American Cancer Society, Inc.
and Affiliated Entities

Consolidated Financial Statements
As of and for the Years Ended August 31, 2012 and 2011

Ernst & Young LLP

ERNST & YOUNG

American Cancer Society, Inc.
and Affiliated Entities
Contents
August 31, 2012 and 2011

Page(s)

Report of Independent Auditors ……..1

Consolidated Financial Statements

Consolidated Statements of Activities.…….....……...2-3

Consolidated Statements of Functional Expenses..……..…….……4-5

Consolidated Statements of Cash Flows ……..…….....6

Consolidated Balance Sheets ……...……7

Stewardship Focused Disclosures ……8-14

Other Required Disclosures ……15-35

Ernst & Young LLP
Suite 1000
55 Ivan Allen Jr. Boulevard
Atlanta, GA 30308
Tel: +1 404 874 8300
Fax: +1 404 817 5589
www.ey.com

Report of Independent Auditors

The Board of Directors
American Cancer Society, Inc.

We have audited the accompanying consolidated balance sheets of the American Cancer Society, Inc. and Affiliated Entities (collectively "the Society") as of August 31, 2012 and 2011, and the related consolidated statements of activities, functional expense, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the American Cancer Society, Inc. and Affiliated Entities as of August 31, 2012 and 2011, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 13, 2013

A member firm of Ernst & Young Global Limited

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012
(In Thousands)

		Donor Restricted		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Our mission program and support expenses were:				
Mission program services:				
Patient support	$ 303,620	$ -	$ -	$ 303,620
Prevention	152,681	-	-	152,681
Research	160,139	-	-	160,139
Detection/treatment	97,051	-	-	97,051
Total mission program services	713,491	-	-	713,491
Mission support services:				
Management and general	59,361	-	-	59,361
Fund-raising	217,637	-	-	217,637
Total mission support services	276,998	-	-	276,998
Total mission program and mission support services expenses	990,489	-	-	990,489
Our mission program and support expenses were funded by:				
Support from the public:				
Special events, including Relay for Life® and Making Strides Against Breast Cancer®	452,412	71,221	1	523,634
Contributions	132,559	42,170	293	175,022
Bequests	88,839	29,587	3,498	121,924
Contributed services, merchandise and other in-kind contributions	23,473	27,582	-	51,055
Other	12,266	4,681	-	16,947
Total support from the public	709,549	175,241	3,792	888,582
Investment income (loss)	43,807	6,387	(6,491)	43,703
Change in value of split-interest agreements	(262)	(12,965)	(183)	(13,410)
Grants and contracts from government agencies	5,706	2,114	-	7,820
Other revenue (loss)	(2,510)	1,205	-	(1,305)
Total revenue, gains (loss) and other support	756,290	171,982	(2,882)	925,390
Use of amounts restricted by donors for specified purpose or time	198,204	(199,535)	1,331	-
Net increase in retirement plan liability	96,593	-	-	96,593
Change in net assets	(132,588)	(27,553)	(1,551)	(161,692)
Net assets, beginning of year	885,255	229,532	259,598	1,374,385
Net assets, end of year	$ 752,667	$ 201,979	$ 258,047	$1,212,693

The notes beginning on page 8 are an integral part of the consolidated financial statements.

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011
(In Thousands)

		Donor Restricted		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Our mission program and support expenses were:				
Mission program services:				
Patient support	$ 279,645	$ -	$ -	$ 279,645
Prevention	149,719	-	-	149,719
Research	148,468	-	-	148,468
Detection/treatment	102,741	-	-	102,741
Total mission program services	680,573	-	-	680,573
Mission support services:				
Management and general	63,456	-	-	63,456
Fund-raising	202,941	-	-	202,941
Total mission support services	266,397	-	-	266,397
Total mission program and mission support services expenses	946,970	-	-	946,970
Our mission program and support expenses were funded by:				
Support from the public:				
Special events, including Relay for Life® and Making Strides Against Breast Cancer®	454,584	71,874	-	526,458
Contributions	136,210	42,655	350	179,215
Bequests	97,073	19,461	5,143	121,677
Contributed services, merchandise and other in-kind contributions	22,715	27,863	-	50,578
Other	12,247	6,076	-	18,323
Total support from the public	722,829	167,929	5,493	896,251
Investment income	24,859	8,842	15,106	48,807
Change in value of split-interest agreements	461	(7,452)	(946)	(7,937)
Grants and contracts from government agencies	8,567	2,378	-	10,945
Other revenue (loss)	4,243	1,735	(468)	5,510
Total revenue, gains (loss) and other support	760,959	173,432	19,185	953,576
Use of amounts restricted by donors for specified purpose or time	202,450	(202,856)	406	-
Net decrease in retirement plan liability	(60,381)	-	-	(60,381)
Change in net assets	76,820	(29,424)	19,591	66,987
Net assets, beginning of year before adoption of new endowment accounting standard	809,254	258,137	240,007	1,307,398
Effect of adoption of new endowment accounting standard	(819)	819	-	-
Net assets, beginning of year as adjusted	808,435	258,956	240,007	1,307,398
Net assets, end of year	$ 885,255	$ 229,532	$ 259,598	$1,374,385

The notes beginning on page 8 are an integral part of the consolidated financial statements.

