



SAMUEL WAXMAN CANCER  
RESEARCH FOUNDATION

# THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.

Financial Statements  
(Together with Independent Auditors' Report)

For the Years Ended June 30, 2012 and 2011

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
(Together with Independent Auditors' Report**

**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

**CONTENTS**

**Page**

Independent Auditors' Report.....	1
<b>Basic Financial Statements:</b>	
Statements of Financial Position .....	2
Statements of Activities.....	3
Statements of Functional Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-14

## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
The Samuel Waxman Cancer Research Foundation, Inc.

We have audited the accompanying statements of financial position of The Samuel Waxman Cancer Research Foundation, Inc. (the "Foundation") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Samuel Waxman Cancer Research Foundation, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Marks Paneth & Shron LLP*

New York, NY  
May 13, 2013

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2B and 9)	\$ 822,715	\$ 3,094,217
Pledges and grants receivable, net (Notes 2E, 2F, and 3)	664,526	1,674,142
Other receivables (Note 2F)	91,584	293,435
Prepaid expenses and other assets	179,187	149,403
Investments, at fair value (Notes 2D, 2L, 4 and 10)	1,968,277	1,869,100
Charitable gift annuity investments (Notes 2H, 5 and 10)	56,413	67,512
Property and equipment, net (Notes 2G and 6)	<u>10,182</u>	<u>13,877</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,792,884</u></b>	<b><u>\$ 7,161,686</u></b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 199,104	\$ 144,862
Research grants payable (Note 2K)	298,264	290,076
Charitable gift annuities payable (Notes 2H and 5)	30,994	33,118
Deferred rent (Note 7)	15,109	16,482
Deferred revenue	<u>46,019</u>	<u>815</u>
<b>TOTAL LIABILITIES</b>	<b><u>589,490</u></b>	<b><u>485,353</u></b>
<b>NET ASSETS (Note 2C)</b>		
Unrestricted	1,332,679	4,055,643
Temporarily restricted (Note 8)	<u>1,870,715</u>	<u>2,620,690</u>
<b>TOTAL NET ASSETS</b>	<b><u>3,203,394</u></b>	<b><u>6,676,333</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,792,884</u></b>	<b><u>\$ 7,161,686</u></b>

See accompanying notes to the financial statements.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>SUPPORT AND REVENUE:</b>		
Contributions and grants (Note 2E)	\$ 399,574	\$ 633,263
Special events, net of costs of direct benefits to donors (Note 2J)	2,200,416	2,900,575
Investment activity (Notes 2L and 4)	117,921	266,875
In-kind contribution	8,816	-
Other income	-	5,292
Net assets released from restrictions (Note 8)	866,000	1,065,000
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,592,727</b>	<b>4,871,005</b>
<b>EXPENSES (Note 2I):</b>		
Program services	4,237,142	3,195,528
Management and general	1,115,558	982,547
Fundraising	962,991	844,088
<b>TOTAL EXPENSES</b>	<b>6,315,691</b>	<b>5,022,163</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>(2,722,964)</b>	<b>(151,158)</b>
Unrestricted net assets, beginning of year	4,055,643	4,206,801
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<b>1,332,679</b>	<b>4,055,643</b>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions and grants (Note 2E)	125,000	350,000
Investment activity (Notes 2L and 4)	2,124	(496)
Change in value of split-interest agreements (Note 2H)	(11,099)	(10,623)
Net assets released from restrictions (Note 8)	(866,000)	(1,065,000)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>(749,975)</b>	<b>(726,119)</b>
<b>TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR</b>		
Balance at beginning of year	2,620,690	3,346,809
<b>TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR</b>	<b>1,870,715</b>	<b>2,620,690</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>6,676,333</b>	<b>7,553,610</b>
<b>CHANGE IN NET ASSETS</b>	<b>(3,472,939)</b>	<b>(877,277)</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 3,203,394</b>	<b>\$ 6,676,333</b>

