NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

Minneapolis, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2014 and 2013

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Marrow Donor Program and Subsidiary
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of National Marrow Donor Program and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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 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 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 financial position of National Marrow Donor Program and Subsidiary as of September 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The consolidated financial statements of National Marrow Donor Program and Subsidiary for the year ended September 30, 2013 were audited by other auditors whose report dated January 9, 2014 expressed an unmodified opinion on those statements.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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 it 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 13, 2015

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2014 and 2013
(in thousands)

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 55,839	$ 3,063	$ 58,902	$ 57,323	$ 3,626	$ 60,949
Receivables:						
Transplant center and other receivables - net of allowance of $170 and $230 in 2014 and 2013, respectively	43,552		43,552	45,595		45,595
Contract receivables	5,203		5,203	3,889		3,889
Pledges receivable (Note 2)		213	213	45	32	77
Prepaid expenses and other	5,189		5,189	4,242		4,242
Total Current Assets	109,783	3,276	113,059	111,094	3,658	114,752
LONG-TERM INVESTMENTS (Note 4)	89,998		89,998	71,523		71,523
FUNDS HELD FOR BOND RESERVE (Notes 4 and 5)	10,157		10,157	10,156		10,156
PROPERTY AND EQUIPMENT (Note 3)	68,544		68,544	71,355		71,355
DEFERRED COMPENSATION FUNDS (Note 8)	2,457		2,457	3,891		3,891
OTHER ASSETS	1,708	875	2,583	1,939	785	2,724
TOTAL ASSETS	**$ 282,647**	**$ 4,151**	**$ 286,798**	**$ 269,958**	**$ 4,443**	**$ 274,401**
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	$ 24,183	$ -	$ 24,183	$ 27,999	$ -	$ 27,999
Accrued expenses	22,312		22,312	23,459		23,459
Accrued compensation and benefits	13,605		13,605	12,081		12,081
Current maturities of long-term debt (Note 5)	4,535		4,535	4,360		4,360
Refundable advances and deferred revenue (Note 2)	6,169		6,169	2,351		2,351
Total Current Liabilities	70,804	-	70,804	70,250	-	70,250
DEFERRED COMPENSATION PAYABLE (Note 8)	2,460		2,460	3,900		3,900
LONG-TERM DEBT (Note 5)	58,643		58,643	63,351		63,351
TOTAL LIABILITIES	**131,907**	**-**	**131,907**	**137,501**	**-**	**137,501**
NET ASSETS	150,740	4,151	154,891	132,457	4,443	136,900
TOTAL LIABILITIES AND NET ASSETS	**$ 282,647**	**$ 4,151**	**$ 286,798**	**$ 269,958**	**$ 4,443**	**$ 274,401**

See accompanying notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2014 and 2013
(in thousands)

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND GAINS:						
Search and procurement fees	$ 330,905	$ -	$ 330,905	$ 331,439	$ -	$ 331,439
Federal contracts and cooperative agreements	43,748		43,748	45,623		45,623
Contributions	9,335	1,898	11,233	10,712	1,992	12,704
Other	968		968	1,112		1,112
Net assets released from restrictions	2,190	(2,190)	-	2,823	(2,823)	-
Total Revenues and Gains	387,146	(292)	386,854	391,709	(831)	390,878
EXPENSES:						
Program services	319,799		319,799	316,192		316,192
Management and general	47,693		47,693	43,684		43,684
Fundraising	5,357		5,357	5,684		5,684
Total Expenses	372,849	-	372,849	365,560	-	365,560
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES	14,297	(292)	14,005	26,149	(831)	25,318
OTHER INCOME AND EXPENSES						
Loss on disposal of asset	(3,184)		(3,184)	-		-
Investment income	3,370		3,370	1,945		1,945
Change in unrealized appreciation on investments	3,800		3,800	3,559		3,559
Total Other Income and Expenses	3,986	-	3,986	5,504	-	5,504
INCREASE (DECREASE) IN NET ASSETS	**18,283**	**(292)**	**17,991**	**31,653**	**(831)**	**30,822**
Net Assets - Beginning of Year	132,457	4,443	136,900	100,804	5,274	106,078
NET ASSETS - End of Year	**$ 150,740**	**$ 4,151**	**$ 154,891**	**$ 132,457**	**$ 4,443**	**$ 136,900**

