	2,032	7,750	5,328	—	—
Salaries	2,332	29,556	18,503	4,347	54,738	8,659	10,098	18,757	73,495	70,840	—	—
Employee benefits and taxes (note 8)	320	7,999	5,447	1,295	15,061	2,649	3,722	6,371	21,432	20,595	—	—
Occupancy (note 10)	47	3,444	2,685	617	6,793	1,109	1,430	2,539	9,332	9,161	—	—
Insurance	12	275	161	25	473	75	130	205	678	591	—	—
Telephone	42	1,189	866	141	2,238	338	862	1,200	3,438	3,598	—	—
Travel	111	1,530	1,198	298	3,137	651	742	1,393	4,530	4,163	8,083	9,801
Printing, advertising, and supplies	36	5,035	6,408	926	12,405	4,227	8,768	12,995	25,400	21,124	5,641	6,867
Equipment rentals and maintenance	26	1,034	647	153	1,860	316	459	775	2,635	2,502	—	—
Postage and shipping	15	1,153	3,196	97	4,461	1,331	4,434	5,765	10,226	11,789	—	—
Meetings	601	1,836	1,066	147	3,650	379	628	1,007	4,657	4,355	11,989	11,129
Professional fees	652	12,585	6,063	949	20,249	6,515	11,763	18,278	38,527	32,521	2,562	3,682
Miscellaneous	8	1,140	664	189	2,001	612	393	1,005	3,006	4,471	7,235	7,694
Depreciation and amortization	60	1,023	745	146	1,974	397	679	1,076	3,050	2,768	—	—
Total expenses	\$ 79,234	117,769	47,875	9,330	254,208	27,258	46,140	73,398	327,606	311,222	35,510	39,173

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2013

(with comparative amounts for the year ended June 30, 2012)

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (13,375)	(6,265)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net (increase) decrease in fair value of investments	(9,689)	155
Permanently restricted contributions collected	—	(257)
Depreciation and amortization	3,050	2,768
Increase in allowance for uncollectible accounts	14	40
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,161	(1,545)
Legacies and contributions receivable	(2,627)	14,161
Accounts payable and accrued expenses	1,192	2,481
Deferred revenue	17,337	496
Grants payable	8,096	2,387
Net cash provided by operating activities	<u>5,159</u>	<u>14,421</u>
Cash flows from investing activities:		
Purchases of fixed assets	(7,049)	(4,209)
Purchases of investments	(54,862)	(94,729)
Sales of investments	58,080	92,366
Net cash used in investing activities	<u>(3,831)</u>	<u>(6,572)</u>
Cash flows from financing activities:		
Permanently restricted contributions collected	—	257
Net cash provided by financing activities	<u>—</u>	<u>257</u>
Net increase in cash and cash equivalents	1,328	8,106
Cash and cash equivalents at beginning of year	<u>25,972</u>	<u>17,866</u>
Cash and cash equivalents at end of year	<u>\$ 27,300</u>	<u>25,972</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(1) Organization and Summary of Significant Accounting Policies

Organization

The Leukemia & Lymphoma Society, Inc. (LLS) exists to find cures for blood cancers and ensure access to treatments for blood cancer patients. LLS is the world's largest voluntary health agency dedicated to finding cures for blood cancer. Our mission is to cure leukemia, lymphoma, Hodgkin's disease, and myeloma and improve the quality of life of patients and improve support for 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 drives policies that accelerate the development and approval of new blood cancer therapies. LLS advocates for blood cancer patients and their families, helping patients navigate their cancer treatments and ensuring they have access to quality, affordable and coordinated care.

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, 2013 and 2012.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LLS, which encompasses the National Office of LLS and its fifty-six chapters in the United States, LLSC and its five chapters in Canada, and LLS's not-for-profit affiliates, 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.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

Risks and Uncertainties

LLS invests in various investment securities. Investment securities are exposed to various risks such as interest rate risks, fluctuations in market security 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 impacted by individual contributions, which are impacted 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 2013 and 2012 was funded by five donors.

