

**NATIONAL MARROW DONOR PROGRAM  
AND SUBSIDIARIES**

Minneapolis, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2017 and 2016

# NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>Independent Auditors' Report</b>	1 – 2
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 – 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 – 21
<b>Supplemental Consolidating Information</b>	
Consolidating Schedules of Financial Position Information	22 – 23
Consolidating Schedules of Activities Information	24 – 25

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
National Marrow Donor Program and Subsidiaries  
Minneapolis, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of National Marrow Donor Program and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities, cash flows and functional expenses for the years 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 accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 entity'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 entity'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 consolidated financial position of the Organization as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Report on Consolidating Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information listed in the table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
January 18, 2018

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2017 and 2016

(in thousands)

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 74,454	\$ 1,711	\$ 76,165	\$ 47,578	\$ 3,077	\$ 50,655
Short-term investments (Note 4)	18,000	-	18,000	17,000	-	17,000
Receivables:						
Transplant center and other receivables - net of allowance of \$250 and \$147 in 2017 and 2016, respectively	46,148	-	46,148	48,784	-	48,784
Contract receivables	5,402	-	5,402	7,169	-	7,169
Pledges receivable (Note 2)	199	355	554	136	-	136
Prepaid expenses and other	5,649	-	5,649	5,577	-	5,577
Total Current Assets	149,852	2,066	151,918	126,244	3,077	129,321
LONG-TERM INVESTMENTS (Note 4)	104,171	-	104,171	93,500	-	93,500
PROPERTY AND EQUIPMENT (Note 3)	107,161	-	107,161	113,265	-	113,265
DEFERRED COMPENSATION FUNDS (Note 8)	3,694	-	3,694	3,130	-	3,130
LONG-TERM PLEDGES RECEIVABLE (Note 2)	35	1,112	1,147	19	-	19
OTHER ASSETS	2,790	1,214	4,004	1,302	1,108	2,410
<b>TOTAL ASSETS</b>	<b>\$ 367,703</b>	<b>\$ 4,392</b>	<b>\$ 372,095</b>	<b>\$ 337,460</b>	<b>\$ 4,185</b>	<b>\$ 341,645</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 28,165	\$ -	\$ 28,165	\$ 26,241	\$ -	\$ 26,241
Accrued expenses	19,436	-	19,436	18,908	-	18,908
Accrued compensation and benefits	14,230	-	14,230	13,491	-	13,491
Current maturities of long-term debt (Note 5)	6,070	-	6,070	5,965	-	5,965
Current maturities of long-term capital lease (Note 5)	2,587	-	2,587	2,377	-	2,377
Refundable advances and deferred revenue (Note 2)	11,761	-	11,761	6,965	-	6,965
Total Current Liabilities	82,249	-	82,249	73,947	-	73,947
DEFERRED COMPENSATION PAYABLE (Note 8)	3,694	-	3,694	3,133	-	3,133
LONG-TERM DEBT (Note 5)	12,756	-	12,756	18,817	-	18,817
LONG-TERM CAPITAL LEASE (Note 5)	53,411	-	53,411	55,998	-	55,998
<b>TOTAL LIABILITIES</b>	<b>152,110</b>	<b>-</b>	<b>152,110</b>	<b>151,895</b>	<b>-</b>	<b>151,895</b>
NET ASSETS	215,593	4,392	219,985	185,565	4,185	189,750
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 367,703</b>	<b>\$ 4,392</b>	<b>\$ 372,095</b>	<b>\$ 337,460</b>	<b>\$ 4,185</b>	<b>\$ 341,645</b>

See accompanying notes to consolidated financial statements.

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Years Ended September 30, 2017 and 2016  
(in thousands)

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND GAINS:</b>						
Search and procurement fees	\$ 334,762	\$ -	\$ 334,762	\$ 339,058	\$ -	\$ 339,058
Federal contracts and cooperative agreements	42,113	-	42,113	41,747	-	41,747
Contributions	13,711	2,256	15,967	11,847	401	12,248
Other	487	-	487	593	-	593
Net assets released from restrictions	2,201	(2,201)	-	2,414	(2,414)	-
Total Revenues and Gains	393,274	55	393,329	395,659	(2,013)	393,646
<b>EXPENSES:</b>						
Program services	310,499	-	310,499	316,639	-	316,639
Management and general	59,111	-	59,111	56,650	-	56,650
Fundraising	1,772	-	1,772	1,773	-	1,773
Total Expenses	371,382	-	371,382	375,062	-	375,062
<b>EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES</b>						
	21,892	55	21,947	20,597	(2,013)	18,584
<b>OTHER INCOME (EXPENSES) AND OTHER CHANGES</b>						
Loss on disposal of asset	(206)	-	(206)	(972)	-	(972)
Investment income	2,479	-	2,479	3,167	-	3,167
Change in unrealized appreciation on investments	5,863	152	6,015	4,387	86	4,473
Total Other Income (Expenses) and Other Changes	8,136	152	8,288	6,582	86	6,668
<b>INCREASE (DECREASE) IN NET ASSETS</b>						
	30,028	207	30,235	27,179	(1,927)	25,252
Net Assets - Beginning of Year	185,565	4,185	189,750	158,386	6,112	164,498
<b>NET ASSETS - End of Year</b>	<b>\$ 215,593</b>	<b>\$ 4,392</b>	<b>\$ 219,985</b>	<b>\$ 185,565</b>	<b>\$ 4,185</b>	<b>\$ 189,750</b>

See accompanying notes to consolidated financial statements.

