

**American Cancer Society, Inc.
and Affiliated Entities**

Combined Financial Statements
As of and for the year
ended August 31, 2005

**American Cancer Society, Inc.
and Affiliated Entities
Contents
August 31, 2005**

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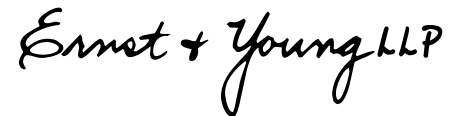
Report of Independent Auditors

The Board of Directors
The American Cancer Society, Inc. and Affiliated Entities

We have audited the accompanying combined balance sheet of the American Cancer Society, Inc. and Affiliated Entities (the “Society”) as of August 31, 2005, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Society's internal control over financial reporting. 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the American Cancer Society, Inc. and Affiliated Entities at August 31, 2005, and the combined changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.



January 31, 2006

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
COMBINED BALANCE SHEET
AUGUST 31, 2005
(In Thousands)**

ASSETS	2005
CASH AND TEMPORARY INVESTMENTS:	
Cash and cash equivalents	\$ 41,292
Other temporary investments	911,398
Total cash and temporary investments	952,690
PLEDGES AND GRANTS RECEIVABLE	40,511
INVENTORY	6,171
PREPAID EXPENSES AND OTHER ASSETS	19,875
GIFT ANNUITY INTERESTS	29,960
LEGACIES AND BEQUESTS RECEIVABLE	87,495
INTANGIBLE ASSET	8,502
BENEFICIAL INTERESTS IN TRUSTS	288,296
FIXED ASSETS, net	243,925
INVESTMENTS, at fair value	92,378
Total assets	\$ 1,769,803
LIABILITIES AND NET ASSETS	
RESEARCH AND OTHER PROGRAM AWARDS AND GRANTS PAYABLE	\$ 187,389
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:	
Accounts payable and accrued expenses	76,325
Accrued retirement plan benefits	94,222
Postretirement medical, dental and life insurance accrual	28,812
Gift annuity obligation	25,415
Total accounts payable and accrued expenses	224,774
OTHER LIABILITIES	16,975
DEBT	36,266
Total liabilities	465,404
COMMITMENTS AND CONTINGENCIES	
NET ASSETS:	
Unrestricted:	
Available for program and supporting activities	700,948
Net investment in fixed assets	208,621
Total unrestricted	909,569
Temporarily restricted	173,758
Permanently restricted	221,072
Total net assets	1,304,399
Total liabilities and net assets	\$ 1,769,803

The accompanying notes are an integral part of the combined financial statements.

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005
(In Thousands)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2005</u>
REVENUE, GAINS AND OTHER SUPPORT				
Support from the public:				
Contributions	\$ 138,397	\$ 49,994	\$ 1,508	\$ 189,899
Special events	427,949	41,148	-	469,097
Other special fund-raising events	1,447	17	-	1,464
Legacies and bequests	98,938	43,111	6,877	148,926
Change in value of split-interest agreements	1,874	21,467	-	23,341
Contributed services, at fair value	-	30,489	-	30,489
Merchandise and other in-kind contributions, at fair value	27,539	6,292	-	33,831
Contributions raised indirectly from federated and other fund-raising organizations	17,489	15,051	-	32,540
Total support from the public	<u>713,633</u>	<u>207,569</u>	<u>8,385</u>	<u>929,587</u>
Investment income:				
Interest and dividends, net	25,704	3,201	44	28,949
Net realized and unrealized investment (losses) gains	(78)	2,672	1,190	3,784
Net unrealized gains on perpetual trusts	-	-	5,380	5,380
Total investment income	<u>25,626</u>	<u>5,873</u>	<u>6,614</u>	<u>38,113</u>
Exchange transactions:				
Income	90,915	-	-	90,915
Expenses	(95,454)	-	-	(95,454)
Net exchange transactions	<u>(4,539)</u>	<u>-</u>	<u>-</u>	<u>(4,539)</u>
Grants and contracts from government agencies	9,325	2,608	-	11,933
Other revenue	2,757	-	-	2,757
Total revenue, gains and other support	<u>746,802</u>	<u>216,050</u>	<u>14,999</u>	<u>977,851</u>
NET ASSET RESTRICTION TRANSFERS				
Satisfaction of activity restrictions	192,490	(192,490)	-	-
Satisfaction of equipment acquisition restrictions	4,097	(4,097)	-	-
Expiration of time restrictions	14,326	(14,326)	-	-
Reclassification of beneficial interest in trust	-	1,335	(1,335)	-
Total net asset restriction transfers	<u>\$ 210,913</u>	<u>\$ (209,578)</u>	<u>\$ (1,335)</u>	<u>\$ -</u>