Summarized Financial Information

The consolidated financial statements are presented with 2012 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, 2012 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2012 consolidated financial statements from which the summarized information was derived.

Subsequent Events

LLS evaluated subsequent events after the balance sheet date of June 30, 2013 through September 18, 2013, 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).

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

Foreign Currency Translation

LLSC uses the Canadian dollar as its functional currency. Accordingly, the currency impact of the 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

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

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

During 2013, LLS has conducted a national public service announcement (PSA) media campaign and benefited from donated media time that was aired on television and radio. The value of contributed media was estimated based on the placement, audience, and demographics of the PSA's. These services are recognized as revenue and expense.

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 for long-term purposes reported as 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 – 10 years, and computer equipment and software 2 to 5 years).

Professional Fees

Professional fees included in the consolidated financial statements principally include fund-raising counsel fees, data processing services, contracted temporary staffing, contracted software development, and legal and auditing fees.

Reclassifications

Certain reclassifications of 2012 amounts have been made to conform to the 2013 presentation.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(2) Research and Patient Assistance

LLS has various activities that are utilized to carry out its mission as presented below:

- a) Awards and Grants: Awards and grants for research are approved by LLS's Board of Directors and are recognized as expense when 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 \$93,508,000 at June 30, 2013 which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$74,825,000 and \$68,315,000 at June 30, 2013 and 2012, respectively which are anticipated to be paid in the next year.
- b) 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 \$40,964,000 and \$19,078,000 at June 30, 2013 and 2012, respectively, that are conditioned upon future events and, accordingly, are not recorded.
- c) 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. Approximately \$7,237,000 and \$5,651,000 were included in the grants payable balances for amounts awarded but unpaid at June 30, 2013 and 2012, respectively.

As discussed above, 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:		
2014	\$	61,285
2015		42,313
2016		22,986
2017 and thereafter		<u>7,888</u>
Total	\$	<u><u>134,472</u></u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(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, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

	<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and cash	\$ 956	956	—	—
Fixed income:				
Long duration fixed income (mutual fund)	70,220	70,220	—	—
Short duration fixed income (mutual fund)	37,159	37,159	—	—
Other	1,061	1,061	—	—
Equities:				
Large cap equity	11,484	11,484	—	—
International equity	15,958	15,958	—	—
Small cap equity	3,963	3,963	—	—
Small/mid cap equity	528	528	—	—
Alternative investments:				
Multi strategy hedge funds	34,459	—	34,459	—
Long/short equities	3,042	—	—	3,042
Limited partnership equity indices	5,254	—	5,254	—
	<u>\$ 184,084</u>	<u>141,329</u>	<u>39,713</u>	<u>3,042</u>

Investment expenses of \$1,301,000 and \$625,000 have been netted against the net increase in fair value of investments for the years ended June 30, 2013 and 2012, respectively. The unrealized gains and (losses) were \$3,810,000 and (\$5,514,000) for the years ended June 30, 2013 and 2012, 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 comprised of REIT 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.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

LLS's alternative investments contain various redemption restrictions with required written notice ranging from 1 to 95 days. By contrast, all of LLS's non-alternative investments are highly liquid and can be redeemed daily without restriction. As of June 30, 2013, 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	\$	2,291
Monthly		2,736
Quarterly		66,178
Annual		<u>3,358</u>
Total	\$	<u><u>74,563</u></u>

As of June 30 2013 and 2012, 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, 2013 and 2012 (in thousands):

	<u>Level 3 Assets</u>	
	<u>2013</u>	<u>2012</u>
Balance at July 1	\$ 3,042	—
Purchases	—	3,135
Investment expense	(79)	—
Net increase (decrease) in fair value	<u>395</u>	<u>(93)</u>
Balance at June 30	\$ <u><u>3,358</u></u>	<u><u>3,042</u></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, 2013 and 2012 (in thousands):

