



THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2020

(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, 2020, 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, 2020, 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(u) to the consolidated financial statements, in 2020 LLS adopted new accounting guidance, Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows: Restricted Cash*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Leukemia & Lymphoma Society, Inc. 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustment to adopt ASU No. 2016-18. As part of our audit of the 2020 financial statements, we also audited the adjustment described in note 1(u) that was applied to adopt ASU 2016-18 retrospectively in the 2019 consolidated financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

KPMG LLP

November 5, 2020

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Balance Sheet

June 30, 2020

(with summarized comparative information at June 30, 2019)

(In thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 32,345	24,735
Prepaid expenses and other assets	3,933	4,653
Contributions and other receivable, net (note 7)	24,493	15,489
Investments (note 4)	520,898	407,903
Fixed assets, net (note 10)	9,510	9,161
Total assets	<u>\$ 591,179</u>	<u>461,941</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,672	23,487
Deferred revenue (note 8)	13,076	13,739
Awards and grants payable (note 2)	35,490	50,974
Co-Pay assistance payable (note 3)	145,390	94,957
Other long-term liabilities (note 11)	4,020	4,715
Total liabilities	<u>217,648</u>	<u>187,872</u>
Commitments and contingencies (notes 2, 3, 12 and 14)		
Net assets:		
Without donor restrictions	255,343	178,099
With donor restrictions (notes 3 and 6)	118,188	95,970
Total net assets	<u>373,531</u>	<u>274,069</u>
Total liabilities and net assets	<u>\$ 591,179</u>	<u>461,941</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Activities

Year ended June 30, 2020

(with summarized comparative information for the Year ended June 30, 2019)

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	
			<u>2020</u>	<u>2019</u>
Operating revenue:				
Contributions	\$ 245,931	22,524	268,455	294,523
Less direct donor benefit costs	<u>(19,931)</u>	<u>—</u>	<u>(19,931)</u>	<u>(29,624)</u>
Net campaign contributions	226,000	22,524	248,524	264,899
Co-pay contributions (note 3)	—	176,100	176,100	90,930
Therapy Acceleration Program Contractual returns and royalties	21,565	—	21,565	4,495
Service revenue	15,997	—	15,997	14,936
Donated services, goods and media (note 9)	8,926	—	8,926	11,987
Legacies and other revenue	8,306	74	8,380	19,908
Net interest and dividend income	4,929	2,430	7,359	7,186
Net assets released from restrictions:				
Co-pay assistance (note 3)	137,780	(137,780)	—	—
Satisfaction of other donor restrictions	<u>40,887</u>	<u>(40,887)</u>	<u>—</u>	<u>—</u>
Total operating revenue	<u>464,390</u>	<u>22,461</u>	<u>486,851</u>	<u>414,341</u>
Operating expenses:				
Program services:				
Research	50,440	—	50,440	71,119
Patient and community service (note 3)	203,547	—	203,547	153,138
Public health education	48,089	—	48,089	45,130
Professional education	<u>16,011</u>	<u>—</u>	<u>16,011</u>	<u>14,500</u>
Total program services	<u>318,087</u>	<u>—</u>	<u>318,087</u>	<u>283,887</u>
Supporting services:				
Management and general	43,757	—	43,757	54,258
Fund raising	<u>46,643</u>	<u>—</u>	<u>46,643</u>	<u>49,101</u>
Total supporting services	<u>90,400</u>	<u>—</u>	<u>90,400</u>	<u>103,359</u>
Total operating expenses	<u>408,487</u>	<u>—</u>	<u>408,487</u>	<u>387,246</u>
Change in net assets from operating activities	55,903	22,461	78,364	27,095
Foreign currency translation adjustment and other	(372)	68	(304)	(37)
Net increase (decrease) in fair value of investments	<u>21,713</u>	<u>(311)</u>	<u>21,402</u>	<u>4,439</u>
Change in net assets	77,244	22,218	99,462	31,497
Net assets:				
Beginning of period	<u>178,099</u>	<u>95,970</u>	<u>274,069</u>	<u>242,572</u>
End of period	<u>\$ 255,343</u>	<u>118,188</u>	<u>373,531</u>	<u>274,069</u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2020

