National Marrow Donor Program and Subsidiaries

Consolidated Financial Statements and
Additional Consolidating Information as of and for the
Years Ended September 30, 2012 and 2011, and
Independent Auditors' Report

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of National Marrow Donor Program and subsidiaries (the "Organization") as of September 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 Organization'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Marrow Donor Program and subsidiaries as of September 30, 2012 and 2011, and the consolidated results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of expressing an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the consolidated financial position or consolidated activities of the individual organizations and are not a required part of the basic consolidated financial statements. The supplemental schedules are the responsibility of the Organization's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the basic 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, such schedules are fairly stated, in all material respects, when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

January 10, 2013

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 15,442	$4,642	$ 20,084	$ 29,870	$4,345	$ 34,215
Receivables:						
Transplant center and other receivables — net of allowance of $215 and $50 in 2012 and 2011, respectively	44,852		44,852	39,308		39,308
Contract receivables	3,688		3,688	3,853		3,853
Pledges receivable (Note 2)		28	28		193	193
Prepaid expenses and other	4,528		4,528	3,666		3,666
Total current assets	68,510	4,670	73,180	76,697	4,538	81,235
LONG-TERM INVESTMENTS (Note 4)	83,175		83,175	82,666		82,666
FUNDS HELD FOR BOND RESERVE (Notes 4 and 5)	10,242		10,242	10,155		10,155
PROPERTY AND EQUIPMENT (Note 3)	60,011		60,011	35,624		35,624
DEFERRED COMPENSATION FUNDS (Note 8)	3,097		3,097	2,325		2,325
OTHER ASSETS	828	604	1,432	47	272	319
TOTAL	$225,863	$5,274	$231,137	$207,514	$4,810	$212,324
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	$ 14,020	$ -	$ 14,020	$ 10,024	$ -	$ 10,024
Accrued expenses	28,104		28,104	37,774		37,774
Accrued compensation and benefits	9,950		9,950	8,988		8,988
Refundable advances (Note 2)	2,630		2,630	4,759		4,759
Total current liabilities	54,704	-	54,704	61,545	-	61,545
DEFERRED COMPENSATION PAYABLE (Note 8)	3,104		3,104	2,323		2,323
LONG-TERM DEBT (Note 5)	67,251		67,251	67,383		67,383
COMMITMENTS AND CONTINGENCIES (Note 10)						
NET ASSETS	100,804	5,274	106,078	76,263	4,810	81,073
TOTAL	$225,863	$5,274	$231,137	$207,514	$4,810	$212,324

See notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND GAINS:						
Search and procurement fees	$294,351	$ -	$294,351	$270,269	$ -	$270,269
Federal contracts and cooperative agreements	46,261		46,261	42,230		42,230
Contributions	8,556	2,851	11,407	7,337	2,708	10,045
Other	936		936	730		730
Net assets released from restrictions	2,387	(2,387)	-	4,713	(4,713)	-
Total revenues and gains	352,491	464	352,955	326,812	(2,005)	323,274
EXPENSES:						
Program services	297,685		297,685	277,610		277,610
Management and general	31,124		31,124	33,020		33,020
Fundraising	4,731		4,731	2,868		2,868
Total expenses	333,540	-	333,540	313,498	-	313,498
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES	18,951	464	19,415	13,314	(2,005)	9,776
INVESTMENT RETURN:						
Investment income	2,379		2,379	1,533		1,533
Change in unrealized appreciation (depreciation) on investments	3,211		3,211	(1,494)		(1,494)
Total investment return	5,590	-	5,590	39	-	39
INCREASE (DECREASE) IN NET ASSETS	24,541	464	25,005	13,353	(2,005)	9,815
NET ASSETS — Beginning of year	76,263	4,810	81,073	64,443	6,815	71,258
NET ASSETS — End of year	$100,804	$ 5,274	$106,078	$ 76,263	$ 4,810	$ 81,073

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(In thousands)