See accompanying notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2014
(in thousands)

	Program Services					Support Services			
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	Total
Medical services	$ 187,835	$ -	$ -	$ -	$ 187,835	$ -	$ -	$ -	$ 187,835
Donor recruitment services	-	24,817	-	-	24,817	-	-	-	24,817
Compensation	23,560	6,332	11,968	8,464	50,324	18,022	2,335	20,357	70,681
Benefits	6,675	1,711	3,174	1,852	13,412	4,642	581	5,223	18,635
Professional fees	4,144	1,896	6,840	6,553	19,433	3,424	814	4,238	23,671
Travel	1,295	767	991	523	3,576	1,137	629	1,766	5,342
Professional development	247	47	118	96	508	388	17	405	913
Occupancy	723	418	202	110	1,453	5,866	116	5,982	7,435
Telecommunications	34	1	1	1	37	1,034	-	1,034	1,071
Information processing	72	59	45	50	226	6,747	-	6,747	6,973
Printing and copying	438	351	54	401	1,244	174	497	671	1,915
Postage and shipping	586	135	84	211	1,016	93	56	149	1,165
Office and miscellaneous	2,275	1,640	980	1,943	6,838	6,166	312	6,478	13,316
Research activities	973	292	7,815	-	9,080	-	-	-	9,080
Total Expenses	**$ 228,857**	**$ 38,466**	**$ 32,272**	**$ 20,204**	**$ 319,799**	**$ 47,693**	**$ 5,357**	**$ 53,050**	**$ 372,849**

See accompanying notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2013
(in thousands)

	Program Services					Support Services			
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	Total
Medical services	$ 189,169	$ -	$ -	$ 545	$ 189,714	$ -	$ -	$ -	$ 189,714
Donor recruitment services		28,928			28,928			-	28,928
Compensation	20,039	5,126	10,683	6,332	42,180	16,880	2,344	19,224	61,404
Benefits	5,221	1,304	2,625	1,651	10,801	4,318	622	4,940	15,741
Professional fees	4,489	3,067	7,678	7,490	22,724	3,245	996	4,241	26,965
Travel	1,205	754	986	505	3,450	1,067	575	1,642	5,092
Professional development	117	28	145	73	363	287	34	321	684
Occupancy	709	464	223	147	1,543	5,321	126	5,447	6,990
Telecommunications	141	43	30	17	231	844	33	877	1,108
Information processing	67	45	82	36	230	5,354	1	5,355	5,585
Printing and copying	388	391	39	435	1,253	144	483	627	1,880
Postage and shipping	574	52	86	200	912	101	49	150	1,062
Office and miscellaneous	1,444	989	666	1,307	4,406	6,123	421	6,544	10,950
Research activities			9,457		9,457			-	9,457
Total Expenses	**$ 223,563**	**$ 41,191**	**$ 32,700**	**$ 18,738**	**$ 316,192**	**$ 43,684**	**$ 5,684**	**$ 49,368**	**$ 365,560**

See accompanying notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2014 and 2013
(in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 17,991	$ 30,822
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization/accretion	10,764	8,165
Loss on disposal/abandonment of property and equipment	3,184	1,065
Net realized and unrealized appreciation of investments	(5,051)	(3,545)
Changes in other operating activities:		
Receivables	589	(985)
Prepaid expenses and other assets	(766)	(235)
Accounts payable	(3,462)	15,391
Accrued expenses	2,024	(2,550)
Refundable advances and deferred revenue	2,346	(279)
Deferred compensation payable	241	796
Net cash provided by operating activities	27,860	48,645
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(30,346)	(4,744)
Sales/maturities of investments	16,835	19,838
Purchase of property, computer software and equipment	(11,801)	(22,100)
Proceeds from sale of property and equipment	12	20
Purchases of deferred compensation funds	(247)	(836)
Sales of deferred compensation funds	-	42
Net cash used in investing activities	(25,547)	(7,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(4,360)	-
Net cash used in financing activities	(4,360)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,047)**	**40,865**
CASH AND CASH EQUIVALENTS - Beginning of Year	60,949	20,084
CASH AND CASH EQUIVALENTS - End of Year	**$ 58,902**	**$ 60,949**
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Purchase of property and equipment funded through accounts payable and accrued expenses	$ 1,296	$ 1,825