(with summarized comparative information for the Year ended June 30, 2019)

(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	Fund raising	Total	June 30, 2020	June 30, 2019	2020	2019
	Awards and grants	\$ 25,108	—	—	—	25,108	—	—	—	25,108	45,687	—
Therapy acceleration program	2,091	—	—	—	2,091	—	—	—	2,091	2,433	—	—
Clinical trial	8,878	—	—	—	8,878	—	—	—	8,878	10,468	—	—
Financial aid to patients	—	11,577	—	—	11,577	—	—	—	11,577	4,228	—	—
Co-pay assistance (note 3)	—	131,211	—	—	131,211	—	—	—	131,211	97,151	—	—
Co-pay processing fees (note 3)	—	5,536	—	—	5,536	—	—	—	5,536	4,088	—	—
Donated services, goods, and media (note 9)	594	2,215	2,566	144	5,519	195	3,213	3,408	8,926	11,987	—	—
Salaries and employee benefits and taxes	6,848	33,571	27,642	10,530	78,591	27,824	23,983	51,807	130,398	117,141	—	—
Professional fees	4,483	4,677	4,115	1,654	14,929	4,945	3,867	8,812	23,741	28,161	3,583	4,468
Printing, advertising, and supplies	403	4,075	5,289	963	10,730	2,195	6,984	9,179	19,909	22,316	5,497	6,725
Occupancy, telephone, and insurance	158	3,519	2,997	1,024	7,698	2,451	2,442	4,893	12,591	12,115	—	—
Travel and meetings	550	1,845	1,719	869	4,983	1,107	1,220	2,327	7,310	8,680	9,510	16,463
Equipment and software rentals and maintenance	1,187	1,952	1,018	351	4,508	1,489	2,514	4,003	8,511	7,965	—	—
Postage and shipping	41	1,923	1,832	179	3,975	143	1,757	1,900	5,875	6,213	—	—
Miscellaneous	94	1,257	767	254	2,372	284	505	789	3,162	4,249	1,341	1,968
Depreciation and amortization	5	189	144	43	381	3,124	158	3,282	3,663	4,364	—	—
Total expenses	\$ 50,440	203,547	48,089	16,011	318,087	43,757	46,643	90,400	408,487	387,246	19,931	29,624

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2020

(with summarized comparative information for the Year ended June 30, 2019)

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 99,462	31,497
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net increase in fair value of investments	(21,402)	(4,439)
Depreciation and amortization	3,663	4,364
Provision for uncollectible accounts	746	396
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	720	(1,886)
Contributions and other receivables, net	(9,750)	16,370
Accounts payable and accrued expenses	(3,815)	1,580
Other long-term liabilities	(695)	880
Deferred revenue	(663)	(2,504)
Awards and grants payable	(15,484)	(699)
Co-Pay assistance payable	50,433	40,261
Net cash provided by operating activities	<u>103,215</u>	<u>85,820</u>
Cash flows from investing activities:		
Purchases of fixed assets	(4,012)	(4,911)
Purchases of long-term investments	(256,159)	(77,348)
Sales of investments	179,354	8,798
Net cash used in investing activities	<u>(80,817)</u>	<u>(73,461)</u>
Net increase in cash and cash equivalents	22,398	12,359
Cash, cash equivalents, and restricted cash at beginning of period	<u>39,987</u>	<u>27,628</u>
Cash, cash equivalents, and restricted cash at end of period	\$ <u><u>62,385</u></u>	\$ <u><u>39,987</u></u>
Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown above:		
Cash and cash equivalents	\$ 32,345	24,735
Cash included in investments	30,040	15,252
Total cash, cash equivalents, and restricted cash	\$ <u><u>62,385</u></u>	\$ <u><u>39,987</u></u>

See accompanying notes to consolidated financial statements.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(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 clinical trials are utilizing a collaborative approach to change the paradigm of treatment through precision medicine. 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-seven 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), and The Leukemia & Lymphoma Society Research Foundation (LLSRF). Additionally, LLS is the sole member of various limited liability companies which support LLS clinical trials and research activities. 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). LLS's limited liability companies are disregarded pass through entities and 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, 2020 and 2019.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

(d) Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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.