See accompanying notes to the financial statements.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	Year Ended June 30, 2012				Year Ended June 30, 2011			
	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	2012 Total	Program Services	Management and General	Fundraising	2011 Total
Research grants								
Mount Sinai Medical Center	\$ 576,647	\$ -	\$ -	\$ 576,647	\$ 597,820	\$ -	\$ -	\$ 597,820
Institute Without Walls	2,752,143	-	-	2,752,143	1,793,093	-	-	1,793,093
Total research grants	3,328,790	-	-	3,328,790	2,390,913	-	-	2,390,913
Foundation staff salaries	228,472	342,708	190,393	761,573	207,760	311,640	173,133	692,533
Scientific directors	413,072	-	-	413,072	323,173	-	-	323,173
Consultants	-	46,791	57,190	103,981	-	153,778	187,950	341,728
Professional fees	-	59,734	-	59,734	-	58,135	-	58,135
Printing and publications (Note 11)	21,027	31,541	17,523	70,091	35,933	53,899	58,050	147,882
Travel	2,191	3,286	1,826	7,303	8,095	12,142	6,746	26,983
Depreciation and amortization (Note 6)	1,109	1,662	924	3,695	1,109	2,588	-	3,697
Insurance	3,668	5,501	3,056	12,225	1,978	4,614	-	6,592
Office, printing and stationery	9,045	13,568	7,538	30,151	12,727	19,090	10,606	42,423
Taxes and licenses	-	8,463	-	8,463	-	89,010	-	89,010
Occupancy (Note 7)	31,610	47,414	26,341	105,365	31,656	73,865	-	105,521
Meetings and conferences	20,360	30,541	16,967	67,868	29,735	-	9,912	39,647
Equipment rental and maintenance	168,457	252,686	633,448	1,054,591	135,857	203,786	320,862	660,505
Bad debt expense (Note 2F)	-	257,650	-	257,650	-	-	-	-
Miscellaneous expenses	9,341	14,013	7,785	31,139	16,592	-	76,829	93,421
Costs of direct benefits to donors (Note 2I)	-	-	866,053	866,053	-	-	936,440	936,440
Subtotal	4,237,142	1,115,558	1,829,044	7,181,744	3,195,528	982,547	1,780,528	5,958,603
Less: expenses deducted directly from revenues on the statement of activities	-	-	(866,053)	(866,053)	-	-	(936,440)	(936,440)
<b>TOTAL EXPENSES</b>	<b>\$ 4,237,142</b>	<b>\$ 1,115,558</b>	<b>\$ 962,991</b>	<b>\$ 6,315,691</b>	<b>\$ 3,195,528</b>	<b>\$ 982,547</b>	<b>\$ 844,088</b>	<b>\$ 5,022,163</b>

See accompanying notes to the financial statements.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (3,472,939)	\$ (877,277)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	3,695	3,697
Bad debt expense	157,650	-
Realized/unrealized gains on investments	(108,358)	(264,747)
Donated securities	(52,654)	-
Change in discount on pledges receivable	(20,384)	(20,177)
Changes in operating assets and liabilities:		
Pledges and grants receivable	872,350	497,500
Other receivables	201,851	(52,898)
Prepaid expenses and other assets	(29,784)	(16,644)
Charitable gift annuity investments	11,099	10,623
Accounts payable and accrued expenses	54,242	(70,190)
Research grants payable	8,188	57,683
Deferred rent	(1,373)	4,737
Deferred revenue	45,204	(11,485)
<b>Net Cash Used by Operating Activities</b>	<b>(2,331,213)</b>	<b>(739,178)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	61,835	335,241
Acquisitions of property and equipment	-	(1,000)
<b>Net Cash Provided by Investing Activities</b>	<b>61,835</b>	<b>334,241</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Decrease) increase in charitable gift annuities payable	(2,124)	495
<b>Net Cash (Used) Provided by Financing Activities</b>	<b>(2,124)</b>	<b>495</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,271,502)</b>	<b>(404,442)</b>
Cash and cash equivalents - beginning of year	3,094,217	3,498,659
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 822,715</b>	<b>\$ 3,094,217</b>

See accompanying notes to the the financial statements.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS**

The Samuel Waxman Cancer Research Foundation, Inc. (the "Foundation") is organized under the Not-for-Profit Corporation Law of the State of New York. The Foundation has been granted exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Foundation is a scientific research organization dedicated to supporting a focused research program to develop targeted cancer cell-specific therapies. The Foundation primarily supports programs for cancer related research, and develops drug therapies for cancer prevention, treatment and ultimate cure. The Foundation helps to organize conferences that share findings on differentiation therapy and helps to support and assist researchers in the publication of research papers in many major scientific journals.

