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THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
The Leukemia & Lymphoma Society, Inc.:

We have audited the accompanying consolidated statement of financial position of The Leukemia & Lymphoma Society, Inc. (the Society) as of June 30, 2008, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2007 consolidated financial statements and, in our report dated October 24, 2007, we expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Leukemia & Lymphoma Society, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 20, 2008

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Financial Position
June 30, 2008
(with comparative amounts at June 30, 2007)
(in thousands)

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 36,180	\$ 47,770
Accounts receivable	1,360	1,686
Legacies and contributions receivable (note 2)	7,167	4,321
Prepaid expenses	4,807	4,711
Investments, at fair value (note 3)	162,978	145,717
Fixed assets, less accumulated depreciation and amortization of \$12,069 and \$10,435	<u>5,148</u>	<u>4,656</u>
Total assets	<u>\$ 217,640</u>	<u>\$ 208,861</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,700	\$ 19,160
Deferred revenue	17,174	15,258
Grants payable (note 4)	<u>81,670</u>	<u>77,245</u>
Total liabilities	<u>119,544</u>	<u>111,663</u>
 Net assets:		
Unrestricted	83,085	85,691
Temporarily restricted (note 8)	11,932	8,634
Permanently restricted (note 8)	<u>3,079</u>	<u>2,873</u>
Total net assets	<u>98,096</u>	<u>97,198</u>
Total liabilities and net assets	<u>\$ 217,640</u>	<u>\$ 208,861</u>

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Activities
Year ended June 30, 2008
(with summarized totals for the year ended June 30, 2007)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2008	2007
Revenue					
Campaign contributions	\$ 282,816	\$ 21,459	\$ 142	\$ 304,417	\$ 292,036
Less direct donor benefit costs	(42,541)	-	-	(42,541)	(42,455)
Net campaign contributions	240,275	21,459	142	261,876	249,581
Legacies	6,137	-	-	6,137	4,937
Donated services (note 1)	5,740	-	-	5,740	5,051
Net interest and dividend income (note 3)	7,015	179	10	7,204	6,251
Net (decrease) increase in fair value of investments	(4,983)	90	54	(4,839)	7,478
Grant refunds	966	-	-	966	1,304
Net assets released from restrictions	18,430	(18,430)	-	-	-
Total revenue	273,580	3,298	206	277,084	274,602
Expenses (note 9)					
<i>Program Services:</i>					
Research	76,979	-	-	76,979	69,269
Patient and community service	77,686	-	-	77,686	66,844
Public health education	42,094	-	-	42,094	38,379
Professional education	8,433	-	-	8,433	7,931
Total program services	205,192	-	-	205,192	182,423
<i>Supporting Services:</i>					
Management and general	24,942	-	-	24,942	23,663
Fund raising	46,052	-	-	46,052	44,180
Total supporting services	70,994	-	-	70,994	67,843
Total expenses	276,186	-	-	276,186	250,266
Change in net assets	(2,606)	3,298	206	898	24,336
Net Assets					
Beginning of year	85,697	8,634	2,873	97,198	72,862
End of year	\$ 83,085	\$ 11,932	\$ 3,079	\$ 98,096	\$ 97,198

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Cash Flows
Year ended June 30, 2008
(with comparative amounts for the year ended June 30, 2007)
(in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 898	\$ 24,336
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Net decrease (increase) in fair value of investments	4,839	(7,478)
Permanently restricted revenue collected	(142)	(2)
Depreciation and amortization	1,825	1,578
Changes in operating assets and liabilities:		
Accounts receivable	326	(1,037)
Legacies and contributions receivable	(2,846)	1,808
Prepaid expenses	(96)	351
Accounts payable and accrued expenses	1,540	(96)
Deferred revenue	1,916	2,455
Grants payable	4,425	7,245
Net cash provided by operating activities	<u>12,685</u>	<u>29,160</u>
Cash flows from investing activities:		
Purchases of fixed assets	(2,317)	(1,985)
Purchases of investments	(200,376)	(160,144)
Sales of investments	178,276	130,598
Net cash used in investing activities	<u>(24,417)</u>	<u>(31,531)</u>
Cash flows from financing activities:		
Permanently restricted contributions collected	142	2
Net cash provided by financing activities	<u>142</u>	<u>2</u>
Net decrease in cash and cash equivalents	(11,590)	(2,369)
Cash and cash equivalents at beginning of year	47,770	50,139
Cash and cash equivalents at end of year	<u><u>\$ 36,180</u></u>	<u><u>\$ 47,770</u></u>