See accompanying notes to consolidated financial statements.

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 nonprofit organization matches patients with donors, educates health care professionals and conducts research so more lives can be saved. The 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.

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® is operated by the NMDP. For more information, visit BeTheMatchFoundation.org.

The NMDP receives additional funding through multiple contracts with the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services to cover qualified expenses, as defined. The NMDP also obtains funding under grants with the Office of Naval Research (ONR), an organization of the Department of the Navy (the "Navy") for certain blood-typing and research costs and contributions from BTMF to pay for donor-typing costs. The NMDP also receives funding through agreements with the Medical College of Wisconsin, Inc. (MCW), for qualified expenditures, as defined, in conjunction with work performed on research collaborations.

The consolidated financial statements include the accounts of the NMDP and BTMF (collectively, the "Organization"), after elimination of intercompany accounts and transactions, in as much as the NMDP is the sole corporate member of BTMF, as set forth in BTMF's bylaws.

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.

Investments and Investment Income - Long-term investments consist of investments that are not intended to be liquidated over the next 12 months. All investments are stated at fair value, as determined by quoted market prices. 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 BTMF and NMDP are reported at fair value at the date the promise is received. Conditional promises to give and intentions 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, 2014 and 2013, there was no allowance for uncollectibles against the pledges receivable recorded. Pledges due in greater than one year are recorded as other assets in the consolidated statements of financial position.

As of September 30, 2014 and 2013, the expected future cash receipts of pledges receivable are as follows (in thousands):

	2014	2013
Pledges due - Less than one year	$ 213	$ 77
Pledges due - More than one year*	4	-
Total Pledges	$ 217	$ 77

*included with other assets in long-term section of statement of financial position

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 $871,000 and $785,000 as of September 30, 2014 and 2013, 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. Leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets.

Capitalized Software Costs - The Organization capitalizes software development costs incurred in upgrading computer software and begins capitalization of these costs after technological feasibility has been determined. The capitalized software, 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 each series of debt are deferred and amortized/accreted over the related terms using the straight-line method, which approximates the effective interest method. Accumulated amortization of premiums was $1,013,000 and $776,000 at September 30, 2014 and 2013, respectively. Accumulated accretion of discounts was $266,000 and $202,000 at September 30, 2014 and 2013, respectively.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Debt Issuance Costs - Debt issuance costs associated with each series of debt are capitalized and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Accumulated amortization of debt issuance costs was $207,000 and $158,000 at September 30, 2014 and 2013, respectively. Unamortized debt issuance costs are included in other assets in the consolidated statements of financial position. The total unamortized debt issuance cost was $541,000 and $590,000 at September 30, 2014 and 2013, 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. In 2014, the assumptions used for developing the liability for unpaid medical services were adjusted, and the change increased net assets by approximately $2,300,000. The Program's estimated liability for unpaid medical services totaled approximately $30,000,000 and $25,000,000 at September 30, 2014 and 2013, respectively. Actual results could differ from these estimates.

Approximately $11,000,000 and $19,000,000 of the liability for unpaid medical services is included in accounts payable and accrued expenses in the consolidated statements of financial position as of September 30, 2014. Approximately $9,000,000 and $16,000,000 of the liability for unpaid medical services is included in accounts payable and accrued expenses in the consolidated statements of financial position as of September 30, 2013.

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, 2014 and 2013.