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012
(In Thousands)

	Mission program				Mission support		
	Patient support	Prevention	Research	Detection / treatment	Management and general	Fund-raising	Total
Mission program and support expenses							
Salaries	$ 114,597	$ 64,110	$ 20,014	$ 41,931	$ 26,466	$ 106,290	$ 373,408
Employee benefits	34,399	17,342	3,959	11,765	6,064	29,641	103,170
Payroll taxes	9,565	5,171	1,377	3,459	2,067	8,514	30,153
Professional fees	19,327	14,040	10,456	7,803	6,158	13,073	70,857
Grants for mission program services	2,753	3,766	106,882	3,272	-	-	116,673
Educational materials	22,173	15,226	8,018	7,988	2,823	12,737	68,965
Direct assistance, including wigs, and Look Good Feel Better® kits	31,376	10	-	393	-	-	31,779
Travel	7,717	5,448	1,642	3,527	1,718	7,774	27,826
Postage and shipping	5,112	5,806	378	1,994	2,786	5,645	21,721
Meetings and conferences	5,546	4,110	1,614	2,535	1,909	5,798	21,512
Contributed services and other in-kind contributions	5,792	920	564	586	43	1,450	9,355
Community office locations, including rent, maintenance and utilities	18,225	6,080	2,097	4,130	2,440	9,282	42,254
Equipment rental, maintenance and information processing	3,764	1,927	239	1,511	2,085	3,258	12,784
Telecommunications	4,451	2,360	498	1,655	1,311	3,471	13,746
Depreciation and amortization	10,931	3,349	1,655	2,478	2,000	4,357	24,770
Miscellaneous	7,892	3,016	746	2,024	1,491	6,347	21,516
Total mission program and mission support services expenses	$ 303,620	$ 152,681	$ 160,139	$ 97,051	$ 59,361	$ 217,637	$ 990,489

The notes beginning on page 8 are an integral part of the consolidated financial statements.

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011
(In Thousands)

	Mission program				Mission support		
	Patient support	Prevention	Research	Detection / treatment	Management and general	Fund-raising	Total
Mission program and support expenses							
Salaries	$ 108,500	$ 62,247	$ 17,762	$ 45,713	$ 31,979	$ 97,955	$ 364,156
Employee benefits	32,999	19,219	3,824	14,292	8,421	28,870	107,625
Payroll taxes	8,819	5,079	1,305	3,804	2,691	7,644	29,342
Professional fees	14,657	12,567	7,957	7,560	393	12,242	55,376
Grants for mission program services	3,537	3,777	102,555	2,436	-	48	112,353
Educational materials	18,640	11,119	4,075	6,700	2,274	10,196	53,004
Direct assistance, including wigs, and Look Good Feel Better® kits	28,421	1	-	286	-	2	28,710
Travel	6,500	5,513	1,107	3,212	1,714	6,170	24,216
Postage and shipping	5,461	5,353	225	2,244	2,671	6,557	22,511
Meetings and conferences	4,036	3,780	1,222	2,147	1,429	4,110	16,724
Contributed services and other in-kind contributions	2,998	1,552	1,953	942	532	2,387	10,364
Community office locations, including rent, maintenance and utilities	17,136	7,403	2,099	4,787	2,742	9,141	43,308
Equipment rental, maintenance and information processing	4,251	2,331	1,218	1,564	1,825	3,018	14,207
Telecommunications	4,853	2,575	782	1,791	1,328	3,275	14,604
Depreciation and amortization	11,010	4,052	1,860	2,889	2,160	4,751	26,722
Miscellaneous	7,827	3,151	524	2,374	3,297	6,575	23,748
Total mission program and mission support services expenses	$ 279,645	$ 149,719	$ 148,468	$ 102,741	$ 63,456	$ 202,941	$ 946,970

The notes beginning on page 8 are an integral part of the consolidated financial statements.

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011
(In Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (161,692)	$ 66,987
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	24,857	26,808
Net unrealized losses (gains) on perpetual trusts	6,677	(15,196)
Net realized and unrealized investment gains	(30,164)	(14,971)
Change in value of split-interest agreements	13,410	7,937
Gain on disposal of fixed assets	(673)	(576)
Other losses	-	443
Net change in retirement plan liability	96,593	(60,381)
Support from the public restricted for long-term investment	(3,792)	(4,547)
Support from the public restricted for fixed asset acquisition	(7,449)	(2,727)
Changes in assets and liabilities:		
Receivables, net	3,169	9,656
Prepaid expenses and other assets	9,689	(2,989)
Bequests receivable	11,774	7,142
Beneficial interests in trusts	7,467	(2,753)
Research and other program awards and grants payable	(6,948)	5,020
Accounts payable and accrued expenses and employee retirement benefits	20,184	11,020
Gift annuity obligations	5,935	2,822
Other liabilities	2,205	3,538
Net cash (used in) provided by operating activities	(8,758)	37,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(16,462)	(9,578)
Proceeds from disposal of fixed assets	1,352	1,117
Support from the public restricted for fixed asset acquisition	7,449	2,727
Purchase of investments	(1,413,040)	(590,898)
Proceeds from maturity or sale of investments	1,400,609	568,220
Net cash used in investing activities	(20,092)	(28,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on debt	(13,590)	(2,191)
Proceeds from issuance of debt	500	1,486
Payments on capital lease obligations	(236)	(568)
Payments to annuitants	(3,279)	(3,428)
Support from the public restricted for long-term investment	3,792	4,547
Net cash used in financing activities	(12,813)	(154)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(41,663)	8,667
CASH AND CASH EQUIVALENTS, beginning of year	124,408	115,741
CASH AND CASH EQUIVALENTS, end of year	$ 82,745	$ 124,408
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,380	$ 2,615
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Fixed assets acquired through capital lease	$ 67	$ 46
Collateral received and payable under the securities lending program	$ (16,528)	$ (92,065)

