American Cancer Society, Mid-South Division, Inc.

Financial Statements
As of and for the
year then ended August 31, 2004

American Cancer Society,
Mid-South Division, Inc.
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ERNST & YOUNG

Ernst & Young LLP
AmSouth Harbert Plaza
Suite 1900
1901 Sixth Avenue North
Birmingham, Alabama 35203

Phone: (205) 251-2000
www.ey.com

Report of Independent Auditors

The Board of Directors
American Cancer Society, Mid-South Division, Inc.

We have audited the accompanying balance sheet of the American Cancer Society, Mid-South Division, Inc., ("the Division") as of August 31, 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Division'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. 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 Division'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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Cancer Society, Mid-South Division, Inc., at August 31, 2004, and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

February 18, 2005

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES:	
Accounts payable and accrued expenses	$ 1,786,971
Accrued retirement plan benefits (Note 7)	1,475,412
Postretirement medical, dental, and life insurance accrual (Note 8)	1,174,664
Total accounts payable and accrued expenses	4,437,047
DUE TO AFFILIATES	16,800,624
OTHER LIABILITIES	104,874
DEBT (Note 6)	3,150,000
Total liabilities	24,492,545
COMMITMENTS AND CONTINGENCIES (Notes 9 and 14)	
NET ASSETS:	
Unrestricted:	
Available for program and supporting activities	28,222,312
Net investment in land, buildings, and equipment and other capitalized assets	14,832,398
Total unrestricted net assets	43,054,710
Temporarily restricted (Note 10)	7,735,251
Permanently restricted (Note 10)	7,460,900
Total net assets	58,250,861
Total liabilities and net assets	$ 82,743,406

AMERICAN CANCER SOCIETY,
MID-SOUTH DIVISION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
REVENUE, GAINS AND OTHER SUPPORT				
Support from the public:				
Received directly:				
Contributions	$ 4,800,167	$ 6,060,684	$ -	$ 10,860,851
Special events	39,975,240	28,722	-	40,003,962
Legacies and bequests	7,211,760	470,445	9,429	7,691,634
Change in value of split-interest agreements	-	285,656	-	285,656
Merchandise and other in-kind contributions, at fair value	94,267	-	-	94,267
Received indirectly:				
Contributions raised indirectly from federated and other fundraising organizations (Note 3)	1,337,607	857,889	-	2,195,496
Total support from the public	53,419,041	7,703,396	9,429	61,131,866
Grants and contracts from:				
Government agencies	523,814	-	-	523,814
Affiliates	-	1,727,772	-	1,727,772
Total grants and contracts	523,814	1,727,772	-	2,251,586
Investment income (Note 2):				
Interest and dividends, net	791,076	59,395	-	850,471
Net realized and unrealized investment gains (losses)	(32,781)	-	415,869	383,088
Total investment income (loss)	758,295	59,395	415,869	1,233,559
Exchange transactions (Note 11)				
Income	3,773,951	-	-	3,773,951
Expenses	(3,759,734)	-	-	(3,759,734)
Total exchange transactions	14,217	-	-	14,217
Other gains (losses)	(36,015)	-	-	(36,015)
Total revenue, gains, and other support	54,679,352	9,490,563	425,298	64,595,213
NET ASSET RESTRICTION TRANSFERS				
Satisfaction of activity restrictions	9,992,872	(9,992,872)	-	-
Transfer of restriction to National Home Office	706,836	(706,836)	-	-
Expiration of time restrictions	889,795	(889,795)	-	-
Total net asset restriction transfers	$ 11,589,503	$ (11,589,503)	$ -	$ -