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended September 30, 2017

(in thousands)

	Program Services				Support Services				
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	Total
Medical services	\$ 174,495	\$ -	\$ -	\$ -	\$ 174,495	\$ -	\$ -	\$ -	\$ 174,495
Donor recruitment services	-	19,642	-	-	19,642	-	-	-	19,642
Compensation	27,827	7,520	11,113	5,570	52,030	21,782	610	22,392	74,422
Benefits	6,821	1,782	2,821	1,354	12,778	5,725	149	5,874	18,652
Professional fees	6,158	7,105	7,461	1,839	22,563	5,579	857	6,436	28,999
Travel	1,067	646	858	683	3,254	979	34	1,013	4,267
Professional development	257	82	111	61	511	448	5	453	964
Occupancy	232	179	68	81	560	4,955	38	4,993	5,553
Telecommunications	392	58	112	-	562	568	-	568	1,130
Information processing	2,917	418	913	4	4,252	4,109	38	4,147	8,399
Printing and copying	134	268	47	177	626	168	27	195	821
Postage and shipping	158	158	40	103	459	73	12	85	544
Depreciation	3,865	2,163	1,604	1,556	9,188	10,583	-	10,583	19,771
Interest expense	-	-	-	-	-	2,932	-	2,932	2,932
Office and miscellaneous	317	74	53	169	613	1,210	2	1,212	1,825
Research activities	-	-	8,966	-	8,966	-	-	-	8,966
<b>Total Expenses</b>	<b>\$ 224,640</b>	<b>\$ 40,095</b>	<b>\$ 34,167</b>	<b>\$ 11,597</b>	<b>\$ 310,499</b>	<b>\$ 59,111</b>	<b>\$ 1,772</b>	<b>\$ 60,883</b>	<b>\$ 371,382</b>

See accompanying notes to consolidated financial statements.

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended September 30, 2016

(in thousands)

	Program Services					Support Services			Total
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	
Medical services	\$ 181,556	\$ -	\$ -	\$ -	\$ 181,556	\$ -	\$ -	\$ -	\$ 181,556
Donor recruitment services	-	21,517	-	-	21,517	-	-	-	21,517
Compensation	25,259	7,926	10,833	6,118	50,136	20,306	492	20,798	70,934
Benefits	6,198	1,887	2,721	1,453	12,259	5,403	116	5,519	17,778
Professional fees	5,123	4,930	5,865	1,211	17,129	4,399	604	5,003	22,132
Travel	953	493	776	497	2,719	721	51	772	3,491
Professional development	228	75	99	72	474	391	11	402	876
Occupancy	650	776	123	203	1,752	3,876	40	3,916	5,668
Telecommunications	215	215	143	143	716	728	-	728	1,444
Information processing	1,090	1,070	775	712	3,647	3,604	-	3,604	7,251
Printing and copying	145	319	46	172	682	80	366	446	1,128
Postage and shipping	140	200	48	100	488	85	26	111	599
Depreciation	4,818	4,099	2,490	3,199	14,606	13,514	-	13,514	28,120
Interest expense	-	-	-	-	-	2,710	-	2,710	2,710
Office and miscellaneous	236	100	49	391	776	833	67	900	1,676
Research activities	-	-	8,182	-	8,182	-	-	-	8,182
<b>Total Expenses</b>	<b>\$ 226,611</b>	<b>\$ 43,607</b>	<b>\$ 32,150</b>	<b>\$ 14,271</b>	<b>\$ 316,639</b>	<b>\$ 56,650</b>	<b>\$ 1,773</b>	<b>\$ 58,423</b>	<b>\$ 375,062</b>

See accompanying notes to consolidated financial statements.

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2017 and 2016  
(in thousands)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 30,235	\$ 25,252
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization/accretion	19,780	28,133
Loss on disposal of asset	206	972
Net realized and unrealized appreciation of investments	(6,148)	(5,758)
Changes in other operating activities:		
Receivables	2,857	(3,872)
Prepaid expenses and other assets	(1,560)	(47)
Accounts payable	1,354	(2,602)
Accrued expenses and compensation and benefits	1,267	259
Refundable advances and deferred revenue	4,796	287
Deferred compensation payable	561	453
Net cash provided by operating activities	<u>53,348</u>	<u>43,077</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(7,754)	(3,048)
Sales/maturities of investments	2,125	3,116
Purchase of property, computer software and equipment	(13,302)	(11,647)
Net purchases of deferred compensation funds	(564)	(454)
Net cash used in investing activities	<u>(19,495)</u>	<u>(12,033)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(5,966)	(5,873)
Principal payments on long-term capital lease	(2,377)	(1,834)
Net cash used in financing activities	<u>(8,343)</u>	<u>(7,707)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>25,510</b>	<b>23,337</b>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>50,655</u>	<u>27,318</u>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<b><u>\$ 76,165</u></b>	<b><u>\$ 50,655</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest, net of amount capitalized	<u>\$ 3,029</u>	<u>\$ 2,792</u>
Noncash investing and financing activities:		
Purchase of property and equipment funded through accounts payable and accrued expenses	<u>\$ 1,367</u>	<u>\$ 797</u>
Property and equipment acquired through capital lease	<u>\$ -</u>	<u>\$ 60,209</u>

See accompanying notes to consolidated financial statements.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended September 30, 2017 and 2016

---

### NOTE 1 – ORGANIZATION AND PROGRAM DESCRIPTIONS

---

The National Marrow Donor Program® (the “Program” or NMDP) is the global leader in providing marrow and umbilical cord blood transplants to patients with life-threatening blood cancers like leukemia and lymphoma or other diseases. The Program matches patients with donors, educates health care professionals and conducts research so more lives can be saved. NMDP also operates Be The Match®, which provides support for patients and enlists others in the community to join the Be The Match Registry® — the world’s largest listing of potential marrow donors and donated cord blood units. For more information, visit [bethematch.org](http://bethematch.org).

Be The Match Foundation® (the “Foundation” or BTMF) raises funds to help provide marrow and umbilical cord blood transplants to patients with life-threatening blood cancers like leukemia and lymphoma or other diseases. With the public’s help, the Foundation gives patients a reason to hope and the power to heal. Foundation funds deliver tangible relief to patient families struggling with uninsured transplant costs, help add more potential marrow donors to the Be The Match Registry® and support new research discoveries. Be The Match Foundation® is operated by NMDP.

CLR Insurance, Ltd (CLR) is an exempted company operating subject to the Companies Law (Revised) of the Cayman Islands. CLR is licensed to carry on business in the Cayman Islands as a Class B(i) Insurer. It presently issues certain insurance to NMDP in support of NMDP’s nonprofit mission.

Be The Match BioTherapies, LLC (BTMB) is a wholly owned subsidiary of NMDP focused on collaborating with organizations in pursuit of new life-saving treatments in cellular therapy. Through this work, BTMB helps more patients survive life-threatening medical conditions and diseases, including those who face complications following transplant.