	Program Services					Support Services			
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	Total
Medical services	$158,680	$ 81	$ 203	$ 11	$158,975	$ -	$ -	$ -	$158,975
Donor search services	13,470	23		564	14,057				14,057
Donor recruitment services		31,367		27	31,394		107	107	31,501
Compensation	19,190	5,316	9,027	6,514	40,047	11,991	2,018	14,009	54,056
Benefits	4,845	1,310	2,286	1,634	10,075	3,068	517	3,585	13,660
Travel	709	698	1,029	516	2,952	1,011	413	1,424	4,376
Professional development	141	57	125	93	416	241	20	261	677
Occupancy	842	620	236	352	2,050	4,700	117	4,817	6,867
Printing and copying	484	416	58	680	1,638	161	440	601	2,239
Postage and shipping	814	73	44	192	1,123	85	43	128	1,251
Telecommunications	444	217	111	192	964	140	36	176	1,140
Information processing	1,643	938	588	938	4,107	607		607	4,714
Professional fees	3,889	3,294	6,494	5,297	18,974	3,072	870	3,942	22,916
Office and miscellaneous	569	416	360	878	2,223	6,048	150	6,198	8,421
Research activities	589	224	7,877		8,690				8,690
Total	$206,309	$45,050	$28,438	$17,888	$297,685	$31,124	$4,731	$35,855	$333,540

See notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

	Program Services					Support Services			
	Medical Services	Recruitment	Research	Public Awareness	Total	Management and General	Fundraising	Total	Total
Medical services	$152,300	$ 2,967	$ 198	$ -	$155,465	$ -	$ -	$ -	$155,465
Donor search services	13,710			546	14,256				14,256
Donor recruitment services	59	24,970			25,029				25,029
Compensation	15,738	4,407	8,118	5,210	33,473	12,331	1,410	13,741	47,214
Benefits	4,008	1,114	2,036	1,325	8,483	3,083	360	3,443	11,926
Travel	794	496	897	492	2,679	928	223	1,151	3,830
Professional development	70	22	86	50	228	220	20	240	468
Occupancy	824	502	201	199	1,726	4,652	93	4,745	6,471
Printing and copying	1,117	315	100	597	2,129	209	341	550	2,679
Postage and shipping	398	84	33	166	681	84	27	111	792
Telecommunications	469	147	118	111	845	292	29	321	1,166
Information processing	1,053	399	403	409	2,264	899		899	3,163
Professional fees	5,332	2,694	6,560	5,267	19,853	5,160	245	5,405	25,258
Office and miscellaneous	414	228	170	570	1,382	5,117	120	5,237	6,619
Research activities	17	88	9,012		9,117	45		45	9,162
Total	$196,303	$38,433	$27,932	$14,942	$277,610	$33,020	$2,868	$35,888	$313,498

See notes to consolidated financial statements.

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 25,005	$ 9,815
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization/accretion	6,048	4,508
Loss (gain) on disposal/abandonment of property and equipment	1,064	(1)
Net realized and unrealized (appreciation) depreciation on investments	(4,230)	1,325
Changes in other operating elements:		
Receivables	(5,222)	(9,657)
Prepaid and other assets	(1,643)	(274)
Accounts payable	2,764	(4,269)
Accrued expenses	(7,641)	8,574
Refundable advances	(2,129)	908
Deferred compensation payable	781	497
Net cash provided by operating activities	14,797	11,426
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(54,896)	(28,715)
Sales/maturities of investments	58,206	44,320
Purchase of property, computer software, and equipment	(31,478)	(22,647)
Proceeds from sale of property and equipment	12	
Purchases of deferred compensation funds	(812)	(535)
Sales of deferred compensation funds	40	43
Net cash used in investing activities	(28,928)	(7,534)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,131)	3,892
CASH AND CASH EQUIVALENTS — Beginning of year	34,215	30,323
CASH AND CASH EQUIVALENTS — End of year	$ 20,084	$ 34,215
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — Purchase of property and equipment funded through accounts payable and accrued expenses	$ 3,201	$ 3,036

See notes to consolidated financial statements.

1. ORGANIZATION AND PURPOSE

Organization and Description of Business — 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 marrow.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 a contract with the Department of Health Resources and Services Administration (HRSA) to cover qualified expenses, as defined. The NMDP also obtains funding under cooperative agreements with the Department of the Navy (the "Navy") for certain blood-typing and research costs and receives contributions from individuals and businesses to pay for donor-typing costs. Additionally, the NMDP receives funding through a cooperative agreement with the Centers for Disease Control and Prevention (CDC) for certain costs related to providing information and education for patients. 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 its wholly owned subsidiary, BTMF (collectively, the "Organization"), after elimination of intercompany accounts and transactions.