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
COMBINED STATEMENT OF ACTIVITIES (continued)
FOR THE YEAR ENDED AUGUST 31, 2005
(In Thousands)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2005</u>	<u>%</u>
EXPENSES					
Program services:					
Research - support provided to academic institutions and scientists to seek new knowledge about the causes, prevention, and cure of cancer, and to conduct epidemiological and behavioral studies	\$ 121,317	\$ -	\$ -	\$ 121,317	14%
Prevention - programs that provide the public and health professionals with information and education to prevent cancer occurrence or to reduce risk of developing cancer	171,350	-	-	171,350	20%
Detection/treatment - programs that are directed at finding cancer before it is clinically apparent and that provide information and education about cancer treatments for cure, recurrence, symptom management and pain control	139,117	-	-	139,117	16%
Patient support - programs to assist cancer patients and their families and ease the burden of cancer for them	173,823	-	-	173,823	20%
Total program services	<u>605,607</u>	<u>-</u>	<u>-</u>	<u>605,607</u>	<u>70%</u>
Supporting services:					
Management and general - direction of the overall affairs of the Society through executive, financial, and administrative services	70,577	-	-	70,577	8%
Fund-raising - programs to secure charitable financial support for programs and supporting services	190,078	-	-	190,078	22%
Total supporting services	<u>260,655</u>	<u>-</u>	<u>-</u>	<u>260,655</u>	<u>30%</u>
Total program and supporting services expenses	<u>866,262</u>	<u>-</u>	<u>-</u>	<u>866,262</u>	<u>100%</u>
Change in additional minimum liability of pension plan	40,446	-	-	40,446	
CHANGE IN NET ASSETS	<u>51,007</u>	<u>6,472</u>	<u>13,664</u>	<u>71,143</u>	
NET ASSETS, beginning of year	<u>858,562</u>	<u>167,286</u>	<u>207,408</u>	<u>1,233,256</u>	
NET ASSETS, end of year	<u>\$ 909,569</u>	<u>\$ 173,758</u>	<u>\$ 221,072</u>	<u>\$1,304,399</u>	

The accompanying notes are an integral part of the combined financial statements

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATE ENTITIES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2005
(In Thousands)**

	<u>Program Services</u>				<u>Supporting Services</u>		<u>Total</u>
	<u>Research</u>	<u>Prevention</u>	<u>Detection/ Treatment</u>	<u>Patient Support</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>2005</u>
EXPENSES							
Salaries	\$ 9,213	\$ 65,530	\$ 54,964	\$ 70,676	\$ 33,172	\$80,574	\$ 314,129
Employee benefits	2,214	17,019	13,194	17,493	7,982	19,549	77,451
Payroll taxes	626	5,360	4,534	5,873	2,484	6,707	25,584
Professional fees	4,067	10,974	12,413	8,064	8,959	19,600	64,077
Supplies	203	2,142	1,768	2,640	945	2,662	10,360
Telephone	573	3,984	3,103	4,155	1,808	4,496	18,119
Postage and shipping	165	3,578	2,785	3,631	1,449	8,851	20,459
Occupancy	1,370	6,993	5,514	9,164	2,077	7,395	32,513
Equipment rental, maintenance and information processing	437	2,651	2,152	2,820	1,520	3,289	12,869
Printing and publications	787	12,146	13,486	9,983	3,376	14,858	54,636
Meetings and conferences	749	4,282	3,552	3,810	1,508	4,997	18,898
Travel	1,111	6,647	5,196	6,108	2,528	7,669	29,259
Miscellaneous	95	2,027	1,910	2,349	1,234	3,498	11,113
Special assistance to individuals	-	52	692	15,019	-	-	15,763
Awards and grants for program services, net of cancellations	94,514	5,809	1,768	4,719	-	-	106,810
Membership dues and subscriptions	55	279	182	207	286	284	1,293
Depreciation and amortization	2,897	5,341	3,652	5,467	673	4,036	22,066
Interest expense	-	103	93	256	572	159	1,183
Contributed services	2,241	16,433	8,159	1,389	4	1,454	29,680
Total program and supporting services expense	<u>\$ 121,317</u>	<u>\$ 171,350</u>	<u>\$ 139,117</u>	<u>\$173,823</u>	<u>\$ 70,577</u>	<u>\$190,078</u>	<u>\$ 866,262</u>

The accompanying notes are an integral part of the combined financial statements.

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2005
(In Thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2005</u>
Change in net assets	\$ 71,143
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	22,066
Net unrealized gains on perpetual trusts	(5,380)
Net realized and unrealized investment gains	(3,784)
Change in value of split-interest agreements	(23,341)
Support from the public restricted for long-term investment	(3,470)
Support from the public restricted for fixed asset acquisition	(7,879)
Changes in assets and liabilities:	
Pledges and grants receivable, net	(839)
Inventory	3,567
Prepaid expenses and other assets	(1,907)
Government grants receivable	(178)
Legacies and bequests receivable	(8,164)
Intangible asset	1,927
Beneficial interests in trusts and gift annuities, net	1,279
Research and other program awards and grants payable	(1,584)
Accounts payable and accrued expenses	52,175
Other liabilities	2,984
Net cash provided by operating activities	<u>98,615</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(22,882)
Proceeds from disposal of assets	3,008
Support from the public restricted for fixed asset acquisition	7,879
Purchase of investments	(600,074)
Proceeds from maturity or sale of investments	516,447
Refundable deposit received for future sale of building	3,000
Net cash used in investing activities	<u>(92,622)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on debt	(5,978)
Proceeds from issuance of debt	5,179
Increase in book cash overdrafts	2,266
Support from the public restricted for long-term investment	3,470
Net cash provided by financing activities	<u>4,937</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 10,930
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>30,362</u>
 CASH AND CASH EQUIVALENTS, end of year	 <u>\$ 41,292</u>
 SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	<u>\$ 1,183</u>

The accompanying notes are an integral part of the combined financial statements.

**AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2005**

1. ORGANIZATION AND ACCOUNTING POLICIES

Organization

The American Cancer Society (the "Society"), is the nationwide, community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives and diminishing suffering from cancer through research, education, advocacy and service.

Principles of Combination

The accompanying combined financial statements include the consolidated accounts of the American Cancer Society, Inc. (the "National Home Office"), the American Cancer Society Foundation (the "Foundation") and the American Cancer Society of Puerto Rico, Inc. ("Puerto Rico"). The Foundation and Puerto Rico are membership corporations with the National Home Office as its only member. The consolidated accounts are combined with the accounts of the American Cancer Society Cancer Action Network ("ACS CAN"); and the Society's 13 chartered Divisions (the "Divisions"), which are separately incorporated. All significant intra-Society accounts and transactions have been eliminated in the accompanying combined financial statements.

Cash and Cash Equivalents

The Society considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents with the exception of cash held for reinvestment which is included in investments.

Investments

Pending actual disbursement for budgeted program expenditures, funds are invested in securities designed to maximize resources available for programs while minimizing risk. To help achieve these objectives, the Society maintains two combined investment pools: the Combined Investment Pool ("CIP") and the Combined Endowment Pool ("CEP"). The investment objectives of the CIP and CEP are subject to limitations defined by the National Home Office's Board of Directors and are set to provide maximum current income within the approved risk parameters. These investments do not have a significant concentration of credit risk within any industry, geographic location, or specific institution.

Interest and dividend income is presented net of investment advisory fees. Total earnings on unrestricted and temporarily restricted investments are credited to unrestricted net assets unless otherwise restricted by the donor.

Spending Policy

The Society's spending policy with respect to endowments is that to the extent of an endowment's cumulative undistributed earnings - and unless the donor has specified otherwise - 4% of the fair value of an endowment is available for spending each year. In addition, the difference between the actual total return each year and 4% is charged or credited to unrestricted or temporarily restricted net assets (depending on the donor's instructions regarding the use of investment income). Notwithstanding this

accounting treatment, the Society's spending policy with respect to such endowments is to retain the portion of any total return in excess of 4% in the endowment in order to maintain the purchasing power of the endowment. The Society believes that this policy is necessary to carry out the statutorily prescribed standard of ordinary business care and prudence.

Fair Value of Financial Instruments

The Society's financial instruments consist of cash and temporary investments, pledges and grants receivable, government grants receivable, legacies and bequests receivable, beneficial interests in trusts, investments, gift annuity interests, accounts payable and accrued expenses, gift annuity obligation, other liabilities and debt. Pledges, grants and government grants receivable are recorded at net realizable value which approximates fair value. Investments, beneficial interests in trusts and gift annuity interests are recorded at their fair values based on quoted market rates. All other financial instruments are stated at cost which approximates fair value.

Pledges and Grants Receivable

Pledges and grants receivable that are expected to be collected within one year are recorded at net realizable value. Pledges and grants receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Pledges and grants receivable are reflected net of an allowance for uncollectible amounts and have been discounted at rates ranging from 4% to 6.25%. These rates approximate the rates of return on U.S. government securities at the origination of the pledge and are commensurate with the risk management associated with the ultimate collection of the receivables. The discount is amortized using an effective yield over the expected collection period of the receivables.

All government grants receivable are expected to be collected within one year and are recorded at net realizable value.

Fixed Assets and Depreciation

Land, buildings, equipment, and other capitalized assets are recorded at cost. Contributions of long-lived assets are recorded at the estimated fair market value at the date of receipt and are recorded as unrestricted support unless the use of such contributed assets is restricted by a donor-imposed restriction. If donors contribute long-lived assets with stipulations as to how long the assets must be used or with any other restrictions, such contributions will be reported as temporarily restricted support.

Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Buildings	20 to 40 years
Leasehold improvements	Lesser of life of the lease or estimated life of the improvement
Furniture, fixtures, equipment, computer software and other capitalized assets	3 to 10 years
Equipment under capital leases	Lesser of life of the lease or estimated life of the equipment

Inventory

Inventory includes inventories, contributed merchandise and other in-kind contributions.

Inventories are valued at the lower of cost, determined on the average cost method, or market.