The Foundation's support and revenue is predominantly generated from contributions and other public support.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. ***Basis of Accounting and Use of Estimates*** – The Foundation's financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
- B. ***Cash and Cash Equivalents*** –The Foundation considers all highly liquid debt instruments purchased with maturities of three months or less, not intended for investment purposes, to be cash equivalents.
- C. ***Basis of Presentation*** – The Foundation maintains its net assets under the following three classes:
- Unrestricted – includes the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
  - Temporarily Restricted – includes gifts of cash and other assets received with donor stipulations that limit the use of donated assets to a specific time period or purpose. When a donor restriction expires or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.
  - Permanently Restricted – includes funds that have been designated by the donor to be held and invested in perpetuity.
- D. ***Fair Value Measurements*** – Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 10.



**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both Level 2 and 3 are described in Note 10.

- E. ***Pledges Receivable and Contributions*** – Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Foundation in substance and unconditionally. Conditional contributions and promises to give are not recognized until they become unconditional, that is when the future and uncertain event on which they depend has occurred. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Pledges receivable due after one year are discounted to net present value using the risk adjusted interest rate in effect on the date of the gifts.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Many volunteers, including the Board of Directors, have made significant contributions of time in furtherance of the Foundation's policies and programs. The value of this contributed time does not meet the criteria for recognition and therefore is not reflected in the accompanying financial statements.

- F. ***Allowance for Uncollectible Receivables*** – The Foundation determines whether an allowance for uncollectible receivables should be provided for pledges and other receivables. Such estimates are based on management's assessment of the likelihood of collection, including consideration of how long the receivable has been outstanding, creditworthiness of the debtor, current economic conditions, management's analysis of specific pledges made and historical information. During the year ended June 30, 2012 approximately \$258,000 of uncollectible receivables were written off to bad debt expense. There were no write offs during the year ended June 30, 2011. As of June 30, 2012 and 2011, the Foundation determined that no allowance for uncollectible receivables was necessary.
- G. ***Property and Equipment*** – Purchases of property and equipment are recorded at cost. The Foundation capitalizes property and equipment having a cost of \$1,000 or more and a useful life of greater than one year. Depreciation and amortization is recognized using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the useful life of the asset or the remaining term of the lease.
- H. ***Split-Interest Agreements*** – The Foundation's split-interest agreements with donors consist of charitable gift annuities. The Foundation recognizes assets and temporarily restricted contribution revenue for its split-interest agreements at the date the agreements are established, net of the liability recorded for the present value of the estimated future payments to be made to the donors and other beneficiaries based upon their life expectancies using IRS mortality tables and the appropriate discount rates. The carrying value of the split-interest agreement assets and liabilities are adjusted to fair value at the end of the year. The adjustment to fair value of the split-interest agreements is reflected as change in value of split-interest agreements in the accompanying statements of activities.
- I. ***Functional Allocation of Expenses*** – The costs of providing the various program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. Certain costs have been allocated among the program and supporting services benefited.
- J. ***Costs of Direct Benefits to Donors*** – The direct costs of fundraising events include expenses for the benefit of the donor. For example, meals and facilities rental are considered costs of direct benefits to donors.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. **Research Grants Payable** – Research grants are awarded for a one-year period. Grants authorized but unpaid at year-end are reported as liabilities. As of June 30, 2012 and 2011, research grants payable consisted of amounts owed to the Mount Sinai School of Medicine which are payable within one year.

L. **Investments** – The Foundation reflects investments at fair value in the accompanying statements of financial position.

The fair values of alternative investments that are not readily marketable are based on the fair values of the underlying investments provided by the investment managers, which are reviewed for reasonableness by management. Because of the inherent uncertainty of valuation of the Foundation's alternative investments, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed.

Interest, dividends and gains and losses on investments are reflected in the statements of activities as increases and decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income and gains restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

M. **Income Taxes** – The Foundation has no uncertain tax positions as of June 30, 2012 and 2011 in accordance with Accounting Standards Codification ("ASC") Topic 740, *Income Taxes* which provides standards for establishing and classifying any tax provision for uncertain tax positions. The Foundation is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2009.

**NOTE 3 – PLEDGES AND GRANTS RECEIVABLE**

Pledges receivable are scheduled to be collected as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 460,000	\$ 1,045,000
One to four years	<u>212,500</u>	<u>657,500</u>
	672,500	1,702,500
Less: Discount to net present value	<u>(7,974)</u>	<u>(28,358)</u>
Total pledges receivable, net	<u>\$ 664,526</u>	<u>\$ 1,674,142</u>

Pledges receivable due after one year are discounted to net present value using risk adjusted interest rates in effect on the date of the gifts. Interest rates used to discount the unconditional promises ranged from 1.1% to 4.9% as of June 30, 2012.