2. SUMMARY OF 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.

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.

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 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, 2012 and 2011, 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, 2012 and 2011, the expected future cash receipts of pledges receivable are as follows (in thousands):

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Pledges due — in less than one year	$ -	$28	$28	$ -	$193	$193
Pledges due — in greater than one year		8	8			
	$ -	$36	$36	$ -	$193	$193

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 $596,000 and $272,000 as of September 30, 2012 and 2011, 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 $531,655 and $285,656 at September 30, 2012 and 2011, respectively. Accumulated accretion of discounts was $138,510 and $74,421 at September 30, 2012 and 2011, respectively.

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 $108,117 and $58,091 at September 30, 2012, and 2011, respectively.

Accrued Medical Liabilities — The Program procures medical services from third-party health practitioners and clinics and pays for these services based on the Program's rate schedule or contractual agreements, where applicable. The liability for unpaid medical services also includes an estimate for services incurred but not yet reported to the Program and for services received that did not include all the necessary billing information. The methods and assumptions used for estimating these amounts are continually reviewed and adjusted as more current information is received on which to base its assumptions, and adjustments to prior estimates are charged to operations in the year in which the adjustment is made as a change in estimate. The Program's estimated liability for unpaid medical services totaled approximately $23 million and $25 million at September 30, 2012 and 2011, respectively. Actual results could differ from these estimates.

The liability for unpaid medical services is included in accrued expenses in the consolidated statements of financial position.

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, 2012 and 2011.

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, CDC, and MCW contracts are recognized as revenue as qualified expenses are incurred and billed to HRSA, CDC, and MCW. Amounts under the Navy cooperative agreements generally are received in advance of spending and are reflected as refundable advances in the consolidated statements of financial position until the related qualified expenses are incurred, at which time federal contracts and cooperative agreements revenues are recognized.

Donated Services and Materials — A substantial number of volunteers have donated significant amounts of time in support of the Organization's services and administration. However, no amounts related to these services have been reflected in the consolidated financial statements since no objective basis is available to measure their value. 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. 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 has reviewed its tax positions for all open tax years and has concluded that the Organization's not-for-profit tax positions have no impact on the consolidated financial statements.

Derivative Instruments and Hedging Activities — Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and determined that it has no free-standing or embedded derivatives.

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 2012 and 2011, the Program did record an abandonment charge of $851,000 in fiscal 2012 related to the write-off of previously recorded work in process costs.

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 allowance for receivables, medical accruals, and patient assistance 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.

Subsequent Events — The Organization has considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to September 30, 2012 through January 10, 2013, the date the consolidated financial statements were issued. The Organization is not aware of any material subsequent events that would require recognition or disclosure in the fiscal 2012 consolidated financial statements.

Recent Accounting Pronouncements — In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement*. ASU No. 2011-04 changes the wording used to describe the requirements for measuring fair value and for disclosing information about fair value. ASU No. 2011-04 is effective for the Organization for the year ending September 30, 2013. The Organization does not believe the adoption of the new guidance will have a material impact on the consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210), Disclosure about Offsetting Assets and Liabilities*, requiring an entity to enhance disclosures about offsetting (netting) assets and liabilities and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 is effective for the Organization for the year ending September 30, 2014. The Organization does not believe the adoption of the new guidance will have a material impact on the consolidated financial statements.

3. PROPERTY AND EQUIPMENT

A summary of the cost and the related accumulated depreciation as of September 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Furniture and equipment	$ 23,755	$ 22,806
Leasehold improvements	4,215	4,107
Software	17,816	8,406
Work in process	33,928	16,789
Total property and equipment	79,714	52,108
Less accumulated depreciation and amortization	(19,703)	(16,484)
Property and equipment — net	$ 60,011	$ 35,624

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, 2012 and 2011, was $6,180,000 and $4,640,000, respectively, and is recorded in office and miscellaneous in the consolidated statements of functional expenses.

4. INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

The types of investments held as of September 30, 2012 and 2011, were as follows (in thousands):

	2012	2011
Mutual funds	$ 62,517	$ 35,786
Money market funds	30,900	57,035
	$ 93,417	$ 92,821
Reported as:		
Long-term	$ 83,175	$ 82,666
Funds held for bond reserve	10,242	10,155
	$ 93,417	$ 92,821

The summary of the investment return for the years ended September 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Interest income, net	$ 1,359	$ 1,358
Realized gain on investments	1,020	175
Investment income	2,379	1,533
Change in unrealized appreciation (depreciation) on investments	3,211	(1,494)
Total investment return	$ 5,590	$ 39

Interest income is net of fees of $35,000 and $70,000 for the years ended September 30, 2012 and 2011, respectively.

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. Marketable securities are carried at fair value.

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 — Unadjusted quoted prices in active markets for identical instruments.

Level 2 — Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, or model-derived valuations in which all significant inputs are directly or indirectly observable.

Level 3 — Model-derived valuations in which one or more significant inputs are unobservable, including investment managers' own assumptions about the assumptions market participants would use to price an instrument based on the best available information.

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 of the underlying investments in the long-term growth fund. The Minneapolis Foundation using 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, 2012 and 2011.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and 2011, by type of inputs applicable to the fair value measurements, are summarized as follows:

	Fair Value			
September 30, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds	$ 30,900	$ -	$ -	$ 30,900
Mutual funds:				
Domestic equities	26,924			26,924
International equities	9,261			9,261
Fixed income	21,105			21,105
Total return	2,615			2,615
Other	2,612			2,612
Total mutual funds	62,517	-	-	62,517
Total investments	$ 93,417	$ -	$ -	$ 93,417
Deferred compensation funds	$ 3,097	$ -	$ -	$ 3,097
Other assets — fund held by others	$ -	$ -	$ 596	$ 596

September 30, 2011	Fair Value Level 1	Level 2	Level 3	Total
Money markey funds	$ 57,035	$ -	$ -	$ 57,035
Mutual funds:				
Domestic equities	5,392			5,392
International equities	5,218			5,218
Fixed income	17,996			17,996
Total return	2,313			2,313
Other	4,867			4,867
Total mutual funds	35,786	-	-	35,786
Total investments	$ 92,821	$ -	$ -	$ 92,821
Deferred compensation funds	$ 2,325	$ -	$ -	$ 2,325
Other assets — fund held by others	$ -	$ -	$ 272	$ 272

The change in fair value of the Organization's Level 3 investment for the years ended September 30, 2012 and 2011, is summarized as follows:

	2012	2011
Beginning fair value — October 1	$ 272	$ -
Contributions	268	275
Change in value	56	(3)
Ending fair value — September 30	$ 596	$ 272

5. LONG-TERM DEBT

A summary of long-term debt as of September 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Revenue Bonds — Series 2010	$ 67,640	$ 67,640
Plus Revenue Bonds — Series 2010 premiums	917	1,163
Less Revenue Bonds — Series 2010 discounts	(666)	(730)
Less Revenue Bonds — Series 2010 issuance costs	(640)	(690)
Total long-term debt	67,251	67,383
Less current portion of long-term debt	-	-
Long-term portion	$ 67,251	$ 67,383

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 is expected to be completed in 2013. 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 $3,037,000 of interest expense during the year ended September 30, 2012, of which $2,934,000 was capitalized net of interest income of $103,000. The Organization incurred $3,002,000 of interest expense during the year ended September 30, 2011, of which $2,751,000 was capitalized net of interest income of $251,000.

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 is in compliance with the debt service coverage ratio at September 30, 2012.

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, 2012 and 2011. The Organization's required secondary reserve is $3,382,000 at September 30, 2012 and 2011. 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, 2012, maturities of long-term debt for each of the fiscal years ending September 30, 2013 to 2017, and thereafter, are as follows (in thousands):

Years Ended September 30	
2013	$ -
2014	4,360
2015	4,535
2016	4,720
2017	4,955
Thereafter	49,070
Subtotal	67,640
Premiums, discounts, and issuance costs	(389)
Total	$ 67,251

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, 2012 and 2011, were as follows (in thousands):

	2012	2011
Navy grants	$ 18,817	$ 16,114
HRSA contracts	17,461	16,368
MCW Subaward Agreements — other	3,089	4,368
MCW Subaward Agreements — BMTCTN	5,757	4,661
National Institute of Health Agreements	1,102	465
CDC cooperative agreement	35	254
	$ 46,261	$ 42,230

In September 2006, the HRSA awarded three contracts to the Organization with a two-year base period of performance (September 30, 2006 to September 29, 2008), and four one-year options. The fourth one-year option was awarded for all three contracts with a period of performance of September 30, 2011 to September 29, 2012.