Contributed merchandise and other in-kind contributions, including merchandise remaining in inventory at year-end, are reflected as contributions at their estimated fair values when received or when an unconditional pledge to contribute has been made.

Awards and Grants

The Society makes awards and grants for research, education and medical projects in the field of cancer. The amount for which the Society is obligated is recorded upon the grant's approval. Awards and grants payable beyond one year are reported at the present value of their estimated future cash flows and have been discounted at rates ranging from 2.25% to 6.25%. These rates approximate the rates of return on U.S. government securities at the origination of the awards and grants.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Society's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills, and would otherwise need to be purchased if not provided by donation. These services are recognized as revenue and expense. Such amounts, which are included in the accompanying statements of activities, totaled \$30,489,000 for the year ended August 31, 2005.

Planned Gifts (Legacies & Bequests, Beneficial Interests in Trusts and Gift Annuities)

The Society is the beneficiary of planned gifts under bequests, other testamentary documents, trusts and similar deferred contributions. The assets from a bequest or a contribution may be given directly to the Society, or may be put in the care of a trustee, with the Society being designated as having a full or partial beneficial interest in the trust ("BIT"). Certain gifts are considered split-interest agreements whereby the Society receives benefits that are shared with either the donor or third party beneficiaries.

Both deceased donors, through a will, and living donors may restrict their gift to a specified purpose or geographic area (i.e., a purpose restriction), or defer their gift through use of a nonperpetual trust (i.e., a time restriction). Such gifts are classified as temporarily restricted revenues. A purpose restriction is satisfied when the Society incurs expenses satisfying the purpose restriction. A time restriction is satisfied when a deferred gift is actually received by the Society. Gifts may also be permanently restricted under a perpetual trust. See below for a further description of nonperpetual trusts and perpetual trusts.

Legacy and Bequests Receivable

Direct gifts of assets are recorded at their estimated fair value as public support (legacy or contribution revenue) when the Society has received an unconditional promise to give. Subsequent adjustments to the fair value are recognized as public support (either positive or negative) consistent with the initial recording of the gift. The Society considers a bequest unconditional when the probate court declares the testamentary instrument valid and the proceeds are measurable.

Beneficial Interests in Trusts

Nonperpetual trusts are trusts where donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Nonperpetual trusts are recorded based on the present value of the Society's estimated future cash receipts from the trust. In fiscal year 2005, based on then current financial market conditions, the Society estimated the present value of nonperpetual trusts using an investment return rate (net of trustee fees and other expenses) of 7%, and a discount rate of 5%, commensurate with the risks involved. The initial gift and any subsequent adjustments to the nonperpetual BIT's carrying value are recognized as temporarily restricted public support, legacy or contribution revenue, depending upon the initial source of the gift.

Perpetual trusts are trusts under which the Society will receive income distributions in perpetuity, but will never receive the corpus (principal). Perpetual trusts are initially recorded as permanently restricted legacy or contribution revenue, depending on the initial source of the gift, at the fair market value of the Society's interest in the trust assets at the time of the gift. Subsequent changes to the trust's fair market value are recognized as permanently restricted unrealized gains or losses. Income received from the trusts is recognized as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions.

Gift Annuities

Gift annuities require an annuity to be paid to the donor or the donor's beneficiary, funded by the donated assets, over a designated period of time or the beneficiary's lifetime, with the remainder becoming a gift to the Society. The actuarially determined liability is recorded based on the terms of the gift, and the difference between the present value of the estimated liability and the fair value of the gift is recognized as revenue at the time of the gift. The Society maintains assets sufficient to meet the annuity requirements stipulated by the various state laws.

The Society may also be the beneficiary of interest in trusts and other assets in situations where it has not been notified of its interest, its interest may be conditional or revocable, or the value of its interest may not be readily ascertainable. In such circumstances, no gift has been recorded.

Accounting for Contributions

Contributions are recognized when an unconditional promise to give is made or when cash is received, if an unconditional promise does not exist. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give without a stipulated due date and for which the Society has met all conditions precedent to receipt of the contribution prior to the Society's fiscal year-end are classified as unrestricted net assets.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to restricted support at the time of receipt and as net assets released from restrictions.

The principal and any donor restricted income from permanently restricted gifts are classified as permanently restricted net assets. Income on those assets, not permanently restricted by the donor, is classified as temporarily restricted (if purpose restricted by the donor) or unrestricted net assets.

Grant Revenue

Grant revenue on cost-reimbursement grants or contracts is recognized when the Society requests reimbursement from granting agencies after the program expenditures have been incurred. As such, the Society recognizes revenue and records a receivable for the reimbursement amount currently due from the granting agency. Such grant programs are subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Society's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Society.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

2. CASH, TEMPORARY INVESTMENTS AND INVESTMENTS

The fair value of cash, temporary investments and investments as of August 31, 2005 are as follows (in thousands):

	<u>2005</u>
Cash and cash equivalents	\$ 41,292
Money market funds	1,984
Equity securities	58,020
Commercial paper and other short-term investments	348,067
Time deposits	5,919
U.S. government and government agency obligations	346,793
Corporate bonds	179,908
Mutual funds	15,831
Other investments	47,254
Total cash, temporary investments and investments	<u>\$ 1,045,068</u>

Investment advisory fees paid by the Society were approximately \$1,826,000 for the fiscal year ended August 31, 2005.