The accompanying notes are an integral part of this statement.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds	%
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	$ 35,487	$ -	$ -	$ 35,487	0%
Prevention-programs that provide the public and health professionals with information and education to prevent cancer occurrence or to reduce risk of developing cancer	9,083,695	-	-	9,083,695	15%
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	6,703,102	-	-	6,703,102	11%
Patient support-programs to assist cancer patients and their families and ease the burden of cancer for them	10,062,202	-	-	10,062,202	17%
Total program services	25,884,486	-	-	25,884,486	43%
Supporting services:					
Management and general-direction of the overall affairs of the Society through executive, financial, and administrative services	2,549,148	-	-	2,549,148	4%
Fund-raising-programs to secure charitable financial support for programs and supporting services	10,472,309	-	-	10,472,309	17%
Total supporting services	13,021,457	-	-	13,021,457	21%
Total program and supporting services expenses	38,905,943	-	-	38,905,943	64%
Public support allocable to national activities (Note 12)	22,168,736	-	-	22,168,736	36%
Total program and supporting services expenses and allocation for national activities	61,074,679	-	-	61,074,679	100%
Total expenses and allocation	61,074,679	-	-	61,074,679	
Change in net assets	5,194,176	(2,098,940)	425,298	3,520,534	
NET ASSETS, beginning of year	37,860,534	9,834,191	7,035,602	54,730,327	
NET ASSETS, end of year	$ 43,054,710	$ 7,735,251	$ 7,460,900	$ 58,250,861	

The accompanying notes are an integral part of this statement.

AMERICAN CANCER SOCIETY,

MID-SOUTH DIVISION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2004

	Program Services				Supporting Services			
	Research	Prevention	Detection/ Treatment	Patient Support	Management and General	Fund- Raising	Other	Total Expenses and Allocation
EXPENSES:								
Salaries	$ -	$ 4,250,328	$ 3,523,151	$ 4,509,676	$ 729,292	$ 5,333,442	$ -	$ 18,345,889
Employee benefits	-	1,034,853	930,419	1,168,847	193,725	1,422,680	-	4,756,524
Payroll taxes	-	408,017	334,653	418,010	69,048	507,075	-	1,736,803
Professional fees	-	637,529	127,250	268,259	842,285	747,703	-	2,623,026
Supplies	13	60,469	49,820	99,202	13,661	69,450	-	292,615
Telephone	50	233,887	211,506	253,872	54,957	306,841	-	1,061,093
Postage and shipping	-	95,002	80,463	93,298	15,330	156,041	-	441,034
Occupancy	-	318,871	303,215	394,798	279,571	318,638	-	1,615,093
Information processing and other services and rentals	-	69,338	55,353	62,022	21,865	80,533	-	289,111
Printing, publications, films, etc.	32,183	696,920	291,254	292,231	67,828	475,453	-	1,855,869
Meetings and conferences, including related travel	206	257,040	145,211	154,887	72,678	159,386	-	789,408
Other travel	2,860	453,641	346,904	353,155	114,820	462,553	-	1,733,933
Miscellaneous	175	51,950	46,451	49,528	23,046	5,395	-	176,545
Special assistance to individuals	-	362	4,292	1,601,249	-	-	-	1,605,903
Awards and grants to individuals and other organizations	-	256,377	2,837	22,992	-	-	-	282,206
Awards and grants to Affiliates	-	-	-	17,700	-	57,020	-	74,720
Insurance	-	46,718	44,784	55,918	9,290	68,221	-	224,931
Membership dues and subscriptions	-	10,085	6,451	5,465	1,699	7,736	-	31,436
Depreciation and amortization	-	198,585	190,362	237,690	39,488	289,990	-	956,115
Interest expense	-	2,843	2,726	3,403	565	4,152	-	13,689
Total program and supporting services expenses	35,467	9,083,695	6,703,102	10,062,202	2,549,148	10,472,309	-	38,905,943
PUBLIC SUPPORT ALLOCABLE TO NATIONAL ACTIVITIES (Note 12)	-	-	-	-	-	-	22,168,736	22,168,736
Total expenses and allocation	$ 35,487	$ 9,083,695	$ 6,703,102	$ 10,062,202	$ 2,549,148	$ 10,472,309	$ 22,168,736	$ 61,074,679

The accompanying notes are an integral part of this statement.