The notes beginning on page 8 are an integral part of the consolidated financial statements.

AMERICAN CANCER SOCIETY, INC.
AND AFFILIATED ENTITIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

Assets

	August 31, 2012	August 31, 2011
Cash and cash equivalents	$ 82,745	$ 124,408
Short-term investments	534,610	959,019
Securities lent under securities lending program	1,370	17,573
Collateral received under securities lending program	1,399	17,927
Receivables, net	40,153	43,322
Prepaid expenses and other assets	23,942	33,959
Bequests receivable	66,494	78,268
Gift annuity investments	37,265	34,946
Long-term investments	583,830	102,220
Beneficial interests in trusts	267,450	294,668
Fixed assets, net	318,226	328,013
Total assets	$ 1,957,484	$ 2,034,323
Liabilities and net assets		
Accounts payable and other accrued expenses	$ 60,958	$ 58,937
Research and other program grants payable	210,643	217,591
Employee retirement benefits	360,880	246,124
Payable under securities lending program	1,399	17,927
Other liabilities	30,913	28,927
Gift annuity obligations	28,095	25,439
Debt	51,903	64,993
Total liabilities	744,791	659,938
Commitments and contingencies		
Net assets:		
Unrestricted:		
Available for mission program and support activities	489,594	625,055
Net investment in fixed assets	263,073	260,200
Total unrestricted	752,667	885,255
Temporarily restricted	201,979	229,532
Permanently restricted	258,047	259,598
Total net assets	1,212,693	1,374,385
Total liabilities and net assets	$ 1,957,484	$ 2,034,323

The notes beginning on page 8 are an integral part of the consolidated financial statements.

STEWARDSHIP FOCUSED DISCLOSURES

1. Organizational Overview

Our mission

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 following four broad areas guide our outcomes in the fight against cancer:

- Patient support – Programs to assist cancer patients and their families and ease the burden of cancer for them.
- Prevention – Programs that provide the public and health professionals with information and education to prevent cancer occurrence or to reduce risk of developing cancer.
- Research – Support to fund and conduct research into the causes of cancer; how it can be prevented, detected early, and treated successfully; how to improve quality of life for people living with cancer; and to advocate for laws and policies that help further cancer research.
- 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.

Within these mission activities are certain signature programs that are not replicated in any other voluntary health organizations. Our 24 hour, 7 days a week, 365 days a year National Cancer Information Center provides consistent, high-quality, unbiased cancer information to constituents, helping them make informed decisions about their health and cancer care. Through our Road To Recovery® program, we provide free transportation to and from cancer treatment. American Cancer Society Hope Lodge® facilities provide free, high quality, temporary lodging for patients and their caregivers close to treatment centers, thereby easing the emotional and financial burden of finding affordable lodging. Our award-winning research programs consist of the Extramural Grants department (funding to outside research institutions) as well as the Intramural Research department (research conducted by Society researchers), with programs in epidemiology, surveillance research, health services research, behavioral research, international tobacco control research, and statistics and evaluation.

Our mission program and mission support expenses

Our expenses fall into two categories: first, program services – our mission activities – which are the four areas above, and second, support services – expenses incurred to support our mission activities – which include: board governance and oversight; our internal audit function, which provides oversight of our accounting and internal control processes; our shared services organization, which processes enterprise-wide financial and constituent transactions; general infrastructure costs; and the costs of fundraising. Other than our volunteer base, our largest resource – our staff – are represented in both categories depending on their role and set of activities. For 2012, our mission expenses were allocated to these two areas as follows:

Mission program expenses	$	713,491	72%
Mission support expenses		276,998	28%
Total	$	990,489	100%

1. Organizational overview, continued

Our mission program and mission support expenses, continued

This allocation is influenced by a variety of factors, including the grassroots nature of the majority of our fundraising and community engagement programs. A grassroots approach tends to be a more costly way of raising funds, generating an average donation amount of less than fifty dollars, but also engages the Society with many more constituents. Also, we have minimal support from the federal government, large corporations, or foundations, which are generally less expensive ways of raising money. We have traditionally operated in a decentralized federated model that required multiple functions. We believe that these allocation results are reasonable, particularly given the grassroots nature of our existing and historic approach to fundraising. Yet, we are not satisfied with these results, and are striving to significantly increase the portion of our total expenses that we spend on our mission program activities by utilizing a return on investment approach for all programs and activities.