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Functional Expenses
Year ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)
(in thousands)

	Program Services					Supporting Services					Direct donor benefit costs	
	Research	Patient and community service	Public health education	Professional education	Total	Management and general	Fund raising	Total	Total			
									2008	2007	2008	2007
Awards and grants	\$69,134	\$ -	\$ -	\$ -	\$69,134	\$ -	\$ -	\$ -	\$69,134	\$65,939	\$ -	\$ -
Therapy acceleration program (note 5)	3,941	-	-	-	3,941	-	-	-	3,941	601	-	-
Financial aid to patients	-	6,545	-	-	6,545	-	-	-	6,545	5,890	-	-
Co-pay assistance	-	4,560	-	-	4,560	-	-	-	4,560	113	-	-
Donated services	1,036	4,704	-	-	5,740	-	-	-	5,740	5,051	-	-
Salaries	1,327	30,689	15,359	4,418	51,793	8,623	9,947	18,570	70,363	64,331	-	-
Employee benefits and taxes (note 6)	160	7,153	4,247	1,179	12,739	2,162	3,119	5,281	18,020	16,249	-	-
Occupancy	20	3,395	2,138	618	6,171	1,147	1,409	2,556	8,727	8,127	-	-
Insurance	9	278	193	42	522	84	162	246	768	695	-	-
Telephone	29	2,613	1,153	189	3,984	372	1,359	1,731	5,715	5,110	-	-
Travel	67	1,212	742	223	2,244	432	502	934	3,178	3,135	15,183	14,605
Printing and supplies	183	2,895	6,513	381	9,972	4,166	10,170	14,336	24,308	23,530	6,201	6,536
Equipment rentals and maintenance	14	893	580	154	1,641	286	428	714	2,355	1,982	-	-
Postage and shipping	89	1,091	4,347	162	5,689	2,206	7,372	9,578	15,267	15,163	-	-
Meetings	569	2,652	1,255	305	4,781	560	662	1,222	6,003	5,660	8,914	8,875
Professional fees	372	7,868	4,840	569	13,649	4,496	10,346	14,842	28,491	26,203	5,280	6,893
Miscellaneous	10	464	278	85	837	211	198	409	1,246	909	6,963	5,546
Depreciation and amortization	19	674	449	108	1,250	197	378	575	1,825	1,578	-	-
Total expenses	\$76,979	\$77,686	\$42,094	\$8,433	\$205,192	\$24,942	\$46,052	\$70,994	\$276,186	\$250,266	\$42,541	\$42,455

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

1. Organization and Significant Accounting Policies

Organization

The Leukemia & Lymphoma Society, Inc. (the "Society") is an international not-for-profit health agency dedicated to seeking the cause and cure of leukemia, lymphoma, Hodgkin's disease and myeloma and improving the quality of life of patients and their families. The Society's principal activities include: awarding research grants; facilitating psychosocial support groups; providing financial aid to patients; answering phone requests for blood cancer information made to the Society's Information Resource Center; and disseminating educational information about blood cancers in the form of publications, internet sites, conference calls and symposia sponsorship for both the medical community and the general public.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Society, which encompasses the Home Office of the Society and its sixty-five chapters, The Leukemia & Lymphoma Society of Canada, Inc. ("LLSC"), and the Society's not-for-profit affiliates, The Leukemia & Lymphoma Society Research Programs, Inc. and The Leukemia & Lymphoma Society Research Foundation. All significant inter-company and intra-Society accounts and transactions have been eliminated in consolidation.

