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THE LEUKEMIA & LYMPHOMA SOCIETY, INC.

Consolidated Financial Statements
and Supplemental Information - Tennessee Chapter

June 30, 2006

(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, 2006, 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 2005 consolidated financial statements and, in our report dated September 30, 2005, 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. Our audit included 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, 2006, 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.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary chapter information included in the schedules of financial position, activities, and functional expenses is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

October 24, 2006

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Financial Position
June 30, 2006

(with comparative amounts at June 30, 2005)
(in thousands)

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 9,205	\$ 6,116
Accounts receivable	649	672
Legacies and contributions receivable (note 2)	6,129	5,026
Prepaid expenses	5,062	4,246
Investments, at fair value (note 3)	148,736	131,770
Fixed assets, less accumulated depreciation and amortization of \$8,857 and \$7,594	<u>4,249</u>	<u>4,098</u>
Total assets	<u>\$ 174,030</u>	<u>\$ 151,928</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 18,365	\$ 17,667
Deferred revenue	12,803	10,755
Grants payable (note 4)	<u>70,000</u>	<u>56,774</u>
Total liabilities	<u>101,168</u>	<u>85,196</u>
Net assets:		
Unrestricted	64,628	59,574
Temporarily restricted (note 7)	5,403	4,495
Permanently restricted (note 7)	<u>2,831</u>	<u>2,663</u>
Total net assets	<u>72,862</u>	<u>66,732</u>
Total liabilities and net assets	<u>\$ 174,030</u>	<u>\$ 151,928</u>

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Activities
Year ended June 30, 2006
(with summarized totals for the year ended June 30, 2005)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2006	2005
Revenue					
Campaign contributions	\$ 248,722	\$ 16,762	\$ 112	\$ 265,596	\$ 236,162
Less direct donor benefit costs	(38,556)	-	-	(38,556)	(32,620)
Net campaign contributions	210,166	16,762	112	227,040	203,542
Legacies	2,707	38	-	2,745	4,760
Donated services (note 1)	4,896	-	-	4,896	4,205
Net interest and dividend income (note 3)	3,724	64	-	3,788	2,697
Net increase in fair value of investments	1,374	108	56	1,538	2,708
Grant refunds	1,387	-	-	1,387	653
Net assets released from restrictions	16,064	(16,064)	-	-	-
Total revenue	240,318	908	168	241,394	218,565
Expenses (note 8)					
<i>Program Services:</i>					
Research	63,570	-	-	63,570	54,037
Patient and community service	62,912	-	-	62,912	58,821
Public health education	35,078	-	-	35,078	32,598
Professional education	8,020	-	-	8,020	9,846
Total program services	169,580	-	-	169,580	155,302
<i>Supporting Services:</i>					
Management and general	23,017	-	-	23,017	16,225
Fund raising	42,667	-	-	42,667	35,161
Total supporting services	65,684	-	-	65,684	51,386
Total expenses	235,264	-	-	235,264	206,688
Excess of revenue over expenses	5,054	908	168	6,130	11,877
The Leukemia & Lymphoma Society of Canada ("LLSC") net assets as of July 1, 2004 (note 1)	-	-	-	-	1,396
Change in net assets	5,054	908	168	6,130	13,273
Net Assets					
Beginning of year	59,574	4,495	2,663	66,732	53,459
End of year	\$ 64,628	\$ 5,403	\$ 2,831	\$ 72,862	\$ 66,732

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Cash Flows

Year ended June 30, 2006

(with comparative amounts for the year ended June 30, 2005)

(in thousands)

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 6,130	\$ 13,273
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net assets of LLSC at merger	-	(1,396)
Net increase in fair value of investments	(1,538)	(2,708)
Permanently restricted revenue collected	(112)	(89)
Depreciation and amortization	1,246	1,186
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	23	(78)
(Increase) decrease in legacies and contributions receivable	(1,103)	321
Increase in prepaid expenses	(816)	(197)
Increase in accounts payable and accrued expenses	698	4,520
Increase in deferred revenue	2,048	3,848
Increase in grants payable	13,226	9,325
Net cash provided by operating activities	<u>19,802</u>	<u>28,005</u>
Cash flows from investing activities:		
Purchases of fixed assets	(1,397)	(1,244)
Purchases of investments	(128,388)	(202,996)
Sales of investments	112,960	158,310
Net cash used in investing activities	<u>(16,825)</u>	<u>(45,930)</u>
Cash flows from financing activities:		
LLSC cash at merger	-	1,249
Permanently restricted revenue collected	112	89
Net cash provided by financing activities	<u>112</u>	<u>1,338</u>
Net increase (decrease) in cash and cash equivalents	3,089	(16,587)
Cash and cash equivalents at beginning of year	6,116	22,703
Cash and cash equivalents at end of year	<u>\$ 9,205</u>	<u>\$ 6,116</u>