AMERICAN CANCER SOCIETY,

MID-SOUTH DIVISION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2004

Cash Flows From Operating Activities		
Change in net assets	$	3,520,534
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization		956,115
Net realized and unrealized investment losses/(gains)		(383,088)
Other losses/(gains)		36,015
Changes in assets and liabilities:		
Due from federated fund-raising organizations		(2,351)
Due from Affiliates		(28,814)
Pledges and grants receivable, net		(822,006)
Accrued interest and other receivables		504,024
Contributed merchandise, at fair value		(1,252)
Government grants receivable		(51,971)
Prepaid expenses and other assets		133,061
Division's interest in combined planned giving pool		(2,780,416)
Accounts payable and accrued expenses		511,769
Due to Affiliates		(329,898)
Deferred income		(291,724)
Net cash provided by (used in) operating activities	$	969,998
Cash Flows From Investing Activities		
Purchase of land, buildings,equipment and other capitalized assets		(5,236,863)
Proceeds from sale of land, buildings, equipment and other capitalized assets		10,298
Purchase of investments		(64,737,657)
Proceeds from maturity or sale of investments		66,759,111
Net cash provided by (used in) investing activities	$	(3,205,111)
Cash Flows From Financing Activities		
Payments on notes payable	$	(100,000)
Proceeds from issuance of bonds payable		2,500,000
Net cash provided by (used in) financing activities	$	2,400,000
Net Increase (Decrease) In Cash and Cash Equivalents		164,887
Cash and Cash Equivalents, beginning of year		3,224,979
Cash and Cash Equivalents, end of year	$	3,389,866
Supplemental Cash Flow Information:		
Interest paid	$	13,120

The accompanying notes are an integral part of this statement.

AMERICAN CANCER SOCIETY,

MID-SOUTH DIVISION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

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. The American Cancer Society, Mid-South Division, Inc. (the "Division") is one of 14 chartered divisions through which the Society's objectives are carried out.

Cash and Cash Equivalents

The Division 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.

Division's Interest in Combined Investment and Endowment Pools

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 American Cancer Society National Home Office (the "National Home Office") 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 portfolios are maintained on a pooled "mutual fund" accounting basis with the total earnings, investment expenses, appreciation and depreciation, whether realized or unrealized, being allocated to each participating Division on a pro rata basis.

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 Division's financial instruments consist of cash and cash equivalents, due from federated fund raising organizations, due from affiliates, pledges and grants receivable, investments, accounts payable and accrued expenses, due to affiliates and notes payable. Pledges and grants receivable are recorded at net realizable value which approximates fair value and investments 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 5%. 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.

Land, Buildings, Equipment and Other Capitalized 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 provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Buildings	20 to 40 years
Software, office furniture and equipment	3 to 10 years
Leasehold improvements	Lesser of life of the lease or estimated life of the improvement

Contributed Merchandise and Other In-Kind Contributions

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.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Division'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.

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

The Division 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 Division, or may be put in the care of a trustee, with the Division being designated as having a full or partial beneficial interest in the trust ("BIT"). Certain gifts are considered split-interest agreements whereby the Division 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 Division incurs expenses satisfying the purpose restriction. A time restriction is satisfied when a deferred gift is actually received by the Division. 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 Division 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 Division 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 Division's estimated future cash receipts from the trust. In fiscal year 2004, based on then current financial market conditions, the Division estimated the present value of nonperpetual trusts using an investment return rate (net of trustee fees and other expenses) of 4.25%, and a discount rate of 4.25%, commensurate with the risks involved. In fiscal year 2003, 4% was used for both rates. The initial gift and any subsequent adjustments to the nonperpetual BIT's carrying value are recognized as temporarily restricted public support or legacy or contribution revenue, depending upon the initial source of the gift.

Perpetual trusts are trusts under which the Division 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 Division'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 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 Division. 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 Division 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.

Division's Interest in Combined Planned Giving Pool

The Division is a participant with certain other Divisions in a Planned Giving Business Unit (PGBU) joint operating agreement. The PGBU is a cooperative effort through which participating Divisions use a centrally managed staff to coordinate a shared planned giving program. The participating Divisions utilize a common planned giving staff and share in the planned giving revenue, including legacies and beneficial interests in trusts generated through the efforts of the PGBU staff. The sharing of the planned gifts is based on a sharing formula negotiated among all the Divisions under the operating agreement. If the donor permanently restricts the principal of a planned gift and only the income may be spent, the planned gift is not included in the sharing arrangement and the recipient Division retains 100% of the gift. Certain other receivables and beneficial interests that were recorded by the participating Divisions prior to joining PGBU are also retained 100% by that Division. During the year ended August 31, 2004, the Division recognized $7,691,634 of legacy and planned giving income as a participant of the PGBU.