3. PLEDGES AND GRANTS RECEIVABLE

The Society has agreements with various United Way agencies across the United States to participate in concurrent solicitations for contributions from employees of business and industrial communities. Under the terms of the agreements, the Society does not become a member of the United Way, but rather a campaign participant. The amounts the Society recognized as support from United Way campaigns of \$23,961,000 for fiscal year ended August 31, 2005 are based on formulas contained in the agreements.

These amounts are net of fund-raising expenses. For the fiscal year ended August 31, 2005 the Society received \$8,579,000 from other fund-raising organizations.

As of August 31, 2005, the expected future cash receipts from unconditional pledges and grants receivable, excluding amounts due from federated fund-raising organizations and government grants, are as follows (in thousands):

	2005
Due in one year or less	\$15,660
Due in one year through five years	9,118
Less: estimated uncollectible amounts	(269)
	<u>24,509</u>
Less: discount	(1,366)
Total	<u>\$23,143</u>

4. FIXED ASSETS

Fixed assets as of August 31, 2005 are as follows (in thousands):

	2005
Land	\$ 35,820
Buildings and leasehold improvements	218,323
Furniture, fixtures, equipment, and other capitalized assets	78,581
Computer software	53,943
Less: accumulated depreciation and amortization (including \$15,013 of accumulated software amortization)	<u>(142,742)</u>
Net fixed assets	<u>\$ 243,925</u>

Software amortization expense for the year ended August 31, 2005 was approximately \$4,244,000.

5. DEBT

Debt as of August 31, 2005 is as follows:

The Society has various industrial development and revenue bonds (the "Bonds"), with variable interest rates (ranging from 1.37% to 3.80% as of August 31, 2005), two of which are convertible to a fixed rate at the Society's option. The outstanding balance of the Bonds, net of unamortized bond issuance costs of \$128,000, was \$31,360,000 at August 31, 2005. The Bonds mature at various dates until 2022 and are collateralized by various letters of credit which expire at various dates until 2018, unless terminated earlier.

The Society has various notes payable with variable interest rates (ranging from 1.04% to 5.75% as of August 31, 2005). The outstanding balance of the notes payable was \$4,906,000 at August 31, 2005.

Approximate annual payments as of August 31, 2005, excluding interest, are payable as follows (in thousands):

Fiscal year:	
2006	\$ 2,897
2007	2,312
2008	2,602
2009	5,740
2010	3,121
Thereafter	19,722
Total	<u>\$ 36,394</u>

The debt is secured by related properties, furnishings and equipment, which have a net book value of approximately \$39,837,000.

6. AWARDS AND GRANTS PAYABLE

The aggregate amount of awards and grants for which the Society is obligated under its agreements as of August 31, 2005 is \$199,668,000. The present value as of August 31, 2005, is \$187,389,000. The discount of \$12,279,000 will be recognized as awards and grants expense in fiscal years 2006 through 2010 as the discount is amortized using an effective yield over the expected life of the awards and grants contracts. As of August 31, 2005, the awards and grants are payable as follows (in thousands):

Fiscal year:	
2006	\$ 87,637
2007	59,700
2008	35,920
2009	14,935
2010	1,476
Thereafter	-
Total	<u>\$ 199,668</u>

7. PENSION PLANS

The Society maintains noncontributory defined benefit pension plans (the "Plans"), which covers substantially all employees of the Society. The benefits are based on years of service and certain averages of compensation. Pension expense is recognized by the Society based on the actuarially determined amount, which for fiscal year 2005 was \$30,671,000. The Society's liability for contributions accrued and unpaid as of August 31, 2005 was \$83,396,000

For the year ended August 31, 2005, the Society recorded an additional minimum liability of \$40,446,000 in the accompanying combined statement of activities. On the accompanying combined balance sheet, the Society reflected an additional minimum liability of \$105,808,000 at August 31, 2005 consisting of an \$8,502,000 intangible asset and a \$97,306,000 reduction of equity.

The current strategic mix for the plan has a blended exposure to equity and debt market risk. The plan employs an active management strategy that has historically generated excess returns and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility. The plan assets at August 31, 2005 consist of:

	<u>% of Fair Value</u>	<u>Target Range</u>
Equity securities	64%	54-75%
Debt securities	28%	25-42%
Cash & cash equivalents	<u>8%</u>	0-10%
	<u>100%</u>	

Actuarial information regarding accumulated benefit obligation and plan assets is calculated solely for the plan as a whole. The actuarial present value of the vested and nonvested accumulated benefit obligation and the assets of the plan as a whole were \$491,598,000 and \$350,096,000 respectively, as of August 31, 2005, the date of the latest actuarial review. The Society employs a “building block approach” in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and debt are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness. While the approach gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long term, prospective rate.