Tax-Exempt Status

The Society qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since the Society is publicly-supported, contributions to the Society qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

LLSC is registered as a charitable organization under the Income Tax Act (Canada) and is therefore not subject to income taxes if certain disbursement requirements are met.

Risks and Uncertainties

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

1. Continued

Net Asset Classifications

To ensure observance of limitations and restrictions placed on the use of resources available to the Society, funds that have similar characteristics have been classified into three net asset categories as follows:

Unrestricted net assets: Consist of funds that are fully available, at the discretion of the Board of Directors, for the Society to utilize in any of its programs or supporting services.

Temporarily restricted net assets: Consist of funds that are restricted by donors for a specific time period or purpose, as well as amounts relating to term endowment or deferred giving arrangements in which the funds must be maintained intact over the lifetimes of the donors.

Permanently restricted net assets: Consist of funds that contain donor-imposed restrictions requiring that the principal be invested in perpetuity and that only the income be used. Income earned on these funds may be unrestricted or temporarily restricted, depending upon the donor-imposed restrictions.

Contributions and Deferred Revenue

Contributions are recorded as revenue, at their fair value, when received or promised unconditionally. Contributions received with donor restrictions that limit their use are reported as either temporarily or permanently restricted revenue. When a donor restriction is met through the passage of time or fulfillment of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional contributions are recognized as revenue when the conditions have been substantially met.

Deferred revenue includes amounts received for special events that will be held subsequent to the fiscal year-end.

Donated Services

The Society has determined that certain of the donated services it receives meet the criteria for recognition in the financial statements. Specifically, the donated services of family support group facilitators and research grant reviewers have been valued and are reported as both revenue and expense.

Cash Equivalents

Cash equivalents consist of short-term investments with a maturity of three months or less from date of purchase, except for amounts held for long-term purposes reported as investments.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

1. Continued

Fixed Assets and Depreciation

Fixed assets, which consist principally of equipment, software, and leasehold improvements, are recorded at cost, if purchased, or at fair value at date of donation, if contributed, and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the terms of the leases, if shorter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Society's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Summarized Financial Information

The financial statements are presented with 2007 summarized or comparative information. With respect to the statement of activities, such prior year information is not presented by net asset class and, in the statement of functional expenses, 2007 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the Society's 2007 consolidated financial statements from which the summarized information was derived. Certain reclassifications have been made to the 2007 comparative information to conform to the current year presentation.

Recent Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which will be effective for the Society's fiscal year ending June 30, 2009. FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. The adoption of FIN 48 is not expected to have a material effect on the Society's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 will be effective for the Society's fiscal year ending June 30, 2009. The adoption of SFAS 157 is not expected to have a material impact on the Society's financial statements; however, the adoption of SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements, and the impact of certain measurements on the statement of activities.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

1. Continued

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance will be effective for the Society's fiscal year ending June 30, 2009. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA so the Society will not have to reclassify its net assets, if required, until such time. However, for the year ending June 30, 2009, the Society will have to adopt certain of the disclosure requirements of the FSP.

2. Legacies and Contributions Receivable

The Society's legacies and contributions receivable at June 30, 2008 and 2007 consist of unconditional promises to give and legacies for which the underlying wills have been declared valid by the probate court and no other conditions are required to be met. Amounts are scheduled to be received as follows (in thousands):

	2008	2007
Less than one year	\$ 4,886	\$ 3,197
1 to 5 years	2,118	622
After 5 years	445	778
	<u>7,449</u>	<u>4,597</u>
Less discount to present value (discount rate - 5%)	(282)	(276)
Total	<u>\$ 7,167</u>	<u>\$ 4,321</u>

3. Investments

The following is a summary of investments at June 30, 2008 and 2007 (in thousands):