The costs of operating the PGBU are funded 70% by the participating Divisions, based on the relative portion of population domiciled in each Division's territory, as determined by the most recent census data, to the total population included in the participating Divisions. The National Home Office funds the remaining 30% of the PGBU costs, administers the program, and maintains the pool of participating assets.

The Probate and Trust Management Unit (PTM), sponsored by the National Home Office, provides all necessary administrative services to the Divisions for collection, valuation and management of the pool of various types of planned giving contributions and bequests, which include direct gifts of assets and gifts of beneficial interests in trusts held by third-party trustees. The pool includes gifts that were generated through the PGBU, as well as similar gifts accumulated prior to the formation of PGBU.

The fair value of the Division's share of the pool of assets administered by PTM as of August 31, 2004, including the Division's share of the PGBU assets, was as follows:

Division's interest in combined unrestricted planned giving pool	$ 8,676,277
Division's interest in combined temporarily restricted planned giving pool	5,669,928.0
Division's interest in combined permanently restricted planned giving pool	7,317,520
Total Division interest in combined planned giving pool	$ 21,663,725

Due to Affiliates

It is the policy of the Society that each Division allocate 40% of its public support earned during the fiscal year to support programs and initiatives administered at the National Home Office. This allocation is subject to certain agreed upon adjustments. As of August 31, 2004, the Division has recorded a payable to the National Home Office in the amount of $16,535,382 to support such programs and initiatives. This payable is included in Due to Affiliates in the accompanying balance sheet and is expected to be paid during the subsequent fiscal years.

Accounting for Contributions

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 Division has met all conditions precedent to receipt of the contribution prior to the Division'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 designated income from permanently restricted gifts are classified as permanently restricted net assets. Return on those assets, not designated by the donor as permanently restricted, is classified as temporarily restricted (if purpose restricted by the donor) or unrestricted.

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 AND INVESTMENTS

Cash and investments at August 31, 2004 consisted of the following:

	Fair Value
Cash and cash equivalents	$ 3,389,866
Combined Investment Pool	25,661,285
Combined Endowment Pool	154,943
Time deposits	17,500
U.S. government and government agency obligations	4,184,725
Corporate bonds	929,812
Other investments	131,937
	$ 34,470,068

Investment advisory fees paid by the Division were approximately $15,000 for the fiscal year ended August 31, 2004.

3. FEDERATED FUND-RAISING AGREEMENTS

The Division has agreements with the United Way in the states of Alabama, Arkansas and Kentucky to participate in a concurrent solicitation for contributions from the business and industrial communities of those states. Under the terms of the agreements, the Division does not become a member of the United Way, but rather a campaign participant. The amounts the Division recognized as support from the United Way campaigns in the states of Alabama, Arkansas and Kentucky of $1,018,089, $10,000 and $493,750, respectively, for the fiscal year ended August 31, 2004 are based on formulas contained in the agreements. These amounts are net of fund-raising expenses. The agreements expire at various dates through June 30, 2005 or until terminated by either party. For the fiscal year ended August 31, 2004, the Division received $673,657 from other fund-raising organizations.

4. PLEDGES AND GRANTS RECEIVABLE

As of August 31, 2004, the expected future cash receipts from unconditional pledges and grants receivable were as follows:

Due in one year or less	$ 1,807,842
Due in one year through five years	2,282,381
	4,090,223
Less: discount	(186,960)
Total	$ 3,903,263

5. LAND, BUILDINGS, EQUIPMENT AND OTHER CAPITALIZED ASSETS

At August 31, 2004, the fixed assets of the Division were as follows:

Land	$ 2,339,711
Buildings and leasehold improvements	14,038,709
Furniture, fixtures, equipment, computer software and other capitalized assets	7,399,582
Less accumulated depreciation and amortization	(5,795,604)
Net land, building, equipment and other capitalized assets	$ 17,982,398

6. DEBT

The Division has a note payable of $650,000 outstanding at August 31, 2004 in connection with the purchase of an office in Baton Rouge, LA. The building was purchased on September 10, 2003. The loan is collateralized by a certificate of deposit in the same amount and carries a fixed rate of 2.10%. The Division intends to repay the loan with pledges and donations from a capital campaign for the building that is due to start during fiscal year 2005. The entire loan was renewed on February 17, 2005 for $625,000 and matures on August 17, 2005.