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 and intentions 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, Centers for Disease Control and Prevention (CDC), 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 or 2013. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2011 through 2013 are open to examination by federal authorities.

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 expected net cash flows expected to be provided by operating activities of the business or related products. 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. Although no impairment losses were recorded in fiscal 2014 and 2013, the Program did record an abandonment charge of $1,074,000 in fiscal 2013 related to the write-off of previously recorded work in process costs, which has been recorded in various expense accounts on the statement of activities.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events - The Organization has considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to September 30, 2014 through January 13, 2015, the date the consolidated financial statements were issued.

Recent Accounting Pronouncements

In April 2013, the FASB issued ASU No. 2013-06, *Not for Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, requiring a not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit. ASU No. 2013-06 is effective for the Organization for the year ending September 30, 2015. The Organization is currently assessing the impact of the new guidance, but does not believe it will have a material impact on the consolidated financial statements.

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, 2017 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.

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, 2014 and 2013, is as follows (in thousands):

	2014	2013
Furniture and equipment	$ 22,158	$ 20,765
Leasehold improvements	5,340	5,188
Software	65,806	62,627
Work in process	7,539	6,856
	100,843	95,436
Less accumulated depreciation and amortization	(32,299)	(24,081)
Property and equipment - net	$ 68,544	$ 71,355

Work in process includes the acquisition, development, installation, and implementation of computer hardware, database licenses, application licenses, and packaged and customized computer software. The Organization's depreciation and amortization expense during the years ended September 30, 2014 and 2013, was $10,887,000 and $8,295,000, respectively, and is recorded in office and miscellaneous in the consolidated statements of functional expenses.

NOTE 4 – INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

The types of investments held as of September 30, 2014 and 2013, were as follows (in thousands):

	2014	2013
Mutual funds	$ 89,998	$ 67,925
Money market funds	10,157	13,754
	$ 100,155	$ 81,679
Reported as:		
Long-term investments	$ 89,998	$ 71,523
Funds held for bond reserve	10,157	10,156
	$ 100,155	$ 81,679

The summary of the investment return for the years ended September 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Interest income, net	$ 2,119	$ 1,959
Realized gain (loss) on investments	1,251	(14)
	3,370	1,945
Change in unrealized appreciation on investments	3,800	3,559
Total investment return	$ 7,170	$ 5,504

Interest income is net of fees of $61,000 and $55,000 for the years ended September 30, 2014 and 2013, respectively. 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 carrying values of cash and cash equivalents, transplant center and other receivables, contract receivables, pledges receivable, accounts payable, accrued expenses, accrued compensation and benefits, and refundable advances approximate fair value due to their short-term nature. Long-term debt is carried at carrying value, which approximates fair value. The estimated fair value of long-term debt is considered Level 2 based on market assumptions, including current market transactions. Marketable securities are carried at fair value.

NOTE 4 – INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS (continued)

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.

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, 2014 and 2013.

NOTE 4 – INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and 2013, by type of inputs applicable to the fair value measurements, are summarized as follows:

	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 10,157	$ -	$ -	$ 10,157
Mutual funds				
Domestic equities	41,105			41,105
International equities	13,236			13,236
Fixed income	31,832			31,832
Other	3,825			3,825
Total mutual funds	89,998	-	-	89,998
Total investments	$ 100,155	$ -	$ -	$ 100,155
Deferred compensation funds	$ 4,677	$ -	$ -	$ 4,677
Other assets - funds held by others	$ -	$ -	$ 871	$ 871

	2013			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 13,754	$ -	$ -	$ 13,754
Mutual funds				
Domestic equities	32,153			32,153
International equities	11,208			11,208
Fixed income	21,893			21,893
Other	2,671			2,671
Total mutual funds	67,925	-	-	67,925
Total investments	$ 81,679	$ -	$ -	$ 81,679
Deferred compensation funds	$ 3,891	$ -	$ -	$ 3,891
Other assets - funds held by others	$ -	$ -	$ 785	$ 785