Further discussion of our mission, goals, and progress is provided in our *Stewardship Report*, which is available on cancer.org. Any questions should be directed to the Chief Financial Officer at 250 Williams Street, Atlanta, GA 30303.

2. Liquidity considerations

Investments

To ensure consistency with our mission objectives, we do not invest in securities of any tobacco companies.

We maintain a pool of short-term investments for the primary purpose of providing liquidity for daily operating needs while preserving principal. Additionally, the pool utilizes a tiered investment structure of very liquid money market funds and short-term fixed income instruments to provide the highest current total return consistent with providing both liquidity and safety of principal. The amount allocated to the tiers is based on historical and projected operating cash flow needs.

We also maintain a pool of long-term investments with an intermediate and long-term horizon for the primary goal of providing modest asset growth while protecting principal and preserving the real purchasing power of the investments. The pool utilizes a fully diversified approach to asset allocation and targets the following asset classes and related ranges:

Domestic equities	7-11%
Developed non-U.S. equities	7-11%
Emerging markets equities	2-6%
Global real estate investment trusts	1-5%
High quality fixed income	43-53%
Global/non-U.S. fixed income	17-27%
Inflation linked bonds	3-7%
Cash equivalents	0-3%

2. Liquidity considerations, continued

Investments, continued

Together, all of our investment pools, at fair value, were as follows at August 31, 2012 and 2011:

	August 31, 2012		August 31, 2011	
Money market funds	$ 254,308	22%	$ 365,723	33%
Time deposits	3,313	0%	11,361	1%
Corporate bonds	207,683	18%	262,474	24%
U.S. government and government agency and obligations	278,608	24%	252,909	23%
Commercial paper and other short-term investments	107,444	10%	74,113	7%
Equities	276,603	24%	117,357	11%
Other	27,746	2%	12,248	1%
	$ 1,155,705	100%	$ 1,096,185	100%

The components of our investment income (loss) were as follows:

	Year Ended August 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends, net	$ 16,512	$ 3,701	$ 3	$ 20,216
Net realized and unrealized investment gains	27,295	2,686	183	30,164
Net unrealized loss on perpetual trusts	-	-	(6,677)	(6,677)
Total investment income (loss)	$ 43,807	$ 6,387	$ (6,491)	$ 43,703

	Year Ended August 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends, net	$ 15,224	$ 3,416	$ -	$ 18,640
Net realized and unrealized investment gains (loss)	9,635	5,426	(90)	14,971
Net unrealized gains on perpetual trusts	-	-	15,196	15,196
Total investment income (loss)	$ 24,859	$ 8,842	$ 15,106	$ 48,807

Interest and dividend income in the statements of activities is presented net of fees paid to our investment advisors. Those fees were approximately $2,976 and $2,093 in 2012 and 2011, respectively.

2. Liquidity considerations, continued

Donor-restricted net assets

Donor-restricted net assets result from contributions of assets whose use by the Society is specified by our donors. For net assets with time restrictions, the assets are not restricted for a specific purpose by the donor. Instead, the donor's restriction on our use of those assets is met with the passage of time. For permanently restricted net assets, the principal contributed by the donor is restricted in perpetuity, and only the earnings on the net assets shown above may be spent for the purpose specified by the donor. Included in temporarily restricted net assets at August 31, 2012 is $131,884 that we have not yet received in cash that will be used for our mission program services once received. The use of temporarily restricted net assets as of August 31, 2012 and 2011 has been limited by our donors for the following purposes:

	Temporarily		Permanently	
	2012	2011	2012	2011
Patient Support:				
Hope Lodge facilities	$ 19,883	$ 21,587	$ 15,085	$ 16,018
Other	33,813	29,670	16,850	15,597
Prevention	9,234	6,623	1,929	1,917
Research	23,212	20,904	56,658	56,447
Detection/treatment	6,960	19,813	1,452	1,452
Across mission programs:				
Time restrictions (primarily planned giving)	81,880	97,678	105,115	105,716
Specific geographic locations	17,547	15,468	49,783	51,077
Fixed asset acquisitions / building fund	6,375	11,951	1,217	-
Other mission program and mission support services	3,075	5,838	9,958	11,374
Total	$ 201,979	$ 229,532	$ 258,047	$ 259,598

Research and other program grants

As part of our commitment in the fight against cancer, we actively provide grants to improve both the prevention and detection of cancer. The total amount of our future payments under research and other program grants as of August 31, 2012 and 2011 are $214,673 and $223,938, respectively. The present value of our future payments as of August 31, 2012 and 2011 is $210,643 and $217,591, respectively. The discount at August 31, 2012 of $4,030 will be recognized as grants for mission program services expense in 2013 through 2017. As of August 31, 2012, our future payments are as follows:

Payable in the next:	
12 months	$ 93,759
13 - 24 months	64,125
25 - 36 months	38,207
37 - 48 months	16,348
48 - 60 months	2,234
Total	$ 214,673