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 National Bone Marrow Coordinating Center (#HHSH250201200024C) with a period of performance of September 30, 2012 to September 29, 2013, Cord Blood Coordinating Center (#HHSH250201200018C) with a period of performance of September 28, 2012 to September 27, 2013 and the Office of Patient Advocacy/Single Point of Access (#HHSH250201200017C) with a period of performance of September 28, 2012 to September 27, 2013. The three new contracts maintain the same level of funding in total as provided under the previous HRSA contracts.

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 $245,000 for the year. 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 $2,940,000 and $2,864,000 for the years ended September 30, 2012 and 2011, respectively.

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, 6% for senior vice presidents, and 4% for vice presidents. The Supplemental Plan is a flexible benefit plan allowing the officer to select from limited options, which include payment for individual long-term care, and the balance as a contribution into the 457(b) deferred compensation plan (above) and/or a capital accumulation account to supplement current basic and supplemental benefits. For the vice presidents, the Supplemental Plan is a flexible benefit plan allowing them to select from limited options, which includes a contribution into the 457(b) deferred compensation plan (above) and/or a capital accumulation account to supplement current basic and supplemental benefits. All Supplemental Plan participants receive life insurance. The capital accumulation account was created in accordance with applicable provisions of the Internal Revenue Code. The contributions into the capital accumulation account are subject to a two-year vesting period, with an employee election prior to the end of the first year to extend this to a five-year vesting period. If the participant remains employed by the Organization after the vesting period, the accumulated account balance within the capital accumulation account will be paid out to each plan participant. The Supplemental Plan also provides for additional life insurance up to two times salary. 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.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2012 and 2011, were available for the following purposes (in thousands):

	2012	2011
Foundation:		
Donor recruitment	$ 2,755	$ 2,366
Patient assistance	1,228	1,289
Research	1,197	996
Special programs and other	94	159
Total temporarily restricted net assets	$ 5,274	$ 4,810

10. COMMITMENTS AND CONTINGENCIES

Litigation — The Organization is involved in various legal proceedings 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.

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 $3,973,000 and $3,820,000 for the years ended September 30, 2012 and 2011, 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, 2012, were as follows (in thousands):

Years Ending September 30	
2013	$ 3,876
2014	3,673
2015	3,614
2016	1,078
2017	85
Thereafter	21
	$ 12,347

11. RECLASSIFICATIONS

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income. The first reclassification involves the consolidated statements of activities. An investment return section has been added to capture all activities related to investments. Investment income has been reclassified from where it was previously reflected in the revenues and gains section to be included in the new investment return section. The second reclassification involves the statement of functional expenses where the natural expense categories have changed from those reported in prior years to better reflect how management views such natural expenses in the management of the operations of the Organization in fiscal 2012. The funded program line has been removed and the activity previously shown on this line has been broken out and reflected in the remaining natural expense types based on natural account category. In addition, certain donor center and recruitment group expenses previously reported within the donor search services and donor recruitment services lines have been broken out and reflected in the respective natural expense types based on natural account category.

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ADDITIONAL CONSOLIDATING INFORMATION

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION
AS OF SEPTEMBER 30, 2012
(In thousands)

	NMDP	BTMF	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 13,204	$ 6,880	$ -	$ 20,084
Receivables:				
Transplant center and other receivables	44,909	15	(72)	44,852
Contract receivables	3,688			3,688
Pledges receivable		1,138	(1,110)	28
Prepaid expenses and other	4,520	8		4,528
Total current assets	66,321	8,041	(1,182)	73,180
LONG-TERM INVESTMENTS	72,152	11,023		83,175
FUNDS HELD FOR BOND RESERVE	10,242			10,242
PROPERTY AND EQUIPMENT	59,943	68		60,011
DEFERRED COMPENSATION FUNDS	3,097			3,097
OTHER ASSETS	827	605		1,432
TOTAL	$ 212,582	$ 19,737	$ (1,182)	$ 231,137
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$ 13,862	$ 158	$ -	$ 14,020
Accrued expenses	28,318	968	(1,182)	28,104
Accrued compensation and benefits	9,743	207		9,950
Refundable advances	2,630			2,630
Total current liabilities	54,553	1,333	(1,182)	54,704
DEFERRED COMPENSATION PAYABLE	3,104			3,104
LONG-TERM DEBT	67,251			67,251
NET ASSETS	87,674	18,404		106,078
TOTAL	$ 212,582	$ 19,737	$ (1,182)	$ 231,137