Be The Match BioTherapies Services, LLC (BTMBTS) is a wholly owned for-profit subsidiary of NMDP with a similar focus as BTMB.

Be the Match Mexico subsidiary – Be The Match Mexico (BTMM), a wholly owned subsidiary of NMDP and BTMF, created as a civil association in Mexico is focused on diversifying the Be the Match Registry, fundraising and bringing more awareness to our cause. This civil association was incorporated on October 31, 2017.

The consolidated financial statements include the accounts of the NMDP, BTMF, CLR, BTMB and BTMBTS (collectively, the “Organization”), after elimination of intercompany accounts and transactions, in as much as the NMDP is the sole corporate member of BTMF, BTMB and BTMBTS, and the sole shareholder of CLR, as set forth in each entity’s applicable governance documents.

---

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

---

**Basis of Accounting** - The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Cash and Cash Equivalents** - Investments acquired with original maturities of three months or less at the time of purchase and that are readily convertible to cash are reported as cash equivalents and are carried at cost, which approximates fair value. The Organization maintains its operating cash balances with high credit quality financial institutions. At times, the amounts on deposit may exceed the Federal Deposit Insurance Corporation limit. The majority of the Organization’s cash and cash equivalents are on deposit with a single bank. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

---

**Investments and Investment Income** – Short-term investments consist of investments acquired with original maturities of greater than three months that mature within the next 12 months. Short-term investments are stated at cost, which approximates fair value. Long-term investments consist of investments that are not intended to be liquidated over the next 12 months. Long-term investments in marketable securities are stated at fair value, as determined by quoted market prices. Long-term investments in other securities are recorded based on the cost method. The NMDP evaluates investments recorded based on the cost method for other than temporary impairments each reporting period and will adjust the carrying value of the investment if necessary. To date, no such losses have occurred. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Unrealized gains or losses result from changes in the fair value of investments.

Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is 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 financial statements.

**Pledges Receivable** - Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give are recorded at fair value when the condition is met. All pledges are recorded at the estimated amount to be ultimately realized. As of September 30, 2017 and 2016, there was no allowance for uncollectible pledges recorded.

In the current year, contributions and pledges received from related parties (members of the Board of Directors) totaled \$2,367,000.

As of September 30, 2017 and 2016, the expected future cash receipts of pledges receivable are as follows (in thousands):

	2017	2016
Pledges due - Less than one year	\$ 554	\$ 136
Pledges due - More than one year	<u>1,147</u>	<u>19</u>
Total Pledges	<u>\$ 1,701</u>	<u>\$ 155</u>

**Other Assets - Fund Held by Others** - BTMF has temporarily restricted funds (the "Fund") invested at the Minneapolis Foundation. Under the terms of the agreement establishing the Fund, BTMF will receive income distributions from the Fund. In addition, BTMF may request distributions from the principal of the Fund. The Fund is managed at the discretion of the Minneapolis Foundation, except that BTMF may make recommendations regarding the selection of investment options for the Fund. The Fund is recorded as temporarily restricted other assets on the consolidated statements of financial position. The Fund held by the Minneapolis Foundation was valued at \$1,214,000 and \$1,108,000 as of September 30, 2017 and 2016, respectively.

**Property and Equipment** - The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of up to 10 years. The leased building is amortized using the straight-line method over the shorter of the useful life of the building or the term of the lease, which is 15 years.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

---

**Capitalized Software Costs** - The Organization capitalizes software development costs incurred in upgrading and developing computer software and begins capitalization of these costs after technological feasibility has been determined. The capitalized software for internal use, once placed in service, is amortized on the straight-line method over the useful life, which ranges from two to ten years.

**Long-Term Debt Premiums and Discounts** - Premiums and discounts associated with the organization's long-term debt are deferred and amortized/accreted over the related terms using the straight-line method, which approximates the effective interest method. Accumulated accretion of discounts was \$35,745 and \$45,082 at September 30, 2017 and 2016, respectively.

**Accrued Medical Liabilities** - The Program procures medical services from third-party health practitioners and clinics and pays for these services based on the Program's rate schedule or contractual agreements, where applicable. The liability for unpaid medical services also includes an estimate for services incurred but not yet reported to the Program and for services received that did not include all the necessary billing information. The methods and assumptions used for estimating these amounts are continually reviewed and adjusted as more current information is received on which to base its assumptions, and adjustments to prior estimates are charged to operations in the year in which the adjustment is made as a change in estimate. The Program's estimated liability for unpaid medical services totaled approximately \$30,000,000 and \$31,000,000 at September 30, 2017 and 2016, respectively. Actual results could differ from these estimates.

Approximately \$14,000,000 and \$16,000,000 of the liability for unpaid medical services is included in accounts payable and accrued expenses, respectively, in the consolidated statement of financial position as of September 30, 2017. Approximately \$15,000,000 and \$16,000,000 of the liability for unpaid medical services is included in accounts payable and accrued expenses, respectively, in the consolidated statement of financial position as of September 30, 2016.

**Net Assets** - Net assets, revenues and gains, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets that are not subject to donor-imposed stipulations are classified as unrestricted net assets, while net assets subject to donor-imposed stipulations that will be met by actions taken by the Organization or the passage of time are classified as temporarily restricted net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets whose donor restriction expires in the same year as funds are received are classified as unrestricted net assets in the consolidated statements of activities. Permanently restricted funds are those funds subject to donor-imposed restrictions, which require that the funds be maintained by the Organization in perpetuity. In the absence of donor specifications that income and gains on donated funds be restricted, such income and gains are reported as income from unrestricted net assets. The Organization had no permanently restricted net assets as of September 30, 2017 and 2016.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

---

**Revenue Recognition** - Search and procurement fees revenue is recognized as services are performed and charged to transplant centers. Contributions of unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give are recorded at fair value when the condition is met. Direct mail, fundraising event, and other revenues are recorded at fair value when the contributions are received. Federal contracts and cooperative agreements revenues awarded under the HRSA, National Institute of Health (NIH) and MCW contracts are recognized as revenue as qualified expenses are incurred and billed to HRSA, CDC, NIH, and MCW. Amounts under the Navy cooperative agreements generally are received in advance of spending and are reflected as refundable advances in the consolidated statements of financial position until the related qualified expenses are incurred, at which time federal contracts and cooperative agreements revenues are recognized.