(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 2020 and 2019 was funded by seven and six donors, respectively. In addition, the Beat AML Master Trial was primarily funded by eight and seven donors in 2020 and 2019, respectively.

(f) Summarized Financial Information

The consolidated financial statements are presented with 2019 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, 2019 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with LLS's 2019 consolidated financial statements from which the summarized information was derived.

(g) Subsequent Events

The spread of coronavirus (COVID-19) around the world in the first two quarters of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, LLS is unable to determine if it will have a material impact to its operations.

LLS evaluated subsequent events after the balance sheet date of June 30, 2020 through November 5, 2020, which was the date the consolidated financial statements were available for issuance, and concluded no additional disclosures are required.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

(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.

(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 prices or published net asset value for funds with characteristics similar to a mutual fund (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 or published net asset value included within Level 1 that are observable for the asset or liability, either directly or indirectly.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

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.

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 the promisor's obligation to the transferred assets. Conditional contributions are recognized as revenue when the barriers on which they depend have been 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) Sponsorship Revenue

Sponsorship revenue is accounted for as an exchange transaction whereby revenue is recognized when the related benefit to the sponsor is delivered. Amounts received under these arrangements but for which benefits have not been delivered are reported as deferred revenue. When sponsorship agreements specify multiple benefits spread over more than one period the revenue is distributed proportionately to the estimated value of the benefit as required under Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

(m) Service Revenue

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

(n) Donated Goods and Services

LLS has determined that certain of the donated goods and services it receives meet the criteria for recognition in the consolidated financial statements. The value of contributed goods was determined based on fair market value estimates. The value of contributed services was determined for volunteers that possess specialized skills, and would otherwise need to be purchased. These goods and services are recognized as revenue and expense (note 9).

(o) Donated Media

LLS has conducted national public service announcements (PSA) media campaigns and benefited from donated media time that was aired on television and radio. The value of contributed media, which is recognized in the consolidated financial statements, was estimated based on the placement, audience, and demographics of the PSA's (note 9).

(p) Cash Equivalents

Cash equivalents consist of short-term investments with an original maturity of three months or less from date of purchase, except for amounts held in investments.

(q) Investments

Investments are stated at fair value based upon quoted or published market prices, except for the fair values of alternative investments which are based on NAVs provided by the fund managers or general partners, based upon the underlying net assets of the funds consistent with the concepts of ASC 820. These values are reviewed and evaluated by management.

(r) Fixed Assets and Depreciation

Fixed assets, which consist principally of equipment, software, and leasehold improvements, are recorded at cost, and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the terms of the leases, if shorter, ranging 2 to 10 years (leasehold improvements 7 years; furniture, fixtures, and office equipment 7 to 10 years, and computer equipment and software 2 to 5 years).

(s) Other Long-Term Liabilities

Other long-term liabilities represent LLS's liability for the Internal Revenue Code Section 457 deferred compensation plans recorded at fair market value (note 11), straight-line rent of office leases (note 12), and capital leases.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

(t) Professional Fees

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

(u) Adopted Accounting Pronouncements

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* This ASU, effective for LLS's fiscal year ending June 30, 2020, required 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. LLS adopted the provisions of the guidance which resulted in deferring \$700 of revenue to fiscal year 2021 that would have previously been recorded in fiscal year 2020.

ASU No. 2018-18, *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. LLS implemented this guidance with no impact to the overall consolidated financial statements.

ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. In many cases, the end of period total per the statement of cash flows may no longer agree to the cash and cash equivalents line item on the face of the statement of financial position. LLS adopted ASU No. 2016-18 for the year ending June 30, 2020 on a retrospective basis.

(v) Upcoming Accounting Standards

ASU No. 2016-02, *Leases (Topic 842)* - This guidance, effective for LLS's fiscal year ending June 30, 2023, 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.

(w) 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.

THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

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

(x) Reclassifications

Amounts in certain prior year consolidated financial statements have been reclassified to be consistent with the current year consolidated financial statement presentation.