The Society also maintains a nonqualified and unfunded Supplemental Executive Retirement Plan (the "SERP") for certain employees whose income exceeds the maximum income that can be considered under the Plans. Information related to the Society's Pension Plans and SERP as of August 31, 2005 and the related changes during the years then ended are as follows (in thousands):

	Retirement Benefits	Supplemental Retirement Benefits	Total
Measurement date : August 31, 2005			
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 402,664	\$ 16,553	\$ 419,217
Service cost	21,520	763	22,283
Interest cost	23,296	978	24,274
Amendments	-	240	240
Actuarial loss	68,988	5,021	74,009
Impact of curtailment	-	-	-
Benefits paid	(24,870)	(855)	(25,725)
Benefit obligation at end of year	<u>\$ 491,598</u>	<u>22,700</u>	<u>\$ 514,298</u>
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 309,794	\$ -	\$ 309,794
Actual expenses paid	(1,858)	-	(1,858)
Actual return on plan assets	38,297	-	38,297
Employer contributions	28,734	855	29,589
Benefits paid	(24,871)	(855)	(25,726)
Fair value of plan assets at end of year	<u>\$ 350,096</u>	<u>\$ -</u>	<u>\$ 350,096</u>
Reconciliation of funded status			
Funded status	\$ (141,502)	\$ (22,828)	\$ (164,330)
Unrecognized prior service cost	8,099	2,886	10,985
Unrecognized transition asset amount	151,999	-	151,999
Unrecognized actuarial loss	2,982	9,950	12,932
Net amount recognized	<u>\$ 21,578</u>	<u>\$ (9,992)</u>	<u>\$ 11,586</u>
Amounts recognized in the balance sheets consist of:			
Prepaid benefit cost	\$ -	\$ -	\$ -
Accrued benefit liability	(83,396)	(10,826)	(94,222)
Intangible assets	8,099	403	8,502
Reduction in net assets	96,875	431	97,306
Net amount recognized	<u>\$ 21,578</u>	<u>\$ (9,992)</u>	<u>\$ 11,586</u>

	Retirement Benefits	Supplemental Retirement Benefits	Total
Measurement date : August 31, 2005			
Actuarial assumptions			
Discount rate:			
Net periodic pension cost	6.00%-6.25%	6.00%-6.25%	
Benefit obligation	5.00%-6.25%	5.00%-5.50%	
Expected return on plan assets	7.50%-8.00%	N/A	
	Age Graded	Age Graded	
Rate of compensation increase	5.75%-3.00%	9.00%-3.00%	
Components of net periodic benefit cost			
Service cost	\$ 21,521	\$ 763	\$ 22,284
Interest cost	23,296	978	24,274
Expected return on plan assets	(1,623)	-	(1,623)
Gross return on plan assets	(21,798)	-	(21,798)
Administrative expenses	1,810	-	1,810
Amortization of:			
Unrecognized prior service cost	1,402	531	1,933
Unrecognized actuarial loss	8,761	764	9,525
Amortization of transition amount	(2,698)	-	(2,698)
Impact of Curtailment	-	13	13
Impact of Settlement	-	163	163
Net periodic benefit cost	\$ 30,671	\$ 3,212	\$ 33,883
Accumulated benefit obligation	\$ 433,492	\$ 8,961	\$ 442,453
Vested benefit obligation	\$ 394,945	\$ 8,886	\$ 403,831
Estimated future benefit payments			
2006	\$ 36,829	\$ 662	\$ 37,491
2007	36,555	3,586	40,141
2008	37,746	2,785	40,531
2009	35,899	3,477	39,376
2010	37,097	4,464	41,561
2011-2015	167,972	8,953	176,925

The Society expects to contribute \$32,404,000 in fiscal year 2006.

Future changes in actual compensation and retirement dates can materially affect both the amount of the benefits ultimately paid and the period over which the related expense is recognized.

8. POSTRETIREMENT NONPENSION BENEFITS

The Society maintains an unfunded postretirement benefit plan for employees, which covers substantially all employees of the Society. Employees hired prior to January 1, 1995 retiring from the Society on or after attaining age 55 who have rendered at least ten years of service to the Society receive postretirement medical, dental, and life insurance coverage. These benefits are subject to deductibles, co-payment provisions, and other limitations, and the Society may amend or change the postretirement plan periodically. Actuarial information regarding the accumulated postretirement benefit obligation is calculated solely for the postretirement plan as a whole.

The Society accrues the cost of providing postretirement benefits for medical, dental, and life insurance coverage over the active service period of employees and is amortizing the unrecognized transition obligation over 20 years. Medical trend rates do not apply as the plans are on fixed payment amounts.