NOTE 4 – INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS (continued)

The change in fair value of the Organization's Level 3 investment for the years ended September 30, 2014 and 2013, is summarized as follows:

	2014	2013
Beginning fair value - October 1	$ 785	$ 596
Contributions	10	102
Fees	(6)	(5)
Unrealized gains	82	92
Ending fair value - September 30	$ 871	$ 785

NOTE 5 – LONG-TERM DEBT

A summary of long-term debt as of September 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Revenue bonds- Series 2010	$ 63,280	$ 67,640
Plus Revenue bonds - Series 2010 premiums	436	673
Less Revenue bonds - Series 2010 discounts	(538)	(602)
Total debt	63,178	67,711
Less current maturities of long-term debt	(4,535)	(4,360)
Long-term portion	$ 58,643	$ 63,351

The City of Minneapolis, Minnesota, issued Revenue Bonds, National Marrow Donor Program Project - Series 2010 ("Series 2010 Bonds") on behalf of the Organization for $67,640,000 for the acquisition, development, installation, and implementation of computer hardware, database licenses, application licenses, packaged and customized computer software, and related items (the "Project"), which commenced on August 1, 2010, and was completed in 2014. The Series 2010 Bonds were issued on August 16, 2010, and have a final maturity date of August 1, 2025.

Interest rates are fixed based on the serial or term bond maturity date within the Series 2010 Bonds. Interest rates range from 4% to 5%. Interest is payable semiannually on February 1 and August 1. The Organization incurred and paid $3,018,000 of interest expense during the year ended September 30, 2014, of which $3,015,000 was capitalized net of interest income of $3,000. The Organization incurred $2,937,000 of interest expense during the year ended September 30, 2013, of which $2,929,000 was capitalized net of interest income of $8,000.

NOTE 5 – LONG-TERM DEBT (continued)

The Series 2010 Bonds are secured by a security interest in certain tangible and intangible personal property of the Organization, subject to certain excluded property and permitted encumbrances, granted pursuant to a Security Agreement, dated August 1, 2010. The Series 2010 Bonds are 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 Security Agreement, dated August 1, 2010. In addition to certain nonfinancial covenants, the Organization is required to maintain a debt service coverage ratio of no less than 1.2 to 1. The debt service coverage ratio is calculated as income available for debt service for such period to the maximum annual debt service requirement for such period. The Organization was in compliance with the debt service coverage ratio at September 30, 2014 and 2013.

The Organization is required to maintain a reserve and a secondary reserve related to the Series 2010 Bonds. The Organization's reserve requirement is equal to the lesser of (i) 10% of the proceeds of the Series 2010 Bonds, (ii) 125% of the average annual debt service on the Series 2010 Bonds, or (iii) the maximum annual debt service with respect to the Series 2010 Bonds. The required reserve is $6,764,000 at September 30, 2014 and 2013. The Organization's required secondary reserve is $3,382,000 at September 30, 2014 and 2013. The secondary reserve is equal to 5% of the principal amount of the Series 2010 Bonds; provided, however, that the secondary reserve requirement shall be reduced to $1,691,000 if, after any full fiscal year following the completion of the Project, the debt service coverage ratio exceeds 1.50. The secondary reserve requirement shall be reduced to zero in the event the debt service coverage ratio exceeds 1.50 for any two consecutive fiscal years following the completion of the Project.

At September 30, 2014, maturities of long-term debt for each of the fiscal years ending September 30, 2015 to 2019, and thereafter, are as follows (in thousands):

2015	$	4,535
2016		4,720
2017		4,955
2018		5,200
2019		5,460
Thereafter		38,410
		63,280
Premiums and discounts, net		(102)
Total	$	63,178

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, 2014 and 2013, were as follows (in thousands):

	2014	2013
Navy grants	$ 18,372	$ 19,916
HRSA contracts	16,146	17,410
MCW sub-award agreements – BMTCTN	5,019	4,352
MCW sub-award agreements – other	3,556	2,832
NIH agreements	311	1,113
Other	344	-
	$ 43,748	$ 45,623