**Donated Services and Materials** - Donated services are recognized as contributions in accordance with FASB ASC 958, *Not-for-Profit Entities*, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills and are performed by people with those skills and (c) would otherwise be purchased by the organization. A substantial number of volunteers have donated significant time to the Organization. However, no amounts related to these services have been reflected in the consolidated financial statements since the recognition criteria was not met. Donors are not reimbursed for donation of their stem cells, and therefore, no amounts relative to stem cell donations have been reflected in the consolidated financial statements.

**Functional Allocation of Expenses** - The cost of providing the Organization's various programs, including medical services, recruitment, research, public awareness and supporting services has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. Fundraising activities include conducting activities involved with soliciting contributions.

**Tax-Exempt Status** - The Internal Revenue Service has determined that the Program and BTMF are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. The not-for-profit status of the Program and BTMF are considered tax positions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of September 30, 2017 or 2016. The Organization's tax returns are subject to review and examination by federal and state authorities.

BTMB is treated as a disregarded entity for income tax reporting purposes. As such, BTMB's income, losses and credits are included in the tax return of its sole member and parent, NMDP. BTMBTS is a regarded entity for tax purposes and files a separate tax return. CLR is an exempted company operating subject to the Companies Law (Revised) of Cayman Islands and is included in the tax return of NMDP.

**Impairment of Long-Lived Assets** - The Organization reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the assets with the net cash flows to be provided by operations and eventual disposition of the asset. Should the sum of the expected future net cash flows be less than the carrying value, the Organization would determine whether an impairment loss should be recognized. An impairment loss would be based on the fair value utilizing a discounted cash flows approach to estimate fair value. In 2016 and 2017, no impairment losses were recorded.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

---

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as the medical accruals that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Reclassifications** – Certain reclassifications were made to the fiscal 2016 financial statements in order to conform to the fiscal year 2017 presentation. These reclassifications had no impact on net assets or change in net assets as previously presented.

**Subsequent Events** - The Organization has considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to September 30, 2017 through \_\_\_\_\_, the date the consolidated financial statements were available to be issued.

**Recent Accounting Pronouncements** – In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will eliminate and replace most industry-specific guidance on the topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. This guidance will be effective for the Organization beginning October 1, 2019 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Organization is currently assessing the impact of the new guidance on the Organization's financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value to be recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The new guidance will become effective for the Organization's fiscal year beginning after December 15, 2018. The Organization is assessing the impact this standard will have on its financial statements.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 3 – PROPERTY AND EQUIPMENT

---

A summary of the cost of property and equipment and the related accumulated depreciation and amortization as of September 30, 2017 and 2016, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 27,523	\$ 26,221
Leasehold improvements	6,244	6,346
Software	84,765	78,497
Leased property	60,208	60,208
Work in process	<u>10,833</u>	<u>5,976</u>
	189,573	177,248
Less accumulated depreciation and amortization	<u>(82,412)</u>	<u>(63,983)</u>
Property and equipment - net	<u>\$ 107,161</u>	<u>\$ 113,265</u>

Work in process as of September 30, 2017 includes the acquisition, development, installation, and implementation of computer hardware, database licenses, application licenses, and packaged and customized computer software, leasehold improvements, and furniture and equipment. The Organization's depreciation and amortization expense during the years ended September 30, 2017 and 2016, was \$19,771,000 and \$28,120,000, respectively, and is recorded in depreciation expense in the consolidated statements of functional expenses.

---

#### NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

---

The types of investments held as of September 30, 2017 and 2016, were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 102,171	\$ 95,500
Other securities (at cost)	5,000	-
Certificates of deposit	<u>15,000</u>	<u>15,000</u>
	<u>\$ 122,171</u>	<u>\$ 110,500</u>
Reported on the statement of financial positions as:		
Short-term investments	\$ 18,000	\$ 17,000
Long-term investments	<u>104,171</u>	<u>93,500</u>
	<u>\$ 122,171</u>	<u>\$ 110,500</u>

Other securities represents the NMDP's, through its subsidiary BTMBT, program related investment in Series B securities of an unrelated entity. The primary purpose of this investment is to further the tax-exempt purpose of the NMDP. The production of income or the appreciation of the asset is not a significant purpose. BTMBT owns 1.9% of the entity's outstanding shares and does not have significant influence, and thus accounts for this investment utilizing the cost method.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

---

The summary of the investment return for the years ended September 30, 2017 and 2016, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Interest income, net	\$ 2,346	\$ 1,882
Realized gain on investments	<u>133</u>	<u>1,285</u>
	2,479	3,167
Change in unrealized appreciation on investments	<u>6,015</u>	<u>4,473</u>
Total investment return	<u>\$ 8,494</u>	<u>\$ 7,640</u>

Interest income is net of fees of \$66,000 and \$64,000 for the years ended September 30, 2017 and 2016. The change in unrealized appreciation on investments relates to the investments types disclosed above and the fund held by others at the Minneapolis Foundation.

**Fair value of financial instruments** -The Organization values its financial assets and liabilities in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, that establishes a three-tier fair value hierarchy. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The levels are defined as follows:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

**Asset Valuation Techniques** - Mutual funds are valued at the closing price reported in the active market in which the individual funds are traded, and are recorded within Level 1 in the valuation hierarchy.

Money market funds are valued at the net asset value (NAV) per share, which is set at \$1 per share, and are recorded within Level 1 in the valuation hierarchy as they are determined to be actively traded.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

#### **NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (continued)

Level 3 funds represent funds held by the Minneapolis Foundation. The Organization elected the long-term growth investment strategy option, which includes a diversified portfolio of equity securities, fixed income securities, and alternative investments. The units of the fund are stated at NAV per share as determined by the Minneapolis Foundation, which is based on the estimated fair market values, using Level 1 and Level 2 inputs, of the underlying investments in the long-term growth fund. The Minneapolis Foundation utilizes market values for identical assets in an active market and similar assets to establish the estimated fair value of the underlying investments.

Deferred compensation funds are comprised of mutual funds and money market funds and are recorded within Level 1 in the valuation hierarchy.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

There have been no changes in the valuation methodologies used at September 30, 2017 and 2016.