The accumulated postretirement benefit obligation as of August 31, 2005 and related changes during the year ended August 31, 2005 consisted of the following components (in thousands):

Measurement date	August 31, 2005
Change in benefit obligation	
Benefit obligation at beginning of year	\$ 47,876
Service cost	806
Interest cost	2,797
Plan participant contributions	14
Amendments	-
Actuarial (gain)/loss	6,516
Impact of curtailment	-
Benefits paid	(2,999)
Benefit obligation at end of year	\$ 55,010
Change in plan assets	
Fair value of plan assets at beginning of year	\$ -
Actual return on plan assets	-
Employer contributions	2,769
Benefits paid	(2,769)
Fair value of plan assets at end of year	\$ -
Reconciliation of funded status	
Funded status	\$ (55,010)
Unrecognized transition amount	7,258
Unrecognized prior service cost	12,636
Unrecognized actuarial (gain)/loss	6,304
Net amount recognized	\$ (28,812)
Amounts recognized in the balance sheets consist of:	
Prepaid benefit cost	\$ -
Accrued benefit liability	(28,812)
Intangible assets	-
Reduction in net assets	-
Net amount recognized	\$ (28,812)

Measurement date	August 31, 2005
Actuarial assumptions	
Discount rate:	
Net periodic pension cost	6.00%-6.25%
Benefit obligation	5.00%-5.50%
Expected return on plan assets	N/A
Rate of compensation increase	3.00%-5.75%

Components of net periodic benefit cost

Service cost	\$	806
Interest cost		2,797
Expected return on plan assets		-
Amortization of:		
Unrecognized prior service cost		1,503
Transition amount		766
Unrecognized actuarial (gain)/loss		(136)
Recognized net actuarial (gain)/loss		247
Impact of Curtailment		-
Impact of Settlement		-
Net periodic benefit cost	\$	5,983

Estimated future benefit payments

2006	\$	3,168
2007		3,266
2008		3,345
2009		3,436
2010		3,197
2011-2015		16,693

9. OPERATING LEASES

The Society leases telecommunication systems related to its National Cancer Information Center and occupies office and warehouse space under operating leases, some of which are subject to escalation and expire on various dates through fiscal year 2015. Future minimum annual rentals with noncancelable terms, are as follows as of August 31, 2005 (in thousands):

Fiscal year:	
2006	\$ 19,780
2007	14,494
2008	10,584
2009	8,338
2010	6,072
Thereafter	12,111
Total	<u>\$ 71,379</u>

Rental expense from operating leases for the year ended August 31, 2005 was approximately \$22,956,000.

10. RESTRICTED NET ASSETS

Temporarily restricted net assets and the earnings from permanently restricted net assets as of August 31, 2005 have been restricted by donors as follows (in thousands):

	<u>Temporarily 2005</u>	<u>Permanently 2005</u>
Research	\$ 11,928	\$ 41,894
Patient support	10,895	13,955
Specific geographic location	15,087	43,098
Prevention	66	2,870
Detection/treatment	9,079	1,436
Fixed asset acquisitions	7,971	-
Hope Lodges	13,839	4,649
Time restrictions	103,963	109,957
Other	930	3,213
Total	<u>\$ 173,758</u>	<u>\$ 221,072</u>

For net assets that are shown as time restricted, the earnings are not restricted as to purpose. For permanently restricted net assets, the principal is restricted in perpetuity, and only the earnings on the net assets shown above may be spent for the restricted purpose.

11. CONTRIBUTED SERVICES

In fiscal year 2005, the Society recorded contributed services of \$29,403,000, related to the communication of program and fund-raising messages through various media. In addition, the Society has valued and recorded contributed services provided by scientific peer reviewers, which consist of medical doctors, PhD's, professors, biomedical and psychosocial professionals, social welfare service providers, and other professional service providers whose efforts are necessary for the Society to carry out its programs. In fiscal year 2005 the Society's management estimates that approximately 20,592 hours have been contributed by scientific peer reviewers and has valued such services at \$1,086,000.

12. EXCHANGE TRANSACTIONS AND CONTRIBUTED MERCHANDISE

Exchange transactions are reciprocal transfers in which each party receives and sacrifices something of equal value as opposed to a nonreciprocal transaction (i.e., a contribution) in which a donor provides resources to support the Society's mission and expects to receive nothing of direct value in exchange. Costs of exchange transactions that benefit the recipient of the exchange and are not directly related to the Society's mission are reported as exchange expenses. Costs related to exchange transactions that directly benefit or support the Society's mission are included with the Society's program or supporting services expenses.

Exchange transaction income and expenses for fiscal year 2005 are as follows (in thousands):

	Exchange Income 2005	Exchange Expenses 2005
Special events	\$ 52,996	\$ 52,996
Cars For a Cure	8,055	10,073
Discovery Shop	19,035	31,620
Rental income	1,141	223
Cause related marketing and other royalties	3,137	-
Sales to third parties	6,105	(13)
Other	446	555
Total	<u>\$ 90,915</u>	<u>\$ 95,454</u>

Benefits Purchased by Donors at Special Events

The Society conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Society. The direct costs of the special events that ultimately benefit the donor rather than the Society are recorded as exchange transaction income and exchange transaction expense. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying statements of activities. In fiscal year 2005, the Society reported special events support of \$469,097,000 and exchange transaction income and exchange transaction expense attributable to special events of \$52,996,000.