Industrial development bonds outstanding at August 31, 2004 are $2,500,000. These bonds were issued in connection with the construction of a Hope Lodge completed in Nashville in September 2004. The interest rate is variable based on weekly rate periods. The rates are determined by the Remarketing Agent as the rate equal to the lowest rate, which would produce as nearly as possible a par bid for the bonds. At any time the Division has the option to convert the variable rate to a fixed rate. The rates fluctuated from 1.13% to 1.47% during fiscal year 2004. The bonds are credit enhanced by a letter of credit in the same amount, renewable annually on the outstanding balance priced at 75 basis points.

Approximate annual payments as of August 31, 2004, excluding interest, but including the renewal noted above, are payable as follows:

Fiscal year:	
2005	$ 650,000
2006	500,000
2007	500,000
2008	500,000
2009	500,000
Thereafter	500,000
Total	$ 3,150,000

In connection with the construction of a Hope Lodge in New Orleans, the Division issued revenue bonds in the amount of $5,000,000 in December 2004. The interest rate is a fixed amount of 3.6% and principal amounts are due in variable amounts from December 15, 2005 until December 15, 2014. The bonds are collateralized by the pledges and receipts associated with the project and a security agreement with AmSouth Bank.

7. PENSION PLANS

The Division is a participant in the noncontributory defined benefit pension plan of the Society, which covers substantially all employees of the National Home Office and participating Divisions. The benefits are based on years of service and the employees' average compensation over the highest consecutive 36 months during the last ten years of service. Pension expense is recognized by the Division based on the amount to be funded currently, which for fiscal year 2004 was $1,886,702 based on 13% of participants' applicable earnings. The Division's liability for contributions accrued and unpaid as of August 31, 2004 was $1,257,800.

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, 2004 consist of:

	% of Fair Value	Target Range
Equity securities	58%	54-70%
Debt securities	33%	34-42%
Cash & cash equivalents	9%	1-5%
	100%	

For the year ended August 31, 2004, the Society made the annual plan contribution in August 2004.

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 $371,345,753 and $287,738,343 respectively, as of August 31, 2004, 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 Division also maintains a nonqualified and unfunded supplemental executive retirement plan ("SERP") for certain employees whose income exceeds the maximum income that can be considered under the Plan. Information related to the Division's SERP as of August 31, 2004 and the related changes during the year then ended were as follows:

Measurement Date		Year Ended August 31, 2004
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	$	513,687
Service Cost		24,886
Interest Cost		32,094
Amendments		0
Actuarial (Gain)/Loss		34,940
Impact of Curtailment		0
Benefits Paid		(306)
Benefit Obligation at End of Year	$	605,301
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$	0
Actual Return on Plan Assets		0
Employer Contributions		306
Benefits Paid		(306)
Fair Value of Plan Assets at End of Year	$	0
Reconciliation of Funded Status		
Funded Status	$	(605,301)
Unrecognized Prior Service Cost		181,513
Unrecognized Actuarial (Gain)/Loss		206,176
Net Amount Recognized	$	(217,612)
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid Benefit Cost	$	0
Accrued Benefit Liability		(217,612)
Intangible Asset		0
Reduction in Equity		0
Net Amount Recognized	$	(217,612)
Weighted Average Assumptions		
Discount Rate		6.00%
Expected Return on Plan Assets		N/A
Rate of Compensation Increase		5.00%

Measurement Date		Year Ended August 31, 2004
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	$	513,687
Service Cost		24,886
Interest Cost		32,094
Amendments		0
Actuarial (Gain)/Loss		34,940
Impact of Curtailment		0
Benefits Paid		(306)
Benefit Obligation at End of Year	$	605,301
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$	0
Actual Return on Plan Assets		0
Employer Contributions		306
Benefits Paid		(306)
Fair Value of Plan Assets at End of Year	$	0
Reconciliation of Funded Status		
Funded Status	$	(605,301)
Unrecognized Prior Service Cost		181,513
Unrecognized Actuarial (Gain)/Loss		206,176
Net Amount Recognized	$	(217,612)
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid Benefit Cost	$	0
Accrued Benefit Liability		(217,612)
Intangible Asset		0
Reduction in Equity		0
Net Amount Recognized	$	(217,612)
Weighted Average Assumptions		
Discount Rate		6.00%
Expected Return on Plan Assets		N/A
Rate of Compensation Increase		5.00%