2. Liquidity considerations, continued

Operating leases

We maintain a physical presence in a significant number of communities we serve across the country and many of these locations are subject to operating lease agreements. Additionally, telecommunication systems related to our National Cancer Information Center are leased. Some of these leases are subject to payment escalations and expire on various dates through 2022. Our future minimum annual lease payments under leases with terms that are not cancellable are as follows as of August 31, 2012:

Payable in the next:		
12 months	$	22,413
13 - 24 months		21,813
25 - 36 months		19,120
37 - 48 months		16,079
48 - 60 months		12,379
Thereafter		44,122
Total	$	135,926

Debt

We have financed certain properties based on market conditions and cash flow needs at the time of financing. Our outstanding debt as of August 31, 2012 and 2011 is as follows:

Type	Issuer	Maturity Date	Interest rate	August 31, 2012 Balance	August 31, 2011 Balance	Collateral
Industrial Revenue Bonds	New York City Industrial Development Agency	2037	4.75% fixed	$ 41,395	$ 43,008	New York City Hope Lodge; net book value of $37,394 and $38,904, as of August 31, 2012 and 2011, respectively
Industrial Revenue Bonds	Various	Various Until 2037	0.22% to 4.75% variable	7,070	16,985	Certificates of deposit, property and letters of credit, which expire at various dates through 2014
Notes Payable	Various	Various	2% to 5.75%	3,438	5,000	Not Applicable
Total				$ 51,903	$ 64,993	

2. Liquidity considerations, continued

Debt, continued

Our future principal payments are as follows:

Payable in the next:		
12 months	$	1,493
13 - 24 months		1,567
25 - 36 months		2,700
37 - 48 months		1,741
48 - 60 months		2,835
Thereafter		41,567
Total	$	51,903

Retirement funding

We have a variety of retirement benefit strategies that cover nearly all of our employees. We sponsor a defined benefit pension plan through which we provide benefits that are based on years of service and certain averages of compensation. We fund the plan on a quarterly basis based on estimates of annual funding levels stated by pension requirements, which are enforced by regulatory agencies. In general, these requirements stipulate that our plan be funded at a level of 60% to continue to pay full benefits to retired individuals. As of January 1, 2012, the plan was funded at 100%, based on regulatory funding levels. We anticipate the funding percentage to decrease as the relief provisions provided by the Moving Ahead for Progress in the 21st Century Act expire over the next few years.

We also sponsor a defined contribution plan with benefits based on individual employee salary deferrals and a related matching amount by the Society, subject to a maximum. Our matching amounts totaled $5,952 and $4,963 in 2012 and 2011, respectively. We sponsor a supplemental executive retirement plan as well for certain employees whose income exceeds the maximum income that can be considered under the defined benefit pension plan. We have segregated short-term investments sufficient for payment of benefits under this plan.

In addition, we have an unfunded postretirement benefit plan for post-retirement medical, dental, and life insurance coverage for certain employees hired prior to 1995, subject to deductibles, co-payment provisions, and other limitations. We paid $2,534 and $2,896 for these benefits from our general assets during 2012 and 2011, respectively.

We expect to contribute approximately $27,108 to all of our plans over the next 12 months.

Receivables

As of August 31, 2012 and 2011, we expect future cash receipts from unconditional pledges and grants receivable of $21,919 and $27,624, respectively, the majority of which is due in one year or less.

3. Contributed services, merchandise, and other in-kind contributions

We recorded contributed services related to the communication of mission program and fund-raising messages through various media. We also have valued and recorded contributed services provided by scientific peer reviewers for the extramural research grant process. In addition, we received cosmetic kits that were donated by the Personal Care Products Council for use in the Look Good Feel Better quality of life program and wigs that were donated by Celebrity Signatures International, Inc. We provided the merchandise to patients along with training in the proper application of cosmetics and wigs. Moreover, we received in-kind contributions of advertising production, magazine space, public service announcements, and in-store advertising materials from various retail and professional organizations.

Total contributed services, merchandise, and other in-kind contributions in 2012 and 2011 are as follows:

	2012	2011
Media communication and production services	$ 3,107	$ 6,815
Peer review services (approximately 26,458 and 25,223 hours, respectively)	2,100	1,861
Cars for a Cure® and Discovery Shops	20,675	20,616
Cosmetic kits and wigs	19,307	15,758
Other in-kind contributions	5,866	5,528
Total contributed services, merchandise, and other in-kind contributions at fair value	$ 51,055	$ 50,578

OTHER REQUIRED DISCLOSURES

4. Principles of consolidation and accounting policies

Principles of consolidation

Our consolidated financial statements include the accounts of the American Cancer Society, Inc. (the "National Home Office"), the American Cancer Society Cancer Action Network (“ACS CAN”), and our 12 chartered Divisions (the "Divisions"), which are separately incorporated. All significant intra-Society accounts and transactions have been eliminated in consolidation.

Consistent with our mission, we (including the National Home Office and our chartered Divisions) have received a determination letter from the Internal Revenue Service that indicates we 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 it is exempt from income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in section 501(c)(4).

On September 1, 2012, the National Home Office and the Divisions merged leaving the American Cancer Society, Inc. as the sole surviving entity. In addition, the Society changed its fiscal year-end to December 31, effective with the period ending December 31, 2012.