Financial assets measured at fair value on a recurring basis as of September 30, 2017 and 2016, by type of inputs applicable to the fair value measurements, are summarized as follows:

	2017			Total
	Level 1	Level 2	Level 3	
Mutual funds				
Domestic equities	\$ 44,168			\$ 44,168
International equities	20,554			20,554
Fixed income	37,449			37,449
Total mutual funds	<u>102,171</u>	<u>-</u>	<u>-</u>	<u>102,171</u>
Deferred compensation funds	<u>3,694</u>	<u>-</u>	<u>-</u>	<u>3,694</u>
Other assets - funds held by others	<u>-</u>	<u>-</u>	<u>1,214</u>	<u>1,214</u>
Total assets measured at fair value	<u>\$ 105,865</u>	<u>\$ -</u>	<u>\$ 1,214</u>	<u>\$ 107,079</u>
	2016			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Domestic equities	\$ 40,167			\$ 40,167
International equities	17,374			17,374
Fixed income	37,959			37,959
Total mutual funds	<u>95,500</u>	<u>-</u>	<u>-</u>	<u>95,500</u>
Deferred compensation funds	<u>3,130</u>	<u>-</u>	<u>-</u>	<u>3,130</u>
Other assets - funds held by others	<u>-</u>	<u>-</u>	<u>1,108</u>	<u>1,108</u>
Total assets measured at fair value	<u>\$ 98,630</u>	<u>\$ -</u>	<u>\$ 1,108</u>	<u>\$ 99,738</u>

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended September 30, 2017 and 2016

**NOTE 4 – Investments and Fair Value Measurements (continued)**

The change in fair value of the Organization’s Level 3 investment for the years ended September 30, 2017 and 2016, is summarized as follows:

	<u>2017</u>	<u>2016</u>
Beginning fair value - October 1	\$ 1,108	\$ 1,027
Contributions/Purchases	14	4
Withdrawals/Sales	(50)	-
Fees	(10)	(9)
Unrealized gains	<u>152</u>	<u>86</u>
Ending fair value - September 30	<u>\$ 1,214</u>	<u>\$ 1,108</u>

**NOTE 5 – LONG-TERM DEBT**

A summary of long-term debt as of September 30, 2017 and 2016, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Revenue Note - Series 2015, net of unamortized discount	\$ 18,310	\$ 24,205
Restaurant loan	<u>516</u>	<u>577</u>
Total debt	18,826	24,782
Less current maturities of long-term debt	<u>(6,070)</u>	<u>(5,965)</u>
Long-term portion	<u>\$ 12,756</u>	<u>\$ 18,817</u>

The City of Minneapolis, Minnesota (“City”), issued a Revenue Note, National Marrow Donor Program Project – Series 2015 (“Series 2015 Note”) on behalf of the Organization for \$30,000,000 pursuant to a Loan and Note Purchase Agreement (“Agreement”) dated September 1, 2015 among the City, the Organization and U.S. Bank National Association (“U.S. Bank”). The City assigned its interest in the loan repayments and rights under the Agreement to U.S. Bank. The Series 2015 Note was issued on September 24, 2015 with a final maturity date of August 1, 2020. The Series 2015 Note bears interest at 1.7% and is payable semiannually on February 1 and August 1.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 5 – LONG-TERM DEBT (continued)

---

The Series 2015 Note is secured by a security interest in certain tangible and intangible personal property of the Program, subject to certain excluded property and permitted encumbrances, granted pursuant to a Continuing Covenant Agreement, dated September 1, 2015. The Series 2015 Note is also guaranteed by BTMF. This guarantee is secured by a security interest in the tangible and intangible personal property of BTMF, subject to certain excluded property, granted pursuant to a Continuing Covenant Agreement, dated September 1, 2015. In addition to certain nonfinancial covenants, the Organization is required to maintain a fixed charge coverage ratio of no less than 1.15 to 1 and a liquidity coverage ratio of no less than 1.10 to 1. The fixed charge coverage ratio is calculated as the ratio of income available for operating lease and debt service for such period to the annual operating lease and debt service requirement for such period. The liquidity coverage ratio is calculated as the ratio of the market value of unrestricted cash and investments for such period to the total funded debt for such period. The Organization is in compliance with each ratio requirement at September 30, 2017 and 2016.

In 2015, the Organization entered into an agreement with Bon Appetit Management Co. to operate a restaurant within its new facility (Note 10). The terms of the agreement provided that Bon Appetit would provide a \$700,000 non-interest bearing ten year loan ("Restaurant Loan") to fund certain improvements to the premises. The Organization has recorded a discount associated with the loan to reflect imputed interest at its current 1.7% borrowing rate. The loan proceeds were issued in September 2015 with a final maturity date of November 2025.

The Organization incurred \$2,916,000 of interest expense during the year ended September 30, 2017, of which a net \$114,000 was capitalized. The Organization incurred \$2,715,000 of interest expense during the year ended September 30, 2016, of which a net \$77,000 was capitalized.

At September 30, 2017, maturities of long-term debt for each of the fiscal years ending September 30, 2018 to 2022, and thereafter, are as follows (in thousands):

2018	\$	6,070
2019		6,175
2020		6,275
2021		70
2022		70
Thereafter		<u>202</u>
Total		18,862
Unamortized discount		<u>(36)</u>
Total	\$	<u>18,826</u>

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended September 30, 2017 and 2016

**NOTE 5 – LONG-TERM DEBT** (continued)

**Capital Lease** – On October 15, 2013, NMDP entered into a lease agreement for a location on the west side of downtown Minneapolis, adjacent to Target Field. The office building is the new coordinating center of the Organization with lease payments beginning on January 1, 2016. The term of the lease is fifteen years with cumulative base rent payments approximating \$84,288,000. The Organization has the option to extend the lease term for three additional periods of seven years each. The Organization has recorded the capital lease asset and capital lease obligation in 2016 at the beginning of the lease term in the amount of \$60,209,000, which approximates the present value of the of the minimum lease payments incurred during the lease term. The future lease payments relating to the new facility capital lease are as follows (in thousands):