In September 2012, the HRSA awarded three contracts to the Organization with a one-year base period of performance and four one-year options. The three contracts awarded are to operate the Bone Marrow Coordinating Center (#HHSH250201200024C), Cord Blood Coordinating Center (#HHSH250201200018C) and the Office of Patient Advocacy/Single Point of Access (#HHSH250201200017C) with a base period of performance of September 30, 2012 to September 29, 2013 for all three contracts. The first one-year option was awarded for all three contracts with a period of performance of September 30, 2013 to September 29, 2014. The second one-year option was awarded for all three contracts with a period of performance of September 30, 2014 to September 29, 2015.

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 $255,000 and $250,000 for the years ended September 30, 2014 and 2013, respectively. 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 $3,854,000 and $3,445,000 for the years ended September 30, 2014 and 2013, 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.

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. The after-tax contributions into the executive savings plan accumulate tax-free and may be distributed without taxation on gains. 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, 2014 and 2013, were available for the following purposes (in thousands):

	2014	2013
Foundation:		
Donor recruitment	$ 1,835	$ 2,274
Patient assistance	691	789
Research	1,156	1,270
Special programs and other	469	110
	$ 4,151	$ 4,443

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 has included within the financial statements their best estimate of the liability relating to such items. Actual results could differ from those estimates.

Lease Commitments - The Organization leases space under noncancelable operating leases with expiration dates through fiscal 2018. Total rent expense under all operating lease agreements was $3,923,000 and $3,969,000 for the years ended September 30, 2014 and 2013, 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, 2014, were as follows (in thousands):

2015	$ 3,911
2016	1,278
2017	185
2018	34
Total	$ 5,408

New Facility – 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 will be the new headquarters of the Organization with an anticipated lease start date of January 1, 2016. The current building lease ends December 31, 2015. The term of the lease is fifteen years with cumulative base rent payments approximating $85,000,000. The Organization has the option to extend the lease term for three additional periods of seven years each. The Organization will record the capital lease asset and capital lease obligation at the beginning of the lease term at an amount equal to the present value of the of the minimum lease payments incurred during the lease term.

ADDITIONAL CONSOLIDATING INFORMATION

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION
For the Year Ended September 30, 2014
(in thousands)

	NMDP	BTMF	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 50,751	$ 8,151	$ -	$ 58,902
Receivables:				
Transplant center and other receivables	45,715	5	(2,168)	43,552
Contract receivables	5,203			5,203
Pledges receivable	35	695	(517)	213
Prepaid expenses and other	5,174	15		5,189
Total Current Assets	106,878	8,866	(2,685)	113,059
LONG-TERM INVESTMENTS	76,870	13,128		89,998
FUNDS HELD FOR BOND RESERVE	10,157			10,157
PROPERTY AND EQUIPMENT	68,521	23		68,544
DEFERRED COMPENSATION FUNDS	2,457			2,457
OTHER ASSETS	1,707	876		2,583
TOTAL ASSETS	**$ 266,590**	**$ 22,893**	**$ (2,685)**	**$ 286,798**
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 23,946	$ 237	$ -	$ 24,183
Accrued expenses	22,301	2,696	(2,685)	22,312
Accrued compensation and benefits	13,316	289		13,605
Current maturities of long-term debt	4,535			4,535
Refundable advances and deferred revenue	6,169			6,169
Total Current Liabilities	70,267	3,222	(2,685)	70,804
DEFERRED COMPENSATION PAYABLE	2,460			2,460
LONG-TERM DEBT	58,643			58,643
NET ASSETS	135,220	19,671		154,891
TOTAL LIABILITIES AND NET ASSETS	**$ 266,590**	**$ 22,893**	**$ (2,685)**	**$ 286,798**

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION
For the Year Ended September 30, 2013
(in thousands)