**NOTE 4 – INVESTMENTS**

Investments consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Alternative investments:		
Drawbridge Special Opportunity, Ltd.	\$ 1,117,038	\$ 1,021,015 (A)
Seminole Offshore Fund, Ltd., Class A	806,918	785,773 (B)
Seneca Capital International, L.P.	7,478	8,879 (C)
Seneca Capital International SLV, Ltd.	<u>36,843</u>	<u>53,433 (D)</u>
	<u>\$ 1,968,277</u>	<u>\$ 1,869,100</u>

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 4 – INVESTMENTS (Continued)**

- (A) The investment objective of the Fund is to achieve superior risk-adjusted returns by opportunistically acquiring a diversified portfolio of undervalued and distressed investments. The Fund also acquires or participates in senior and mezzanine corporate and real estate debt obligations. The Foundation can redeem its investment in the Fund on an annual basis with 90 days' notice of redemption.
- (B) The Fund's investment objective is to achieve favorable returns by investing in well-researched equity securities traded primarily in the U.S. market. The Fund also invests in corporate bonds and U.S. Treasury securities.
- (C) Seneca Capital International, Ltd (the "Feeder Fund") has invested substantially all of its assets in the Seneca Capital International Master Fund, L.P. (the "Master Fund") in exchange for limited partnership interests in the Master Fund. Beginning in 2010, there is no lock-up period associated with the redemptions of shares in the Feeder Fund and redemptions can be made as of any calendar quarter.
- (D) Seneca Capital International SLV, Ltd. ("SLV") represents a special liquidating vehicle that is managing and selling interests in less liquid assets that were previously held by the Feeder Fund. As the investments are liquidated, the SLV periodically distributes the pro-rata portion of the proceeds (net of expenses and reserves) to the limited partners.

The underlying investments of the hedge funds may be invested in loans, including loans issued by or related to companies that are experiencing various forms of financial, operational, legal and/or other distress and impairment. Any underlying investment in high-yield loans may involve special risks. For example (and without limitation), the underlying investments may be non-interest bearing, unsecured and/or subordinated to other claimants. Until investments are sold or mature, the underlying investments are exposed to credit risk relating to whether the obligor will meet its obligation when it comes due.

The underlying investments of the hedge funds may also utilize derivative instruments including, swaps, forwards, interest rate caps, warrants and swaptions as part of their investment and hedging strategy. Derivative transactions give rise to both market risk and credit risk.

Securities sold, not yet purchased, represent obligations of the hedge funds to purchase the securities at prevailing market prices. As such, the future satisfaction of these obligations may be at amounts that are greater or less than that recorded in the underlying investments.

Investments, in general, are exposed to various risks, such as credit, market and liquidity risk. As such, it is reasonably possible that changes in the fair values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Credit risk is the risk of default of loans, securities or derivatives, as applicable, which result from a borrower's or derivative counterparty's inability or unwillingness to make required or expected payments.

Market risk reflects adverse changes in the value of investments in loans, securities or derivatives, as applicable, due to changes in interest rates, prevailing credit spreads, foreign currency exchange rates, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors on the underlying assets.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 4 – INVESTMENTS (Continued)**

Liquidity risk is the risk that the hedge funds may not be able to sell assets when it desires to do so or to realize what it estimates to be their fair values in the event of a sale. The sale of illiquid assets and restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or on over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

As of June 30, 2012, the Foundation had no unfunded commitments to invest in its alternative investments.

Investment activity includes the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 588	\$ 1,632
Realized and unrealized gains	<u>108,358</u>	<u>264,747</u>
Total investment activity	<u>\$ 108,946</u>	<u>\$ 266,379</u>

**NOTE 5 – CHARITABLE GIFT ANNUITIES**

Over the past seven years, the Foundation received donations from two donors through split-interest agreements aggregating \$129,285. The terms of the agreements require the Foundation to pay \$8,495 each year to the annuitants' beneficiary for the remainder of her life. Upon the death of the beneficiary, the Foundation may use the balance of the annuity for cancer research. To service these programs, the Foundation established an institutional servicing agreement with Merrill Lynch for the maintenance of this agreement. According to New York State Insurance Law, a segregated fund must maintain assets at least equal to the sum of a charity's reserves on its outstanding gift annuity agreement, plus two layers of surplus.