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Consolidated Statement of Functional Expenses
Year ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)
(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			
									2006	2005		
									2006	2005		
Awards and grants	\$60,831	\$ 754	\$ -	\$ -	\$61,585	\$ -	\$ -	\$ -	\$61,585	\$51,310	\$ -	\$ -
Financial aid to patients	-	5,098	-	-	5,098	-	-	-	5,098	4,505	-	-
Donated services	724	4,172	-	-	4,896	-	-	-	4,896	4,205	-	-
Salaries	759	27,057	12,140	4,008	43,964	7,398	9,184	16,582	60,546	52,824	-	-
Employee benefits and taxes (note 5)	142	5,943	3,248	1,053	10,386	1,740	2,727	4,467	14,853	12,196	-	-
Occupancy	23	3,013	1,736	567	5,339	985	1,333	2,318	7,657	6,778	-	-
Insurance	11	283	183	56	533	82	176	258	791	707	-	-
Telephone	27	1,585	1,014	196	2,822	316	1,319	1,635	4,457	3,364	-	-
Travel	43	1,176	641	230	2,090	365	469	834	2,924	2,640	13,623	11,760
Printing and supplies	146	2,790	5,806	418	9,160	4,076	9,357	13,433	22,593	21,480	6,097	5,758
Equipment rentals and maintenance	18	1,075	612	199	1,904	328	515	843	2,747	2,113	-	-
Postage and shipping	40	1,211	4,003	211	5,465	2,483	7,085	9,568	15,033	13,504	-	-
Meetings	250	2,323	1,069	348	3,990	522	655	1,177	5,167	4,467	8,072	7,331
Professional fees	531	5,579	4,116	571	10,797	4,452	9,402	13,854	24,651	24,273	5,539	3,608
Miscellaneous	9	400	224	75	708	136	176	312	1,020	1,136	5,225	4,163
Depreciation and amortization	16	453	286	88	843	134	269	403	1,246	1,186	-	-
Total expenses	\$63,570	\$62,912	\$35,078	\$8,020	\$169,580	\$23,017	\$42,667	\$65,684	\$235,264	\$206,688	\$38,556	\$32,620

See accompanying notes to consolidated financial statements.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2006

(with comparative amounts as of and for the year ended June 30, 2005)

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.

The Society entered into a merger agreement with Leukemia Research Fund of Canada ("LRFC"), effective July 1, 2004, under which the Society has approval rights over all LRFC resolutions. As part of this agreement, the name of LRFC was changed to The Leukemia & Lymphoma Society of Canada, Inc. ("LLSC"). The merger was accounted for in accordance with purchase method concepts whereby a contribution of LLSC's net assets (at fair value) was recorded by the Society.

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.

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 four chapters, 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.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2006

(with comparative amounts as of and for the year ended June 30, 2005)

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, 2006

(with comparative amounts as of and for the year ended June 30, 2005)

1. Continued

Fixed Assets and Depreciation

Fixed assets, which consist principally of equipment 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 2005 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, 2005 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the Society's 2005 consolidated financial statements from which the summarized information was derived.

2. Legacies and Contributions Receivable

The Society's legacies and contributions receivable at June 30, 2006 and 2005 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):

	<u>2006</u>	<u>2005</u>
Less than one year	\$ 5,028	\$ 4,795
1 to 5 years	1,169	256
	<u>6,197</u>	<u>5,051</u>
Less discount to present value (discount rate - 5%)	(68)	(25)
Total	<u>\$ 6,129</u>	<u>\$ 5,026</u>

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2006

(with comparative amounts as of and for the year ended June 30, 2005)

3. Investments

The following is a summary of investments at June 30, 2006 and 2005 (in thousands):

	2006		2005	
	Cost or Donated Value	Fair Value	Cost or Donated Value	Fair Value
Money market funds	\$47,235	\$47,235	\$48,876	\$48,876
Corporate notes and bonds	38,958	38,127	19,421	19,466
Common stocks and mutual funds	27,728	31,927	28,251	30,779
Government obligations	24,317	24,112	27,605	27,698
Other	6,312	7,335	4,771	4,951
Total	<u>\$144,550</u>	<u>\$148,736</u>	<u>\$128,924</u>	<u>\$131,770</u>

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. Investment expenses of \$335,000 and \$284,000 have been netted against interest and dividend income for the years ended June 30, 2006 and 2005, 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 \$70,000,000 at June 30, 2006, the Society has grant commitments of \$111,500,000 that are conditioned upon future events and, accordingly, are not recorded.

5. 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 \$3,020,000 and \$2,327,000 for the years ended June 30, 2006 and 2005, respectively.

6. Lease Commitments

The leases for premises which the Society's Home Office and chapters occupy expire on various dates through December 31, 2012 and provide for certain payments subject to escalation and periodic rate increases relating to real estate taxes, operating expenses and utilities.

The Leukemia & Lymphoma Society, Inc.