2018	\$	5,054
2019		5,155
2020		5,260
2021		5,365
2022		5,471
Thereafter		<u>48,966</u>
Total		75,271
Less amounts representing interest		<u>(19,273)</u>
Total	\$	<u>55,998</u>

**NOTE 6 – FEDERAL CONTRACTS AND COOPERATIVE AGREEMENTS**

Federal contracts and cooperative agreements revenues are based on the terms of the specific contracts and cooperative agreements designed to cover qualified expenses, as defined. Federal contracts and cooperative agreements revenues for the years ended September 30, 2017 and 2016, were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Navy grants	\$ 17,761	\$ 18,178
HRSA contracts	15,134	15,653
MCW sub-award agreements – BMTCTN	4,532	3,059
MCW sub-award agreements – other	3,902	3,998
NIH agreements	442	333
Other	<u>342</u>	<u>526</u>
	\$ <u>42,113</u>	\$ <u>41,747</u>

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### **NOTE 6 – FEDERAL CONTRACTS AND COOPERATIVE AGREEMENTS** (continued)

---

In September 2012, the HRSA awarded three contracts to the Organization with a one-year base period of performance (September 30, 2012 to September 29, 2013), and four one-year options. The fourth one-year option was awarded for all three contracts with a period of performance of September 30, 2016 to September 29, 2017. In September 2017, the HRSA awarded two contracts to the Organization with a one-year base period of performance and four one-year options. The two contracts awarded are to operate the Single Point of Access- Coordinating Center (#HSH250201700007C) with a period of performance of September 30, 2017 to September 29, 2018 and Office of Patient Advocacy (#HSH250201700005C) with a period of performance of September 30, 2017 to September 29, 2018. The two new contracts maintain a similar level of funding in total as provided under the previous HRSA contracts.

---

#### **NOTE 7 – RETIREMENT PLAN**

---

The Organization sponsors a defined contribution retirement plan (the “Retirement Plan”) for all employees. Contributions to the Retirement Plan are based on 6% of participant gross wages, plus an additional 5.7% of a participant’s gross wages in excess of the maximum FICA taxable wage base up to \$265,000 for both years ended September 30, 2017 and 2016. A participant is vested at 40% after two years and 100% after three years of service. The Organization’s contributions to the Retirement Plan were \$4,001,000 and \$3,668,000 for the years ended September 30, 2017 and 2016, respectively.

---

#### **NOTE 8 – DEFERRED COMPENSATION AND SUPPLEMENTAL BENEFITS PLANS**

---

The Organization offers its officers, vice presidents, and directors a 457(b) deferred compensation plan (the “Plan”) created in accordance with applicable provisions of the Internal Revenue Code. The Plan permits employees to defer a portion of their salary until future years. The accumulated deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the Plan, and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) solely the property of the Organization, and the Organization has all the related rights of ownership (not restricted to the payment of benefits under the Plan), subject only to the claim of the Organization’s general creditors. Participants’ rights under the Plan are equal to those of general creditors of the Organization in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities are reported at fair market value based on quoted market prices and are included within deferred compensation funds and deferred compensation payable in the consolidated statements of financial position.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### NOTE 8 – DEFERRED COMPENSATION AND SUPPLEMENTAL BENEFITS PLANS (continued)

---

The Organization offers a supplemental benefits plan (the “Supplemental Plan”) for its officers, senior vice presidents, and vice presidents. Each year, the Supplemental Plan contributes 14% of salary for the chief executive officer, 9% for other officers and senior vice presidents, and 4% for vice presidents. The Supplemental Plan is a flexible benefit plan allowing the Supplemental Plan participants to select from limited options, which include payment for spousal long-term care, and the balance as a contribution into the 457(b) deferred compensation plan (above) and/or an executive savings plan to supplement current basic and supplemental benefits. The executive savings plan replaced the capital accumulation plan effective January 1, 2013. All Supplemental Plan participants receive life insurance, disability salary continuation, long-term disability and long-term care insurance. The executive savings plan was created in accordance with applicable provisions of the Internal Revenue Code (IRC Sec 7702) whereby after-tax contributions into the plan accumulate without taxation and may be distributed without taxation using a combination of tax-free withdrawals and loans. Contributions will result in current income taxation. Plan balances are personally owned by the plan participants immediately and are not subject to a risk of forfeiture; as such, the plan assets are not recorded on the Organization’s financial statements. The Supplemental Plan also provides for additional life insurance up to \$750,000.

---

#### NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

---

Temporarily restricted net assets as of September 30, 2017 and 2016, were available for the following purposes (in thousands):

	2017	2016
Foundation:		
Donor recruitment	\$ 148	\$ 1,539
Patient assistance	2,113	1,657
Research	1,748	696
Special programs and other	383	293
	<u>\$ 4,392</u>	<u>\$ 4,185</u>

---

#### NOTE 10 – COMMITMENTS AND CONTINGENCIES

---

**Litigation and Unasserted Claims** - The Organization is involved in various legal proceedings or has unasserted claims incidental to its business. While the outcome of these claims is not presently determinable, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the consolidated financial position or results of operations of the Organization. The Organization included within the financial statements their best estimate of the liability relating to such items where the loss is probable and estimable. Actual results could differ from those estimates.

**Self-Insurance** - The Organization is self-insured for employee health and dental insurance claims with a stop loss limit of \$125,000 per member for health claims and \$1,000 or \$1,500 per member for dental claims depending on the employee elected plan. A liability is recorded with respect to unasserted claims based on actual claims to date. The estimated liability for health claims was \$905,000 and \$654,000 as of September 30, 2017 and 2016, respectively. The estimated liability for dental claims was \$16,000 for both September 30, 2017 and 2016, respectively. Actual results could differ from those estimates.

## NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2017 and 2016

---

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES** (continued)

---

As of March 23, 2015, CLR, a wholly owned captive insurance company, was incorporated to insure the Program's donors. Effective May 1, 2015, CLR issued an occurrence based insurance policy to the Program with coverage provided at \$250,000 per occurrence with no aggregate limit. The policy was renewed effective May 31, 2016 and 2017 with increased coverage of \$1,000,000 per occurrence and no annual aggregate limit. The policy runs to April 30, 2018. Effective May 1, 2015, also renewed on May 1, 2016 and 2017, CLR provided coverage in excess of the primary layer for \$10,000,000 in excess of \$1,000,000 per occurrence and no annual aggregate limit. CLR purchased 100% reinsurance with a rated reinsurer in support of the excess limits of liability offered. A liability is recorded with respect to current claims and unasserted claims based on actual claims to date and actuarial studies of estimated future liabilities for such claims. The estimated liability for these claims was \$897,000 and \$515,000 as of September 30, 2017 and 2016, respectively, and is included in accrued expenses on the statements of financial position. Actual results could differ from those estimates.