	2008		2007	
	Cost or Donated Value	Fair Value	Cost or Donated Value	Fair Value
Money market funds	\$939	\$939	\$1,419	\$1,419
Corporate notes and bonds	67,425	67,156	42,744	42,323
Common stocks and mutual funds	33,057	33,301	29,072	35,395
Government obligations	40,532	41,199	47,409	47,186
Other	22,130	20,383	17,309	19,394
Total	<u>\$164,083</u>	<u>\$162,978</u>	<u>\$137,953</u>	<u>\$145,717</u>

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

3. Continued

Debt and equity securities are recorded at fair value as determined by quoted market prices. Mutual funds are recorded at fair value using published unit values. Other investments at June 30, 2008 and 2007, consist principally of limited partnerships, the underlying holdings of which are principally marketable securities. Investment expenses of \$416,000 and \$436,000 have been netted against interest and dividend income for the years ended June 30, 2008 and 2007, respectively.

4. Awards and Grants

Awards and grants for research are recognized as expense in the year approved by the Society's Board of Directors. Multi-year grants, which are generally two to five years in length, are approved on an annual basis and may be terminated at the discretion of the Society's Board of Directors. In addition to unconditional grants payable of \$81,670,000 at June 30, 2008, the Society has grant commitments of \$110,077,000 that are conditioned upon future events and, accordingly, are not recorded.

5. Therapy Acceleration Program ("TAP")

TAP is the Society's new strategic initiative to speed the development of blood-cancer treatments and supportive diagnostics by creating business alliances with biotechnology and pharmaceutical companies. TAP provides funding for Investigational New Drug-enabling ("IND-enabling") studies and clinical-stage projects. TAP contracts are recognized as an expense in the year program milestones are achieved. Multi-year contracts, which are generally two to three years in length, are reviewed against milestones on a quarterly basis and may be terminated at the discretion of the Society's Board of Directors. The Society has contract commitments of \$9,500,000 at June 30, 2008 conditioned upon future events and, accordingly are not recorded.

6. Pension Plan

The Society has a noncontributory, defined contribution 403(b) pension plan covering all employees meeting age and service requirements. Contributions are based on a percentage of each eligible employee's salary and years of service. Expense under this plan aggregated \$3,780,000 and \$3,133,000 for the years ended June 30, 2008 and 2007, respectively.

On July 1, 2006, the Society adopted a 457 Deferred Compensation Plan (the "457 Plan"), for its executive staff. The 457 Plan is a nonqualified deferred compensation plan subject to the provisions of the Internal Revenue Code Section 457. Expenses under this plan approximated \$134,000 and \$194,000 for the years ended June 30, 2008 and 2007, respectively. The assets and liabilities of this plan are included in investments and accounts payable in the accompanying statement of financial position and amounted to approximately \$314,000 and \$285,000 for the years ended June 30, 2008 and 2007, respectively.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

(with comparative amounts as of and for the year ended June 30, 2007)

7. Lease Commitments

The leases for premises which the Society's Home Office and chapters occupy expire on various dates through May 31, 2018 and provide for certain payments subject to escalation and periodic rate increases relating to real estate taxes, operating expenses and utilities. The Home Office lease has been renewed through March 2016.

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

Year ending June 30:	
2009	\$7,689
2010	6,814
2011	5,358
2012	4,440
2013	2,854
Thereafter	5,392
Total	<u>\$32,547</u>

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets and the income earned on permanently restricted net assets are available for the following purposes at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>		<u>2007</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Research	\$2,913	\$3,030	\$1,907	\$2,825
Patient service	8,972	-	6,662	-
Other	47	49	65	48
Total	<u>\$11,932</u>	<u>\$3,079</u>	<u>\$8,634</u>	<u>\$2,873</u>

9. Joint Costs Allocation

In 2008 and 2007, the Society incurred joint costs for informational materials and activities that included fund raising appeals as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Fund raising	\$14,505	\$14,069
Patient and community service	1,161	1,038
Public health education	12,243	11,652
Total	<u>\$27,909</u>	<u>\$26,759</u>