	NMDP	BTMF	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 52,319	$ 8,630	$ -	$ 60,949
Receivables:				
Transplant center and other receivables	46,298	60	(763)	45,595
Contract receivables	3,889			3,889
Pledges receivable		505	(428)	77
Prepaid expenses and other	4,223	19		4,242
Total Current Assets	106,729	9,214	(1,191)	114,752
LONG-TERM INVESTMENTS	59,505	12,018		71,523
FUNDS HELD FOR BOND RESERVE	10,156			10,156
PROPERTY AND EQUIPMENT	71,314	41		71,355
DEFERRED COMPENSATION FUNDS	3,891			3,891
OTHER ASSETS	1,938	786		2,724
TOTAL ASSETS	**$ 253,533**	**$ 22,059**	**$ (1,191)**	**$ 274,401**
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 27,690	$ 309	$ -	$ 27,999
Accrued expenses	23,165	1,485	(1,191)	23,459
Accrued compensation and benefits	11,781	300		12,081
Current maturities of long-term debt	4,360			4,360
Refundable advances and deferred revenue	2,351			2,351
Total Current Liabilities	69,347	2,094	(1,191)	70,250
DEFERRED COMPENSATION PAYABLE	3,900			3,900
LONG-TERM DEBT	63,351			63,351
NET ASSETS	116,935	19,965		136,900
TOTAL LIABILITIES AND NET ASSETS	**$ 253,533**	**$ 22,059**	**$ (1,191)**	**$ 274,401**

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION
For the Year Ended September 30, 2014
(in thousands)

	NMDP	BTMF	Eliminations	Consolidated
REVENUES AND GAINS:				
Search and procurement fees	$ 330,905	$ -	$ -	$ 330,905
Federal contracts and cooperative agreements	43,748			43,748
Contributions	7,975	12,778	(9,520)	11,233
Other	968			968
Total Revenues and Gains	383,596	12,778	(9,520)	386,854
EXPENSES:				
Program services	315,808	11,061	(7,070)	319,799
Management and general	47,674	1,781	(1,762)	47,693
Fundraising	4,621	1,424	(688)	5,357
Total Expenses	368,103	14,266	(9,520)	372,849
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES	15,493	(1,488)	-	14,005
OTHER INCOME AND EXPENSES				
Loss on disposal of asset	(3,184)	-		(3,184)
Investment income	2,826	544		3,370
Change in unrealized appreciation on investments	3,150	650		3,800
Total Other Income and Expenses	2,792	1,194	-	3,986
INCREASE (DECREASE) IN NET ASSETS	**18,285**	**(294)**	**-**	**17,991**
Net Assets - Beginning of Year	116,935	19,965	-	136,900
NET ASSETS - End of Year	**$ 135,220**	**$ 19,671**	**$ -**	**$ 154,891**

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION
For the Year Ended September 30, 2013
(in thousands)

	NMDP	BTMF	Eliminations	Consolidated
REVENUES AND GAINS:				
Search and procurement fees	$ 331,439	$ -	$ -	$ 331,439
Federal contracts and cooperative agreements	45,623			45,623
Contributions	9,430	14,278	(11,004)	12,704
Other	1,102	10		1,112
Total Revenues and Gains	387,594	14,288	(11,004)	390,878
EXPENSES:				
Program services	314,097	9,966	(7,871)	316,192
Management and general	43,664	1,984	(1,964)	43,684
Fundraising	4,989	1,864	(1,169)	5,684
Total Expenses	362,750	13,814	(11,004)	365,560
EXCESS OF REVENUES AND GAINS OVER EXPENSES	24,844	474	-	25,318
OTHER INCOME AND EXPENSES				
Investment income	1,491	454		1,945
Change in unrealized appreciation on investments	2,926	633		3,559
Total Other Income and Expenses	4,417	1,087	-	5,504
INCREASE IN NET ASSETS	**29,261**	**1,561**	**-**	**30,822**
Net Assets - Beginning of Year	87,674	18,404	-	106,078
NET ASSETS - End of Year	**$ 116,935**	**$ 19,965**	**$ -**	**$ 136,900**