Components of Net Periodic Benefit Cost	Year Ended August 31, 2004
Service Cost	$ 24,886
Interest Cost	32,094
Expected Return on Plan Assets	0
Amortization of:	
Unrecognized Prior Service Cost	8,643
Unrecognized Actuarial (Gain)/Loss	5,708
Curtailment Charge	0
Settlement Charge	0
Net Periodic Benefit Cost	$ 71,331
Accumulated Benefit Obligation	$ 71,306
Vested Benefit Obligation	$ 71,306
Assumption Used for Annual Expenses	
Discount Rate	6.25%
Discount Rate of Compensation Increase	N/A
Estimated Future Benefit Payments	
2005	$ 9,045
2006	6,368
2007	1,176
2008	6,467
2009	7,791
2010-2014	96,481

The Division expects to contribute $9,045 in fiscal 2005.

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

Employees hired prior to January 1, 1995 retiring from the Division on or after attaining age 55 who have rendered at least 10 years of service to the Society are entitled to postretirement medical care, life insurance and dental benefit coverage. These benefits are subject to deductibles, co-payment provisions and other limitations. The Division may amend or change the plan periodically. Effective January 1, 2004, the Division separated from the Society postretirement medical and life insurance plans. The accumulated postretirement benefit obligation and unrecognized amounts were spun off to the Division using liabilities based on the Society plan's fiscal 2004 valuation. As of August 31, 2004, the Division has not funded this plan.

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.

Measurement Date		Year Ended August 31, 2004
Change in Benefit Obligation		
Separation from National Plan on January 1, 2004	$	1,433,994
Service Cost		20,159
Interest Cost		75,272
Amendments		210,060
Actuarial Gains/(Losses)		266,877
Benefits Paid		(73,149)
Benefit Obligation at End of Year	$	1,933,213
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$	0
Actual Return on Plan Assets		0
Employer Contributions		73,149
Benefits Paid		(73,149)
Fair Value of Plan Assets at End of Year	$	0
Reconciliation of Funded Status		
Funded Status	$	(1,933,213)
Unrecognized Transition Amount		238,085
Unrecognized Prior Service Cost		533,215
Unrecognized Actuarial (Gain)/Loss		(12,751)
Net Amount Recognized	$	(1,174,664)
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid Benefit Cost	$	0
Accrued Benefit Liability		(1,174,664)
Intangible Asset		0
Reduction in Equity		0
Net Amount Recognized	$	(1,174,664)
Components of Postretirement Benefit Cost		
Service Cost	$	20,159
Interest Cost		75,272
Expected Return on Plan Assets		0
Amortization of Unrecognized Amounts		
Transition Amount		17,636
Prior Service Cost		58,750
Actuarial (Gain)/Loss		0
Postretirement Benefit Cost	$	171,817

Additional Information		August 31, 2004
Unrecognized Amounts Spun-off to Division From Society as of January 1, 2004		
Unrecognized Transition Obligation	$	255,721
Unrecognized Prior Service Cost	$	381,905
Unrecognized Actuarial (Gain)/Loss	$	(279,628)

Weighted Average Assumptions Used to Determine Benefit Obligation at August 31, 2004

Discount Rate	6.00%
Expected Long-term Return on Plan Assets	N/A
Rate of Compensation Increase	Varies by age: 5.75% to 3.00%

Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for the Year Ended August 31, 2004

Discount Rate	6.25%
Expected Long-Term Return on Plan Assets	N/A
Rate of Compensation Increase	Varies by age: 5.75% to 3.00%

Assumed Health Care Cost Trend Rates at August 31, 2004

Health care cost trend rate assumed for next year	
—Pre-65	12.0%
—Post-65	14.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	
—Pre-65	5.5%
—Post-65	5.5%
Year that the rate reaches the ultimate trend rate	
—Pre-65	2017
—Post-65	2021

Effect of a 1% Increase in Medical Trend Rate in 2004

On Benefit Obligation	$	28,913
On Service Cost Plus Interest Cost	$	1,052

Effect of a 1% Decrease in Medical Trend Rate in 2004

On Benefit Obligation	$	(22,188)
On Service Cost Plus Interest Cost	$	(939)