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. Unconditional promises to give without a stipulated due date are classified as unrestricted net assets.

A donor restriction is satisfied when a stipulated time restriction expires or when a purpose restriction is accomplished. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as use of amounts restricted by donors for a specified purpose or time. Temporarily restricted contributions received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted support at the time of receipt and as net assets released from restrictions.

The principal from permanently restricted gifts is classified as permanently restricted net assets. Income on those assets, not permanently restricted by the donor, is classified as temporarily restricted (if restricted by the donor or relevant law) or unrestricted revenue.

Contributed merchandise and other in-kind contributions, including merchandise remaining in inventory at year end, are reported as contributions at their estimated fair values when received or when an unconditional promise to give has been made. We do not imply time restrictions on contributions of long-lived assets (or of other assets restricted to the purchase of long-lived assets) received without donor stipulations about how long the contributed assets must be used. As a result, contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as temporarily restricted revenue that increase temporarily restricted net assets; those restrictions expire when we place those long-lived assets in service.

4. Principles of consolidation and accounting policies, continued

Planned gifts (bequests, beneficial interests in trusts and gift annuities)

We are 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 us, 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 we receive benefits that are shared, or split, 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), or both. Such gifts are reported as temporarily restricted public support. Gifts also may be permanently restricted under a perpetual trust. See below for a further description of nonperpetual and perpetual trusts.

Bequests receivable

Direct gifts of assets are recorded at their estimated fair value as public support (bequest or contribution revenue) when we have received an unconditional promise to give. Subsequent adjustments to the fair value are recognized as public support consistent with the initial recording of the gift. We consider a bequest unconditional when the probate court declares the testamentary instrument valid and the proceeds are measurable.

Beneficial interests in trusts

Nonperpetual BIT's are initially recognized as temporarily restricted public support (bequest or contribution revenue, depending upon the initial source of the gift) at fair value, based on our interest in the fair value of the underlying trust assets at the time of the gift. Any subsequent adjustments to the nonperpetual BIT's are recorded as a change in value of split-interest agreements.

Perpetual trusts are initially recorded as permanently restricted public support (bequest or contribution revenue, depending on the initial source of the gift) at fair value, based on our interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trust's fair value are reported as permanently restricted net unrealized gains or losses on perpetual trusts. Income received from the trusts is reported as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions. The management of the assets within the various trusts, including purchase and sale decisions, is performed by the respective trustee and we have no ability to control or influence these decisions. Distributions from these trusts are based on the terms of the underlying trust agreement that generally require that investment income be distributed on at least an annual basis.

4. Principles of consolidation and accounting policies, continued

Planned gifts (bequests, beneficial interests in trusts and gift annuities), continued

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 us. The 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. Sufficient assets are maintained to meet the annuity requirements stipulated by the various state laws. We are required to hold reserves related to our gift annuity program based on the laws in certain states in which we solicit these gifts. Such reserves totaled $9,169 and $9,507 at August 31, 2012 and 2011, respectively.

We also may be the beneficiary of interests in trusts and other assets in situations where we have not been notified of our interest, our interest may be conditional or revocable, or the value of our interest may not be readily ascertainable. In such circumstances, no revenue has been recorded.

Research and other program grants and grants payable

We record the minimum amount we will pay under research grants when the grant is approved. Grants which are payable beyond one year are reported at the present value of our estimated future payment and have been discounted at rates ranging from 0.85% to 6.25%, which is commensurate with the risks involved with the ultimate payment of these grants at the time the obligation is incurred. The discount is amortized using an effective yield over the expected life of the grants and is reported in mission program services expense.

Contributed services

A substantial number of volunteers have made significant contributions of their time to our mission program and mission support services. The value of this contributed time is not reflected in our consolidated financial statements if it does not require a specialized skill. However, certain other contributed services that require specialized skills were provided as a donation by volunteers possessing those skills, and would otherwise need to be purchased. These services are recognized as revenue and expense.

Grant revenue

Grant revenue on cost-reimbursement grants is recognized when we incur the mission program expenses. At that time, we recognize revenue and a receivable from the granting agency. These grant programs are subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. These audits and reviews could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, we believe that any costs ultimately disallowed, would not materially affect our consolidated financial position.

Advertising costs

Our advertising costs are expensed as incurred and were $45,000 and $26,308 in 2012 and 2011, respectively.

4. Principles of consolidation and accounting policies, continued

Pledges receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Pledges receivable, which are recorded in receivables, net in the accompanying consolidated balance sheets, have been discounted at rates ranging from 1.50% to 5.25%, which are commensurate with the risks involved with the ultimate payment of the pledge receivable at the time the pledge is made. The discount is amortized using an effective yield over the expected life of the pledges receivable and is reflected as contribution revenue.

Cash and cash equivalents

We consider 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 short-term investments, gift annuity investments, and long-term investments, as appropriate.

Fixed assets, depreciation

Our land, buildings and leasehold improvements, furniture, fixtures, equipment, computer software, and other capitalized assets are recorded at cost. Contributions of long-lived assets are recorded at the estimated fair value at the date we receive them and are reported as unrestricted support, unless their use is restricted by a donor. If donors contribute long-lived assets with stipulations as to how long the assets must be used or with any other restrictions, we report those contributions as temporarily restricted support.