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION
AS OF SEPTEMBER 30, 2011
(In thousands)

	NMDP	BTMF	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 19,941	$ 14,274	$ -	$ 34,215
Receivables:				
Transplant center and other receivables	41,710		(2,402)	39,308
Contract receivables	3,853			3,853
Pledges receivable		1,627	(1,434)	193
Prepaid expenses and other	3,327	339		3,666
Total current assets	68,831	16,240	(3,836)	81,235
LONG-TERM INVESTMENTS	80,321	2,345		82,666
FUNDS HELD FOR BOND RESERVE	10,155			10,155
PROPERTY AND EQUIPMENT	35,532	92		35,624
DEFERRED COMPENSATION FUNDS	2,325			2,325
OTHER ASSETS	47	272		319
TOTAL	$ 197,211	$ 18,949	$ (3,836)	$ 212,324
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$ 9,893	$ 131	$ -	$ 10,024
Accrued expenses	38,334	3,276	(3,836)	37,774
Accrued compensation and benefits	8,774	214		8,988
Refundable advances	4,759			4,759
Total current liabilities	61,760	3,621	(3,836)	61,545
DEFERRED COMPENSATION PAYABLE	2,323			2,323
LONG-TERM DEBT	67,383			67,383
NET ASSETS	65,745	15,328		81,073
TOTAL	$ 197,211	$ 18,949	$ (3,836)	$ 212,324

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(In thousands)

	NMDP	BTMF	Eliminations	Consolidated
REVENUES AND GAINS:				
Search and procurement fees	$ 294,351	$ -	$ -	$ 294,351
Federal contracts and cooperative agreements	46,261			46,261
Contributions	7,718	13,890	(10,201)	11,407
Other	936			936
Total revenues and gains	349,266	13,890	(10,201)	352,955
EXPENSES:				
Program services	296,662	8,602	(7,579)	297,685
Management and general	31,117	1,629	(1,622)	31,124
Fundraising	4,412	1,319	(1,000)	4,731
Total expenses	332,191	11,550	(10,201)	333,540
EXCESS OF REVENUES AND GAINS OVER EXPENSES	17,075	2,340	-	19,415
INVESTMENT RETURN:				
Investment income	2,222	157		2,379
Change in unrealized appreciation on investments	2,632	579		3,211
Total investment return	4,854	736	-	5,590
INCREASE IN NET ASSETS	21,929	3,076	-	25,005
NET ASSETS — Beginning of year	65,745	15,328	-	81,073
NET ASSETS — End of year	$ 87,674	$ 18,404	$ -	$ 106,078

NATIONAL MARROW DONOR PROGRAM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

	NMDP	BTMF	Eliminations	Consolidated
REVENUES AND GAINS:				
Search and procurement fees	$ 270,269	$ -	$ -	$ 270,269
Federal contracts and cooperative agreements	42,230			42,230
Contributions	1,929	13,567	(5,451)	10,045
Other	730			730
Total revenues and gains	315,158	13,567	(5,451)	323,274
EXPENSES:				
Program services	267,266	12,248	(1,904)	277,610
Management and general	31,368	1,652		33,020
Fundraising	5,306	1,109	(3,547)	2,868
Total expenses	303,940	15,009	(5,451)	313,498
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES	11,218	(1,442)	-	9,776
INVESTMENT RETURN:				
Investment income	1,346	187		1,533
Change in unrealized depreciation on investments	(1,329)	(165)		(1,494)
Total investment return	17	22	-	39
INCREASE (DECREASE) IN NET ASSETS	11,235	(1,420)	-	9,815
NET ASSETS — Beginning of year	54,510	16,748	-	71,258
NET ASSETS — End of year	$ 65,745	$ 15,328	$ -	$ 81,073