Notes to Consolidated Financial Statements

June 30, 2006

(with comparative amounts as of and for the year ended June 30, 2005)

6. Continued

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

Year ending June 30:	
2007	\$6,588
2008	5,949
2009	5,454
2010	4,575
2011	2,560
Thereafter	1,133
Total	<u>\$26,259</u>

7. 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, 2006 and 2005 (in thousands):

	2006		2005	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Research program	\$3,614	\$2,784	\$2,810	\$2,616
Patient service and bone marrow donor programs	570	-	255	-
Professional education program	23	47	24	47
Other programs	1,196	-	1,406	-
Total	<u>\$5,403</u>	<u>\$2,831</u>	<u>\$4,495</u>	<u>\$2,663</u>

8. Joint Costs Allocation

In 2006 and 2005, the Society incurred joint costs for informational materials and activities that included fund raising appeals as follows (in thousands):

	2006	2005
Fund raising	\$13,661	\$14,166
Patient and community service	1,051	1,612
Public health education	11,067	8,616
Total	<u>\$25,779</u>	<u>\$24,394</u>

Chapter Supplementary Information

The Leukemia & Lymphoma Society, Inc.
Tennessee Chapter

Schedule of Financial Position
June 30, 2006
(with comparative amounts at June 30, 2005)

Assets	<u>2006</u>	<u>2005</u>
Cash	\$ 12,071	\$ 4,357
Contributions receivable	18,833	8,577
Prepaid expenses	8,335	4,707
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$3,183 and \$1,539	<u>6,731</u>	<u>8,375</u>
Total assets	\$ <u><u>45,970</u></u>	\$ <u><u>26,016</u></u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 60,049	\$ 26,952
Deferred revenue	<u>70,503</u>	<u>42,603</u>
Total liabilities	130,552	69,555
Net assets (deficit) - unrestricted	<u>(84,582)</u>	<u>(43,539)</u>
Total liabilities and net assets	\$ <u><u>45,970</u></u>	\$ <u><u>26,016</u></u>

The Leukemia & Lymphoma Society, Inc.
Tennessee Chapter

Schedule of Activities
Year ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)

	Unrestricted	Temporarily Restricted	2006	2005
Revenue				
Campaign contributions	\$ 2,124,293	\$ 134	\$ 2,124,427	\$ 2,073,533
Less direct donor benefit costs	(330,281)	-	(330,281)	(323,849)
Net campaign contributions	1,794,012	134	1,794,146	1,749,684
Net assets released from restrictions	134	(134)	-	-
Total revenue	1,794,146	-	1,794,146	1,749,684
Expenses, including remittances to Home Office				
<i>Program Services:</i>				
Research	353,315	-	353,315	368,961
Patient and community service	532,621	-	532,621	541,757
Public health education	284,994	-	284,994	296,193
Professional education	76,866	-	76,866	100,893
Total program services	1,247,796	-	1,247,796	1,307,804
<i>Supporting Services:</i>				
Management and general	215,281	-	215,281	151,337
Fund raising	372,112	-	372,112	300,280
Total supporting services	587,393	-	587,393	451,617
Total expenses	1,835,189	-	1,835,189	1,759,421
Change in net assets	(41,043)	-	(41,043)	(9,737)
Net assets (deficit)				
Beginning of year	(43,539)	-	(43,539)	(33,802)
End of year	\$ (84,582)	\$ -	\$ (84,582)	\$ (43,539)

The Leukemia & Lymphoma Society, Inc.
Tennessee Chapter

Schedule of Functional Expenses
Year ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)

	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			
									2006	2005		
											2006	2005
Financial aid to patients	-	\$85,196	-	-	\$85,196	-	-	-	\$85,196	\$68,322	-	-
Salaries	-	193,238	104,197	35,522	332,957	63,939	76,725	140,664	473,621	401,808	-	-
Employee benefits and taxes	-	31,093	16,766	5,716	53,575	10,288	12,344	22,632	76,207	65,899	-	-
Occupancy	-	19,493	10,511	3,583	33,587	6,450	7,741	14,191	47,778	39,137	-	-
Telephone	-	3,355	1,809	617	5,781	1,110	1,332	2,442	8,223	8,155	-	-
Travel	-	11,507	6,204	2,115	19,826	3,807	4,569	8,376	28,202	25,670	121,190	101,477
Printing and supplies	-	6,254	3,547	1,867	11,668	29,684	36,435	66,119	77,787	55,883	42,314	61,983
Equipment rentals and maintenance	-	6,641	3,581	1,221	11,443	2,197	2,635	4,832	16,275	16,949	-	-
Postage and shipping	-	5,294	3,003	1,580	9,877	25,127	30,843	55,970	65,847	65,374	-	-
Meetings	-	3,705	1,998	681	6,384	1,226	1,472	2,698	9,082	13,616	60,673	56,662
Professional fees	-	7,729	4,384	2,307	14,420	36,684	45,029	81,713	96,133	108,608	63,642	56,550
Miscellaneous	-	2,507	1,352	461	4,320	830	995	1,825	6,145	8,120	42,462	47,177
Depreciation and amortization	-	670	362	123	1,155	222	267	489	1,644	1,339	-	-
Subtotal	-	376,682	157,714	55,793	590,189	181,564	220,387	401,951	992,140	878,880	330,281	323,849
Remittances to Home Office	353,315	155,939	127,280	21,073	657,607	33,717	151,725	185,442	843,049	880,541	-	-
Total expenses	\$353,315	\$532,621	\$284,994	\$76,866	\$1,247,796	\$215,281	\$372,112	\$587,393	\$1,835,189	\$1,759,421	\$330,281	\$323,849