Cash Flows

Expected Contributions — The Division expects to contribute $121,484 in fiscal 2005

Expected Benefit Payments

2005	$	121,484
2006	$	123,489
2007	$	121,259
2008	$	126,775
2009	$	132,999
Years 2010-2014	$	757,242

9. OPERATING LEASES

The Division occupies office and warehouse space under operating leases, some of which are subject to escalation and expire on various dates through fiscal year 2022. Future minimum annual rentals with noncancelable terms are as follows as of August 31, 2004:

Fiscal year:	
2005	$ 759,426
2006	615,019
2007	361,866
2008	175,718
2009	88,534
Thereafter	666,848
Total	$ 2,667,411

Rental expense from operating leases for the year ended August 31, 2004 was approximately $959,000.

10. RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets at August 31, 2004 have been restricted by donors in the following manner:

	Temporarily	Permanently
Research	$ -	$ -
Patient support	62,858	-
Specific geographic locations	-	-
Prevention	364,401	-
Detection/treatment	277,466	-
Fixed asset acquisitions	2,820,663	-
Hope Lodges	276,812	-
Time restrictions	3,933,051	7,460,900
Total	$ 7,735,251	$ 7,460,900

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. EXCHANGE TRANSACTIONS

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 Division's program or supporting service expenses.

Exchange transaction revenues and expenses for fiscal year 2004 were as follows:

	Exchange Revenues	Exchange Expenses	Program or Supporting Service Expenses
Special events	$ 3,585,352	$ 3,585,352	$ -
Donated merchandise:			
Sales	91,190	91,190	-
Selling and administration	-	27,996	-
Sales to third parties	10,681	10,488	-
Rental income	42,020	-	-
Program services fees	44,708	-	44,708
	$ 3,773,951	$ 3,715,026	$ 44,708

Benefits Purchased by Donors at Special Events

The Division 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 Division. The direct cost of the special events that ultimately benefit the donor rather than the Division are recorded as exchange transaction revenue and exchange transaction expense. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying statement of activities. In fiscal year 2004, the Division reported special events support of approximately $40,004,000 and exchange transaction revenue and exchange transaction expense attributable to special events of approximately $3,585,000.

Sales of Donated Merchandise

The Division participates in the Cars for a Cure program where donations of used automobiles are solicited from the public. The Division sells the donated automobiles to generate cash, which can then be used to support the Division's programs. In fiscal 2004, the Division recorded $92,442 as merchandise and other in-kind contributions in the accompanying statement of activities. Sales and the corresponding cost of sales of contributed automobiles of $91,190 were recorded as exchange transaction revenue and exchange transaction expense attributable to donated automobiles. Selling and administration expenses incurred to operate the Cars for a Cure program of $27,996 were also recorded as exchange transaction expense. Net proceeds realized for use in the Division's programs from the Cars for a Cure program were $63,194.

12. REVENUE AND COST SHARING WITH THE NATIONAL HOME OFFICE

In accordance with the Society's policy, which is reviewed and approved annually by the National Assembly, 40% of each Division's public support earned during the fiscal year is allocated to the National Home Office to support programs and initiatives which are more effectively administered on a national basis, subject to certain agreed upon exceptions. Certain expenses of the Society are shared among Affiliates and the National Home Office on agreed upon formulas determined on a case-by-case basis.

During fiscal year 2003 (the latest year for which audited figures are available), the National Home Office's expenditures were as follows:

Program services:	
Research	36%
Prevention	17%
Detection/treatment	11%
Patient support	13%
Total program services	77%
Supporting services:	
Management and general	10%
Fund-raising	13%
Total supporting services	23%
Total program and supporting services	100%

13. ACTIVITIES WITH JOINT COSTS

In fiscal year 2004, the Division 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 $15,175,082 of joint costs that were functionally allocated as follows:

Fund raising	$ 5,548,419
Prevention	3,177,287
Detection/treatment	3,461,693
Patient support	2,987,683
Total	$ 15,175,082

14. CONTINGENCIES

The Division 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 Division's net assets.

15. TAX STATUS

The Society (including the National Home Office and its chartered Divisions) has received a determination letter from the Internal Revenue Service that it is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Society prepares an Internal Revenue Service Form 990 for the combined Divisions.

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