	<u>2013</u>		<u>2012</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Time restrictions	\$ 992	—	1,150	—
Research	5,721	3,201	7,898	3,139
Patient service	2,126	—	2,718	—
Other	<u>266</u>	<u>242</u>	<u>397</u>	<u>218</u>
Total	\$ <u><u>9,105</u></u>	<u><u>3,443</u></u>	<u><u>12,163</u></u>	<u><u>3,357</u></u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

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, 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, 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 following table presents changes in the donor-restricted endowment funds for the year ended June 30, 2012 (in thousands):

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at July 1	\$ 3,280	3,892	7,172
Investment income	77	11	88
Net (depreciation) appreciation	(202)	64	(138)
Contributions	—	257	257
Net assets re-designated by donor	—	(867)	(867)
Endowment net assets at June 30	\$ <u>3,155</u>	<u>3,357</u>	<u>6,512</u>

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(5) Legacies and Contributions Receivable

LLS's legacies and contributions receivable at June 30, 2013 and 2012 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):

	2013	2012
Less than one year	\$ 4,733	3,766
1 to 5 years	4,130	2,300
After 5 years	600	712
Subtotal	9,463	6,778
Less:		
Allowance for uncollectible accounts	(792)	(778)
Discount to present value (1.5% to 5%)	(645)	(587)
Total	\$ 8,026	5,413

(6) Deferred Revenue, Donated Services and Media

During 2013, LLS received a \$20 million grant that is planned to be utilized on research which will jointly be identified by the grantor and LLS. At June 30, 2013 these funds were held equally between cash and investments. Revenue under this grant is expected to be recognized over the next four years, as expenses are incurred. At June 30, 2013, the unexpended balance of the grant of \$19.5 million is 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):

	2013	2012
Donated services	\$ 5,492	5,328
Donated media	2,258	—
Total	\$ 7,750	5,328

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(7) Fixed Assets, Net

Fixed assets at June 30, 2013 and 2012 consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 1,043	1,044
Furniture, fixtures, and other office equipment	2,626	2,881
Computer equipment and software	18,432	14,303
Total	22,101	18,228
Less accumulated depreciation and amortization	(11,248)	(11,374)
Fixed assets, net	<u>\$ 10,853</u>	<u>6,854</u>

Fully depreciated assets with a cost of \$3,176,000 were written off in 2013.

(8) Pension Plan

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 \$4,173,000 and \$3,967,000 for the years ended June 30, 2013 and 2012, respectively.

LLS has a 457(b) deferred compensation plan (the 457 Plan), for its executive staff. The 457 Plan is a nonqualified deferred compensation plan subject to the provisions of the Internal Revenue Code Section 457. Expenses under the 457 Plan approximated \$195,000 and \$157,000 for the years ended June 30, 2013 and 2012, respectively. The assets and liabilities of the 457 Plan are included in investments and accounts payable in the accompanying consolidated balance sheet and amounted to approximately \$1,357,000 and \$1,196,000 at June 30, 2013 and 2012, respectively.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2013

(with comparative amounts as of and for the year ended June 30, 2012)

(9) Lease Commitments

The leases for premises, which LLS's National Office and chapters occupy, expire on various dates through September 30, 2023 and provide for certain payments subject to escalation and periodic rate increases relating to real estate taxes, operating expenses, and utilities. The National Office lease expires in March 2016.

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

Year ending June 30:		
2014	\$	8,290
2015		7,839
2016		6,197
2017		3,531
2018		2,091
2019 and thereafter		4,294
Total	\$	<u>32,242</u>

(10) Joint Costs Allocation

For the years ended June 30, 2013 and 2012, LLS incurred joint costs for informational materials and activities that included fund raising appeals as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Fund raising	\$ 10,577	11,509
Patient and community service	1,895	1,049
Public health education	8,966	9,522
Total	\$ <u>21,438</u>	<u>22,080</u>