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

Buildings	20 to 40 years
Leasehold improvements	Lesser of term 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 the term of the lease or estimated life of the equipment

Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us 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 consolidated financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

4. Principles of consolidation and accounting policies, continued

Reclassifications

We made reclassifications to certain prior year amounts to make them consistent with the current year presentation.

Prior year accounts payable and accrued expenses and cash and cash equivalents have been adjusted by $4,881 to properly reflect our bank overdrafts. These reclassifications had no impact on change in net assets.

New accounting pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements and Disclosures* (*Topic 820*): *Improving Disclosures about Fair Value Measurements*. This ASU requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. ASU 2010-06 requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. ASU 2010-06 was effective for the year ended August 31, 2011, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for the year ended August 31, 2012.

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS's*. This ASU changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. FASB does not intend for this ASU to change the application of the requirements in Topic 820. ASU 2011-04 is effective for the year ended August 31, 2013. We are currently evaluating the effect that the adoption of ASU 2011-04 will have on its consolidated financial statements.

5. Activities with joint costs

In 2012 and 2011, we incurred expenses to conduct activities that had both fundraising appeals as well as mission program, and management and general components (joint activities). Those joint activities included direct mail, telecommunications, and other constituent relationship activities. Our costs of conducting those joint activities were allocated as follows:

	2012	2011
Research	$ 357	$ 367
Prevention	44,788	31,989
Detection/treatment	24,529	23,014
Patient support	52,699	41,679
Management and general	8,892	7,815
Fundraising	78,906	70,320
Total	$ 210,171	$ 175,184

6. 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 our 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 our mission are reported as exchange expenses. Costs related to exchange transactions that directly benefit or support our mission are reported in mission program or supporting services expenses.

Exchange transaction income and expenses are netted and included in other revenue and are as follows in 2012 and 2011:

	Exchange Income		Exchange Expenses	
	2012	2011	2012	2011
Special events	$ 60,060	$ 57,498	$ 59,895	$ 57,403
Discovery Shop	20,665	19,863	32,920	31,732
Sales to third parties	8,086	10,068	66	1,802
Other	5,079	5,212	748	1,353
	$ 93,890	$ 92,641	$ 93,629	$ 92,290

As shown in the table above, we conduct 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 our actual cost. The direct costs of the special events that ultimately benefit the donor, rather than us, are recorded as exchange transaction income and exchange transaction expense. All proceeds received by us in excess of the direct costs are recorded as special events revenue in our consolidated statements of activities.

7. Fixed assets and rental expense

Our fixed assets are as follows as of August 31:

	2012	2011
Land	$ 38,954	$ 37,594
Buildings and leasehold improvements	381,582	379,353
Furniture, fixtures, equipment, and other capitalized assets	96,671	86,643
Computer software	56,251	62,472
Construction in progress	6,502	4,075
Less: accumulated depreciation and amortization	(261,734)	(242,124)
Net fixed assets	$ 318,226	$ 328,013

Depreciation expense including expenses on assets used in exchange transactions in 2012 and 2011 was approximately $18,797 and $19,852, respectively.

Rental expense under operating leases was $28,297 and $28,723 in 2012 and 2011, respectively.

8. Fair value

Fair value of financial instruments

Our financial instruments consist of cash and cash equivalents, short-term investments, securities lent under the securities lending program, collateral received under securities lending program, receivables, gift annuity investments, long-term investments, bequests receivable, beneficial interests in trusts, research and other program grants payable, accounts payable and accrued expenses, gift annuity obligations, and debt. Receivables, bequests receivable, and research and other program grants payable are recorded at their net realizable value, which approximates fair value. Short-term investments, securities lent under the securities lending program, collateral received under securities lending program, long-term investments, beneficial interest in trusts, and gift annuity investments and the related obligations are recorded at their fair values. The carrying value of all other financial instruments approximates fair value.

Fair value measurement

The three levels of the fair value hierarchy are described as follows:

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

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

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

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The significance of transfers between levels was evaluated based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended August 31, 2012 and 2011, there were no significant transfers in or out of Levels 1, 2, or 3.

8. Fair value, continued

Fair value measurement, continued

Following is a description of the valuation methods we used for assets and liabilities measured at fair value. There have been no changes in the valuation methods.

Money market funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, on the last business day of each period presented, using the market approach.

Time deposits are recorded based on their carrying value, which approximates fair value.

United States government and government agency obligations are valued on the basis of evaluated prices provided by independent pricing services when such processes are believed to reflect the fair market value of such securities using the income approach.

Corporate bonds, commercial paper, and other short-term investments are valued on the basis of evaluated prices provided by independent pricing services, when such processes are believed to reflect the fair value of such securities, using the income approach.

Equities, including securities listed on national and international exchanges, are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded, on the last business day of each period presented, using the market approach.

Investments in common collective trusts are generally valued using the market approach, on the basis of the relative interest of each participating investor (including each participant), in the fair value of the underlying net assets of each of the respective common collective trusts.