The fair value of funds deposited by the Foundation to meet this minimum at June 30, 2012 and 2011 was \$56,413 and \$67,512, respectively. The present value of the estimated future interest is calculated using the applicable life expectancy tables and a discount rate of 9.0% and 9.5% as of June 30, 2012 and 2011, respectively. The majority of the underlying assets of the split-interest agreements are held in equities and fixed income securities.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of June 30, 2012 and 2011:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Lives</u>
Computer and office equipment	\$ 9,708	\$ 9,708	5 Years
Furniture and fixtures	<u>8,773</u>	<u>8,773</u>	5 Years
Total cost	18,481	18,481	
Less: Accumulated depreciation and amortization	<u>(8,299)</u>	<u>(4,604)</u>	
Net book value	<u>\$ 10,182</u>	<u>\$ 13,877</u>	

Depreciation and amortization expense amounted to \$3,695 and \$3,697 for the years ended June 30, 2012 and 2011, respectively.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

The Foundation entered into an operating lease for its office facilities in May 2010. The lease is for a five-year term expiring in July 2015. The lease agreement provides for scheduled increases in the base rent and also includes a free rent period of two months. Rent expense related to the required minimum rentals is recognized on a straight-line basis over the term of the lease. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent. Included in the accompanying statement of financial position is a liability of \$15,109 and \$16,482 as of June 30, 2012 and 2011, respectively, related to the deferred rent under the straight-line method of accounting.

Future minimum lease payments under operating leases as of June 30, 2012 approximate the following:

2013	\$ 98,000
2014	100,000
2015	103,000
2016	<u>4,000</u>
	<u>\$ 305,000</u>

Rental expense amounted to \$105,365 and \$105,521 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30, 2012 and 2011:

	2012	2011
Restricted to Future Periods and Programs:		
Abner & Mildred Levine Family Foundation	(A) \$ 330,000	\$ 385,000
Rose M. Badgeley Residuary Charitable Trust	(B) -	125,000
Skirball Foundation and matching funds	(C) -	400,000
The Mark Family Fund	(D) 500,000	500,000
David Workman Memorial Fund	(E) 311,297	336,297
Emerald Foundation, Inc. – Restricted for Shanghai Institute	125,000	125,000
Future interest in charitable remainder trust	25,418	34,393
Time-restricted multi-year pledges	300,000	300,000
The Max Cure Foundation	(F) 150,000	225,000
Board Challenge Grants (Note 12)	<u>129,000</u>	<u>190,000</u>
	<u>\$ 1,870,715</u>	<u>\$ 2,620,690</u>

(A) In October 2008, the Foundation received a \$550,000 contribution from the Abner & Mildred Levine Family Foundation. The donor has stipulated that \$55,000 per year can be released and used for general operations.

(B) In June 2009, the Rose M. Badgeley Residuary Charitable Trust approved a \$375,000 grant that was payable over three years to support the Foundation's collaboration with the Shanghai Institute of Hematology. As of June 30, 2012 and 2011, the outstanding receivable associated with this grant was \$0 and \$125,000, respectively.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (Continued)**

- (C) In June 2007, the Skirball Foundation approved a \$1,000,000 challenge grant to continue support of the Foundation's programs in hematological malignancies and tumor dormancy. The grant was payable in five installments of \$200,000 over a five-year period. The Foundation has received matching pledges totaling \$1,000,000 to date, of which portions were received over a five-year period. As of June 30, 2012 and 2011, the outstanding receivable relating to the challenge grant and the matching pledges, was \$0 and \$400,000, respectively.
- (D) In October 2009, the Mark Family Fund in The New York Community Trust approved a \$1,000,000 grant that is payable over five years for general support of the Institute Without Walls. The outstanding receivable was \$500,000 as of June 30, 2012 and 2011.
- (E) The David Workman Memorial Fund is for the making of a \$25,000 annual scientific grant to a recipient in the field of cancer research.
- (F) In a Memorandum of Understanding dated January 20, 2011, the Max Cure Foundation ("MCF") pledged \$225,000, to be paid over three years at \$75,000 per year, to establish a collaborative grant to fund research in pediatric cancer.

During the years ended June 30, 2012 and 2011, the Foundation released temporarily restricted net assets by incurring expenses or the passage of time, thus satisfying the restrictions.