(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 \$32,091 at June 30, 2020, which are conditioned upon future events and, accordingly, are not recorded. LLS has unconditional grants payable of \$35,490 and \$50,974 at June 30, 2020 and 2019, respectively, which are anticipated to be paid in the next year. Grant refunds and cancellations of approximately \$10,003 and \$1,665 as of June 30, 2020 and 2019, 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 through awarding grants, purchasing private and public equity, or other funding mechanisms. TAP contracts are recognized and paid 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 \$8,700 and \$14,471 at June 30, 2020 and 2019, respectively, that are conditioned upon future events and, accordingly, are not recorded. Grant refunds of approximately \$0 and \$320 as of June 30, 2020 and June 30, 2019, respectively 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:	
2021	\$ 23,299
2022	13,908
2023	<u>3,584</u>
Total	<u>\$ 40,791</u>

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(with comparative information for the year ended June 30, 2019)

(Amount in thousands)

(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 \$145,390 and \$94,957 has been established based on approved patient applications received through June 30, 2020 and 2019, respectively. Net assets with donor restrictions include \$83,830 and \$43,279 at June 30, 2020 and 2019, respectively, which are available for expenditure and are intended to be awarded in future periods (note 6).

The following summarizes the activities of the Co-Pay Assistance program as of June 30, 2020.

	June 30	
	2020	2019
Beginning balance	\$ 43,279	52,528
Contributions	176,100	90,930
Investment gains	2,231	1,878
Amount expended during the year:		
Direct assistance to patients	(131,211)	(97,151)
Other expenses incurred and reimbursed under the contract	(6,569)	(4,906)
Amounts available for expenditures in subsequent periods	<u>\$ 83,830</u>	<u>43,279</u>

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(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, 2020 and June 30, 2019:

	June 30, 2020	Level 1	Level 2	Level 3
Money market funds and cash	\$ 363,458	363,458	—	—
Fixed income:				
Corporate bonds	57,804	57,804	—	—
Equities:				
Large cap equity	39,957	39,957	—	—
International equity	24,121	24,121	—	—
Small/mid cap equity	23,764	23,764	—	—
Commodities	3,220	3,220	—	—
	<u>512,324</u>	<u>\$ 512,324</u>	<u>—</u>	<u>—</u>
Investments reported at net asset value:				
Multi strategy hedge fund	<u>8,574</u>			
Total investments reported at net asset value	<u>8,574</u>			
	<u>\$ 520,898</u>			

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(Amount in thousands)

	June 30, 2019	Level 1	Level 2	Level 3
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 net asset value:				
Multi strategy hedge fund	<u>8,314</u>			
Total investments reported at net asset value	<u>8,314</u>			
	<u>\$ 407,903</u>			

Within the investment balance as of June 30, 2020 and June 30, 2019 are \$219,261 and \$123,297 restricted to Co-Pay, respectively.

LLS's alternative investments strategy:

Multi strategy hedge fund – represents an investment 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

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redeemed daily without restriction. As of June 30, 2020 and 2019, the following table summarizes the redemption provisions for those investments reported at NAV:

	June 30	
	2020	2019
Redemption period:		
Monthly	\$ 4,410	1,600
Quarterly	4,164	4,000
Semi-annual	—	1,000
Annual	—	1,714
Total	\$ 8,574	8,314

As of June 30, 2020 and 2019, LLS had no unfunded commitments on its alternative investments.

(5) Financial Assets

LLS' goal is to maintain financial assets without donor restrictions to meet the requirements of all outstanding commitments, both current and conditional as well as a minimum of 25-50% of annual general expenditures, and Co-Pay commitments whose financial assets are recorded as with donor restrictions. 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 2020 and 2019.

	June 30	
	2020	2019
Financial assets at year end:		
Cash and cash equivalents	\$ 32,345	24,735
Contributions receivable	24,493	15,489
Investments	520,898	407,903
Total financial assets	577,736	448,127

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	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Less amounts not available to be used within one year:		
Restricted to support Co-Pay Patients	\$ 229,702	138,538
Contributions and other receivable with donor restrictions not to be met in less than a year	15,922	11,027
Alternative Investments with redemptions greater than 12 months	—	1,714
Equity holdings not expected to be redeemed	6,173	8,866
Endowment, net of spending	6,043	6,315
	<u>257,840</u>	<u>166,460</u>
Total financial assets not available for use		
Financial assets available to meet general expenditures over the next twelve months	\$ <u>319,898</u>	<u>281,667</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, 2020 and June 30, 2019:

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Co-Pay	\$ 83,830	43,279
Research	11,642	8,501
Patient and Community Service	2,836	4,544
Public Health Education	2,799	3,579
Professional Education	2,165	3,599
Beat AML Initiative	14,209	29,234
Children's Initiative	357	2,905
Other	350	329
	<u>118,188</u>	<u>95,970</u>
Total net assets with donor restriction	\$ <u>118,188</u>	<u>95,970</u>

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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, 2020 and 2019 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, 2020 and 2019:

	June 30	
	2020	2019
Endowment net assets at July 1	\$ 6,580	6,577
Investment income/loss	(20)	304
Foreign current translation adjustment	(11)	2
Appropriation for expenditure	(247)	(303)
Endowment net assets at June 30	<u>\$ 6,302</u>	<u>6,580</u>

(7) Contribution and Other Receivables

LLS's contribution and other receivables at June 30, 2020 and June 30, 2019 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:

	June 30	
	2020	2019
Campaign contributions	\$ 8,804	2,909
Other restricted contributions	10,411	11,627
Service revenue	5,278	953
Total	<u>\$ 24,493</u>	<u>15,489</u>

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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>June 30</u>	
	<u>2020</u>	<u>2019</u>
Less than one year	\$ 18,367	11,027
One to five years	<u>7,296</u>	<u>6,287</u>
Subtotal	25,663	17,314
Less:		
Allowance for uncollectible accounts	(642)	(641)
Discount to present value (1.5% to 5.0%)	<u>(528)</u>	<u>(1,184)</u>
Total	<u>\$ 24,493</u>	<u>15,489</u>

As of June 30, 2020, 43% of contributions and other receivables was from two funding sources.

(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, 2020 and June 30, 2019 consists of the following:

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Special events	\$ 12,753	11,782
Service revenue	<u>323</u>	<u>1,957</u>
Total	<u>\$ 13,076</u>	<u>13,739</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>June 30</u>	
	<u>2020</u>	<u>2019</u>
Donated goods	\$ 933	1,616
Donated services	2,713	2,924
Donated media	<u>5,280</u>	<u>7,447</u>
Total	<u>\$ 8,926</u>	<u>11,987</u>

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(10) Fixed Assets, Net

Fixed assets at June 30, 2020 and 2019 consist of the following:

	June 30	
	2020	2019
Leasehold Improvements	\$ 2,893	2,577
Furnitures, fixtures, and other office equipment	4,992	4,725
Computer equipment and software	46,420	43,073
Total	54,305	50,375
Less accumulated depreciation and amortization	(44,795)	(41,214)
Fixed assets, net	\$ 9,510	9,161

(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 \$2,439 and \$2,432 for the years ended June 30, 2020 and 2019, respectively.

LLS has nonqualified deferred compensation plans for its executive staff subject to the provisions of the Internal Revenue Code Section 457b (the Plan). There were no expenses incurred for the years ended June 30, 2020 and 2019. The assets of the Plan included in investments in the accompanying consolidated balance sheet and amounted to approximately \$1,852 and \$1,747 at June 30, 2020 and 2019, respectively. The liabilities of the Plan are included in other long-term liabilities in the accompanying consolidated balance sheet and amounted to approximately \$1,852 and \$1,747 at June 30, 2020 and 2019, respectively.

Effective May 16, 2020, LLS suspended employer matching contributions to the employee 403(b) Retirement Plan.

(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.

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

Year ending June 30:		
2021	\$	7,793
2022		8,012
2023		6,471
2024		4,181
2025		3,126
Thereafter		<u>9,468</u>
Total	\$	<u><u>39,051</u></u>

(13) Joint Costs Allocation

For the years ended June 30, 2020 and 2019, 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:

	June 30	
	2020	2019
Fundraising	\$ 7,783	10,150
Patient & Community Services	4,177	2,978
Public Health Education	<u>5,788</u>	<u>7,164</u>
Total	<u><u>\$ 17,748</u></u>	<u><u>20,292</u></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.