Effective October 1, 2017, CLR will provide an employee health insurance stop loss layer between \$125,000 and \$250,000. The policy will be funded in the amount of \$830,000.

**Lease Commitments** - The Organization leases space under noncancelable operating leases with expiration dates through fiscal 2021. Total rent expense under all operating lease agreements was \$1,101,000 and \$1,797,000 for the years ended September 30, 2017 and 2016, respectively. Rent expense is recorded within occupancy in the consolidated statements of functional expenses.

The future minimum lease payments under noncancelable operating lease agreements as of September 30, 2017, were as follows (in thousands):

2018	\$	548
2019		424
2020		341
2021		<u>187</u>
Total	\$	<u>1,500</u>

**SUPPLEMENTAL CONSOLIDATING INFORMATION**

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION  
For the Year Ended September 30, 2017  
(in thousands)

	NMDP	BTMB	Subtotal	BTMF	CLR	BTMBTS	Eliminations	Consolidated
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>								
Cash and cash equivalents	\$ 71,471	\$ 371	\$ 71,842	\$ 2,475	\$ 761	\$ 1,087	\$ -	\$ 76,165
Short-term investments	15,000	-	15,000	3,000	-	-	-	18,000
Receivables:								
Transplant center and other receivables, net	46,716	-	46,716	67	744	-	(1,379)	46,148
Contract receivables	5,122	280	5,402	-	-	-	-	5,402
Pledges receivable	-	-	-	554	-	-	-	554
Prepaid expenses and other	5,507	-	5,507	57	85	-	-	5,649
Total Current Assets	143,816	651	144,467	6,153	1,590	1,087	(1,379)	151,918
LONG-TERM INVESTMENTS	98,729	5,000	103,729	8,250	552	-	(8,360)	104,171
PROPERTY AND EQUIPMENT	107,161	-	107,161	-	-	-	-	107,161
DEFERRED COMPENSATION FUNDS	3,694	-	3,694	-	-	-	-	3,694
LONG-TERM PLEDGES RECEIVABLE	-	-	-	1,147	-	-	-	1,147
OTHER ASSETS	2,770	-	2,770	1,214	-	20	-	4,004
<b>TOTAL ASSETS</b>	<b>\$ 356,170</b>	<b>\$ 5,651</b>	<b>\$ 361,821</b>	<b>\$ 16,764</b>	<b>\$ 2,142</b>	<b>\$ 1,107</b>	<b>\$ (9,739)</b>	<b>\$ 372,095</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Accounts payable	\$ 27,316	\$ 222	\$ 27,538	\$ 622	\$ 117	\$ 12	\$ (124)	\$ 28,165
Accrued expenses	17,875	1,056	18,931	635	1,099	26	(1,255)	19,436
Accrued compensation and benefits	13,988	-	13,988	242	-	-	-	14,230
Current maturities of long-term debt	6,000	-	6,000	-	-	70	-	6,070
Current maturities of long-term capital lease	2,587	-	2,587	-	-	-	-	2,587
Refundable advances and deferred revenue	10,935	-	10,935	-	826	-	-	11,761
Total Current Liabilities	78,701	1,278	79,979	1,499	2,042	108	(1,379)	82,249
DEFERRED COMPENSATION PAYABLE	3,694	-	3,694	-	-	-	-	3,694
LONG-TERM DEBT	12,310	-	12,310	-	-	446	-	12,756
LONG-TERM CAPITAL LEASE	53,411	-	53,411	-	-	-	-	53,411
<b>TOTAL LIABILITIES</b>	<b>148,116</b>	<b>1,278</b>	<b>149,394</b>	<b>1,499</b>	<b>2,042</b>	<b>554</b>	<b>(1,379)</b>	<b>152,110</b>
NET ASSETS	208,054	4,373	212,427	15,265	100	553	(8,360)	219,985
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 356,170</b>	<b>\$ 5,651</b>	<b>\$ 361,821</b>	<b>\$ 16,764</b>	<b>\$ 2,142</b>	<b>\$ 1,107</b>	<b>\$ (9,739)</b>	<b>\$ 372,095</b>

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION  
For the Year Ended September 30, 2016  
(in thousands)