Contributed Merchandise:

Cars For a Cure

The Society operates the Cars For a Cure program to solicit donations of used vehicles from the public. The Society sells these donated vehicles, primarily at wholesale dealer auctions, to generate cash to support the Society's life saving programs. The contribution of the vehicle is recorded as merchandise and other in-kind contributions in the accompanying statement of activities at the gross wholesale proceeds for vehicles sold by August 31 and at estimated gross proceeds for donated vehicles not sold by August 31. The contribution amount for donated vehicles received in fiscal year 2005 was \$8,220,000. The exchange transaction income and exchange transaction expense attributable to vehicles sold in fiscal year 2005 was \$8,055,000. The exchange selling expenses including towing, auction fees and other disposal costs in fiscal year 2005 were \$2,018,000 and net proceeds realized for use in the Society's programs were \$6,037,000.

Discovery Shops

The Society operates Discovery Shops to solicit donations of clothing and household items from the public. Discovery Shops are upscale resale stores selling donated merchandise to generate cash to support the Division's programs. The contribution of the merchandise is recorded in the accompanying combined statement of activities as merchandise and other in-kind contributions at the gross proceeds for items sold by August 31 and at estimated gross proceeds for donated items not sold by August 31. The contribution amount for donated merchandise received in fiscal

year 2005 was \$19,203,000. The exchange transaction income and exchange transaction expense attributable to merchandise sold in fiscal year 2005 was \$19,035,000. The exchange selling expenses including rent, utilities and other disposal costs in fiscal year 2005 were \$12,585,000 and net proceeds realized for use in the Society's programs was \$6,450,000.

Other Contributed Merchandise

In fiscal year 2005, the Society received over 43,000 cosmetic kits with an estimated fair value of \$5,127,000, which were donated by the Cosmetic, Toiletry and Fragrance Association for use in the Look Good Feel Better quality of life program. In fiscal year 2005, the Society also received over 7,800 wigs with an estimated fair value of \$1,063,000 which were donated by Celebrity Signatures International, Inc. The Society provided the merchandise to chemotherapy patients along with training in the proper application of cosmetics and wigs.

The Society received other donated merchandise to be used primarily in the Society's Hope Lodges. Hope Lodges are residential facilities providing temporary housing free of charge for cancer patients and a family caregiver during cancer treatments away from their home. These donations were approximately \$150,000 for fiscal year 2005. These items are being used and therefore there is no related exchange income, expenses or selling expenses related to this contributed merchandise.

13. ACTIVITIES WITH JOINT COSTS

In fiscal year 2005, the Society conducted activities that included fund-raising appeals as well as program and management and general components. Those activities included direct mail, telecommunications, and other constituent relationship activities. The costs of conducting those joint activities which met the purpose, audience and content criteria of AICPA Statement of Position ("SOP") 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities That Include Fund-Raising*, included a total of \$114,643,000 of joint costs for fiscal year 2005, that were functionally allocated as follows (in thousands):

	<u>2005</u>
Research	\$ 114
Prevention	18,445
Detection/treatment	18,857
Patient support	14,626
Management and general	1,606
Fund-raising	<u>60,995</u>
Total	<u>\$ 114,643</u>

14. COMMITMENTS AND CONTINGENCIES

The Society is party to legal claims arising in the course of its normal business activities. Although the ultimate outcome of these claims cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Society's net assets.

The Society has letters of credit totaling \$6,341,000 to insurance companies as of August 31, 2005 under various insurance programs. These letters of credit are collateralized by the Society's investment portfolio and are for various terms expiring through 2006.

On September 24, 2004, a Division entered into a contract for the purchase of a condominium located in New York City. When put into service, this condominium will serve as a Hope Lodge facility to house and support cancer patients undergoing treatment in New York City, and as office space. The contract, which is expected to close in approximately two years, is for \$43,382,756, and is secured by the Society with a \$23,000,000 stand-by letter of credit, of which \$14,000,000 is outstanding as of August 31, 2005.

On April 4, 2005, a Division entered into a contract for the sale of its existing office buildings in New York City for \$15,000,000. The Division received a deposit amount of \$3,000,000 which is reflected in Other Liabilities on the accompanying combined balance sheet at August 31, 2005, and will operate and occupy the property until closing, between 24 and 30 months from this date. The proceeds will be utilized in the purchase of the new facility. The net book value of the building as of August 31, 2005 is \$600,000.

15. TAX STATUS

The Society (including the National Home Office and its chartered Divisions) and the Foundation have received determination letters from the Internal Revenue Service that they are exempt from income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in section 501(c)(3). ACS CAN has received a determination letter from the Internal Revenue Service that they are exempt from income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in section 501(c)(4). The Society prepares separate Internal Revenue Service Forms 990 for the National Home Office, the ACS CAN, and the Foundation with the combined Divisions.