**NOTE 9 – CONCENTRATION OF CREDIT RISK**

Cash and cash equivalents that potentially subject the Foundation to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest-bearing accounts are insured up to \$250,000 per depositor. Through December 31, 2012, noninterest-bearing accounts are fully insured. Beginning in 2013, noninterest-bearing accounts are insured the same as interest-bearing accounts. As of June 30, 2012 and 2011, there was approximately \$614,000 and \$2,785,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 Input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's policy is to recognize transfers in and transfers out between fair value levels as of the end of the period in which the transfer takes place. For the years ended June 30, 2012 and 2011, no such transfers between fair value levels occurred.

Financial assets and liabilities carried at fair value at June 30, 2012 are classified in the table below in one of the two levels as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
Investments:			
Alternative investments:			
Drawbridge Special Opportunity, Ltd.:	\$ -	\$ 1,117,038	\$ 1,117,038
Seminole Offshore Fund, Ltd.:	-	806,918	806,918
Seneca Capital International, L.P. and	-	7,478	7,478
Seneca Capital International SLV, Ltd.:	-	<u>36,843</u>	<u>36,843</u>
Charitable gift annuity investments	<u>56,413</u>	<u>-</u>	<u>56,413</u>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE</b>	<b><u>\$ 56,413</u></b>	<b><u>\$ 1,968,277</u></b>	<b><u>\$ 2,024,690</u></b>

Financial assets and liabilities carried at fair value at June 30, 2011 are classified in the table below in one of the two levels as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
Investments:			
Alternative investments:			
Drawbridge Special Opportunity, Ltd.:	\$ -	\$ 1,021,014	\$ 1,021,014
Seminole Offshore Fund, Ltd.:	-	785,774	785,774
Seneca Capital International, L.P. and	-	8,879	8,879
Seneca Capital International SLV, Ltd.:	-	<u>53,433</u>	<u>53,433</u>
Charitable gift annuity investments	<u>67,512</u>	<u>-</u>	<u>67,512</u>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE</b>	<b><u>\$ 67,512</u></b>	<b><u>\$ 1,869,100</u></b>	<b><u>\$ 1,936,612</u></b>

The changes in assets measured at fair value for which the Foundation has used Level 3 inputs to determine fair value was as follows for the year ended June 30, 2011 and 2010:

	<u>2012</u>	<u>2011</u>
Balance, beginning of the year	\$ 1,869,100	\$ 1,939,594
Purchases (redemptions), net	(9,181)	(335,241)
Realized (losses) gains	(4,948)	3,568
Unrealized gains	<u>113,306</u>	<u>261,179</u>
Balance, end of the year	<b><u>\$ 1,968,277</u></b>	<b><u>\$ 1,869,100</u></b>

**THE SAMUEL WAXMAN CANCER RESEARCH FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Following is a description of the valuation methodologies used for assets measured at fair value.

**Alternative Investments:**

Alternative investments are invested in hedge funds, and are designated as Level 3 as indicative of the investment manager's classification of the Foundation's investment in the funds. It is not meant to be indicative of the classification of the investments in the underlying portfolio of the hedge fund into the fair value hierarchy.

The fair value of alternative investments is provided by the investment manager, and is based on the fair values of the underlying investments and may be based on historical cost, appraisals and obtainable prices for similar assets or other estimates. When price quotations for the underlying investments are not available from unaffiliated market makers or other financial institutions that regularly trade similar investments, independent valuation agents determine, in consultation with the investment managers, the value of the investments by reviewing information prepared or provided by the investment managers and/or by using their proprietary valuation models.

**Charitable Gift Annuity Investments:**

The underlying assets of the charitable gift annuities are held in equities and fixed income securities which are valued using market prices in active markets (Level 1).

**NOTE 11 – RELATED PARTY TRANSACTIONS**

The Foundation transacts business with, or contracts services with, companies or individuals that employ certain members of the Board of Directors, or are relatives of certain employees, or members of the Board of Directors, which includes a consulting agreement with the Foundations founder.

For the years ended June 30, 2012 and 2011, the Foundation purchased various printing and publications from a company affiliated with a member of the board. In addition, for the years ended June 30, 2012 and 2011, the Foundation utilized the services of a bookkeeper who was a relative of a member of the board.

For the years ended June 30, 2012 and 2011, the expenses related to these transactions are as follows:

	<u>2012</u>	<u>2011</u>
Printing and publications	\$ 57,754	\$ 74,554
Bookkeeping services	<u>26,687</u>	<u>24,681</u>
	<u>\$ 84,441</u>	<u>\$ 99,235</u>

**NOTE 12 – SUBSEQUENT EVENTS**

The Foundation has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date through May 13, 2013, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through May 13, 2013 that would require adjustment to or disclosure in the financial statements.