	NMDP	BTMB	Subtotal	BTMF	CLR	BTMBTS	Eliminations	Consolidated
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>								
Cash and cash equivalents	\$ 45,054	\$ 305	\$ 45,359	\$ 4,599	\$ 687	\$ 10	\$ -	\$ 50,655
Short-term investments	15,000	-	15,000	2,000	-	-	-	17,000
Receivables:								
Transplant center and other receivables, net	49,814	-	49,814	42	732	682	(2,486)	48,784
Contract receivables	7,093	76	7,169	-	-	-	-	7,169
Pledges receivable	-	-	-	136	-	-	-	136
Prepaid expenses and other	5,468	11	5,479	14	84	-	-	5,577
Total Current Assets	122,429	392	122,821	6,791	1,503	692	(2,486)	129,321
LONG-TERM INVESTMENTS	84,708	-	84,708	10,311	101	-	(1,620)	93,500
PROPERTY AND EQUIPMENT	113,265	-	113,265	-	-	-	-	113,265
DEFERRED COMPENSATION FUNDS	3,130	-	3,130	-	-	-	-	3,130
LONG-TERM PLEDGES RECEIVABLE	-	-	-	19	-	-	-	19
OTHER ASSETS	1,282	-	1,282	1,108	-	20	-	2,410
<b>TOTAL ASSETS</b>	<b>\$ 324,814</b>	<b>\$ 392</b>	<b>\$ 325,206</b>	<b>\$ 18,229</b>	<b>\$ 1,604</b>	<b>\$ 712</b>	<b>\$ (4,106)</b>	<b>\$ 341,645</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Accounts payable	\$ 26,066	\$ 20	\$ 26,086	\$ 173	\$ 18	\$ -	\$ (36)	\$ 26,241
Accrued expenses	18,326	191	18,517	2,157	678	6	(2,450)	18,908
Accrued compensation and benefits	13,357	-	13,357	134	-	-	-	13,491
Current maturities of long-term debt	5,895	-	5,895	-	-	70	-	5,965
Current maturities of long-term capital lease	2,377	-	2,377	-	-	-	-	2,377
Refundable advances and deferred revenue	6,157	-	6,157	-	808	-	-	6,965
Total Current Liabilities	72,178	211	72,389	2,464	1,504	76	(2,486)	73,947
DEFERRED COMPENSATION PAYABLE	3,133	-	3,133	-	-	-	-	3,133
LONG-TERM DEBT	18,310	-	18,310	-	-	507	-	18,817
LONG-TERM CAPITAL LEASE	55,998	-	55,998	-	-	-	-	55,998
<b>TOTAL LIABILITIES</b>	<b>149,619</b>	<b>211</b>	<b>149,830</b>	<b>2,464</b>	<b>1,504</b>	<b>583</b>	<b>(2,486)</b>	<b>151,895</b>
NET ASSETS	175,195	181	175,376	15,765	100	129	(1,620)	189,750
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 324,814</b>	<b>\$ 392</b>	<b>\$ 325,206</b>	<b>\$ 18,229</b>	<b>\$ 1,604</b>	<b>\$ 712</b>	<b>\$ (4,106)</b>	<b>\$ 341,645</b>

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES**

**CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION**

For the Year Ended September 30, 2017

(in thousands)

	NMDP	BTMB	Subtotal	BTMF	CLR	BTMBTS	Eliminations	Consolidated
<b>REVENUES AND GAINS:</b>								
Search and procurement fees	\$ 332,469	\$ 2,293	\$ 334,762	\$ -	\$ -	\$ -	\$ -	\$ 334,762
Federal contracts and cooperative agreements	42,113	-	42,113	-	-	-	-	42,113
Contributions	11,438	-	11,438	12,505	-	-	(7,976)	15,967
Other	722	74	796	-	1,089	-	(1,398)	487
Total Revenues and Gains	386,742	2,367	389,109	12,505	1,089	-	(9,374)	393,329
<b>EXPENSES:</b>								
Program services	305,106	1,646	306,752	11,612	926	-	(8,791)	310,499
Management and genera	55,133	2,329	57,462	1,434	165	516	(466)	59,111
Fundraising	839	-	839	1,050	-	-	(117)	1,772
Total Expenses	361,078	3,975	365,053	14,096	1,091	516	(9,374)	371,382
<b>EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES</b>	25,664	(1,608)	24,056	(1,591)	(2)	(516)	-	21,947
<b>OTHER INCOME AND EXPENSES</b>								
Loss on disposal of asset	(206)	-	(206)	-	-	-	-	(206)
Investment income	1,879	-	1,879	596	4	-	-	2,479
Change in unrealized appreciation on investment:	5,522	-	5,522	495	(2)	-	-	6,015
Total Other Income and Expenses	7,195	-	7,195	1,091	2	-	-	8,288
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>32,859</b>	<b>(1,608)</b>	<b>31,251</b>	<b>(500)</b>	<b>-</b>	<b>(516)</b>	<b>-</b>	<b>30,235</b>
Net Assets - Beginning of Year	175,195	181	175,376	15,765	100	129	(1,620)	189,750
Investment in Subsidiary	-	5,800	5,800	-	-	940	(6,740)	-
<b>NET ASSETS - End of Year</b>	<b>\$ 208,054</b>	<b>\$ 4,373</b>	<b>\$ 212,427</b>	<b>\$ 15,265</b>	<b>\$ 100</b>	<b>\$ 553</b>	<b>\$ (8,360)</b>	<b>\$ 219,985</b>

**NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES**

**CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION**

For the Year Ended September 30, 2016

(in thousands)

	NMDP	BTMB	Subtotal	BTMF	CLR	BTMBTS	Eliminations	Consolidated
<b>REVENUES AND GAINS:</b>								
Search and procurement fees	\$ 337,543	\$ 1,515	\$ 339,058	\$ -	\$ -	\$ -	\$ -	\$ 339,058
Federal contracts and cooperative agreements	41,747	-	41,747	-	-	-	-	41,747
Contributions	9,340	-	9,340	9,784	-	-	(6,876)	12,248
Other	735	59	794	-	981	-	(1,182)	593
Total Revenues and Gains	389,365	1,574	390,939	9,784	981	-	(8,058)	393,646
<b>EXPENSES:</b>								
Program services	312,191	1,027	313,218	8,467	827	-	(5,873)	316,639
Management and genera	54,730	1,176	55,906	1,508	154	581	(1,499)	56,650
Fundraising	1,279	-	1,279	1,180	-	-	(686)	1,773
Total Expenses	368,200	2,203	370,403	11,155	981	581	(8,058)	375,062
<b>EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES</b>	21,165	(629)	20,536	(1,371)	-	(581)	-	18,584
<b>OTHER INCOME AND EXPENSES</b>								
Loss on disposal of asset	(972)	-	(972)	-	-	-	-	(972)
Investment income	2,513	-	2,513	654	-	-	-	3,167
Change in unrealized appreciation on investment:	4,002	-	4,002	471	-	-	-	4,473
Total Other Income and Expenses	5,543	-	5,543	1,125	-	-	-	6,668
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>26,708</b>	<b>(629)</b>	<b>26,079</b>	<b>(246)</b>	<b>-</b>	<b>(581)</b>	<b>-</b>	<b>25,252</b>
Net Assets - Beginning of Year	148,487	-	148,487	16,011	100	-	(100)	164,498
Investment in Subsidiary	-	810	810	-	-	710	(1,520)	-
<b>NET ASSETS - End of Year</b>	<b>\$ 175,195</b>	<b>\$ 181</b>	<b>\$ 175,376</b>	<b>\$ 15,765</b>	<b>\$ 100</b>	<b>\$ 129</b>	<b>\$ (1,620)</b>	<b>\$ 189,750</b>