Collateral received under the securities lending program is recorded at fair value using the market approach on the basis of the relative interests of each participating investor (including each participant) in the fair value of the underlying net assets of the collateral trust.

Nonperpetual trusts are recorded at their estimated fair value based on the present value of our estimated future cash receipts from the trust. Future cash receipts are based on an income approach (present value techniques) using internally developed models. Assumptions are made regarding the expected rate of return on the investments in the trust, the discount rate, and the expected mortality of the individual(s) if the termination of the agreement is dependent on life expectancy. An expected rate of return on the investments in the trusts is estimated using historical investment returns for various relevant market indices for the estimated asset allocation of the nonperpetual trusts. In fiscal years 2012 and 2011, based on then-current financial market conditions, we estimated the present value of nonperpetual trusts using an investment return rate (net of trustee fees and other expenses) of 7.40% and 6.25%, respectively, for both years, and a discount rate of 7.40% and 5.25%, respectively, commensurate with the risks involved. The expected mortality is estimated using the Annuity 2000 tables. Each of these calculations is based on the fair value of the underlying assets of the trust. As trust statements are not received as of August 31 for each trust, the fair value, as of various dates, of the underlying assets is adjusted based on changes in the relevant market indices from the date of the trustee statement to year-end that correlate to the estimated asset allocation of the underlying assets. As the fair value of these trusts is derived from internal estimates of the present value of our interest in the underlying assets, incorporating market data when available, the amounts ultimately received could differ from the amounts reflected in the historical financial statements.

8. Fair value, continued

Fair value measurement, continued

Perpetual trusts are recorded at fair value based on our interest in the fair value of the underlying trust assets. As trust statements are not received as of August 31 for each trust, the most recent fair value of the underlying assets is adjusted based on changes in the relevant market indices from the date of the trustee statement to year-end that correlate to the estimated asset allocation of the underlying assets.

Our gift annuity obligation is recorded at fair value based on Level 3 inputs and other relevant market data. In 2012 and 2011, the assumptions used in the valuation of the annuity liability include mortality in accordance with the Annuity 2000 Table and a discount rate of 2.75% and 5.00% for all annuities for fiscal year 2012 and 2011, respectively, compounded annually, net of expenses. These rates are commensurate with the risks associated with the ultimate payment of the obligation. We have elected fair value accounting for our gift annuity obligations.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, our assets and liabilities measured on a recurring basis as of August 31, 2012 and 2011. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

8. Fair value, continued

	Financial assets and liabilities measured at fair value as of August 31, 2012			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Short-term investments, at fair value				
Money market funds	$233,755	$ 3,502	$ -	$237,257
Time deposits	3,313	-	-	3,313
Corporate bonds	-	133,168	-	133,168
U.S. government and government agency and obligations	-	91,226	-	91,226
Commercial paper and other short-term investments				
Mortgage backed	-	9,492	-	9,492
Asset backed	-	56,178	-	56,178
Short-term investments	-	1,664	-	1,664
Equities				
Domestic	1,266	-	228	1,494
International	471	-	-	471
Common collective trusts	-	-	25	25
Other	-	322	-	322
Total short-term investments, at fair value	$238,805	$295,552	$ 253	$534,610
Securities lent under securities lending program				
Corporate bonds	$ -	$ 1,370	$ -	$ 1,370
Total securities lent under securities lending program	$ -	$ 1,370	$ -	$ 1,370
Collateral received under securities lending program	$ -	$ 1,399	$ -	$ 1,399
Gift annuity investments, at fair value				
Money market funds	$ 1,313	$ -	$ -	$ 1,313
Corporate bonds	-	6,662	-	6,662
U.S. government and government agency obligations	6,300	8,161	-	14,461
Equities				
Common collective trusts	-	13,975	-	13,975
Other	-	-	854	854
Total gift annuity investments, at fair value	$ 7,613	$ 28,798	$ 854	$ 37,265
Long-term investments, at fair value				
Money market funds	$ 1,268	$ 14,470	$ -	$ 15,738
Corporate bonds	-	67,853	-	67,853
U.S. government and government agency and obligations	-	172,921	-	172,921
Commercial paper and other short-term investments				
Mortgage backed	-	33,741	-	33,741
Asset backed	-	6,359	-	6,359
Short-term investments	10	-	-	10
Equities				
Domestic	53,864	-	-	53,864
International	64,673	-	-	64,673
Common collective trusts	-	142,101	-	142,101
Other	25,640	70	860	26,570
Total long-term investments, at fair value	$145,455	$437,515	$ 860	$583,830
Beneficial interests in trusts	$ -	$ -	$267,450	$267,450
Liabilities				
Gift annuity obligations	$ -	$ -	$ 28,095	$ 28,095

8. Fair value, continued

	Financial assets and liabilities measured at fair value as of August 31, 2011			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Short-term investments, at fair value				
Money market funds	$347,363	$ 15,995	$ -	$363,358
Time deposits	11,167	97	-	11,264
Corporate bonds	232	248,223	-	248,455
U.S. government and government agency and obligations	64,701	150,085		214,786
Commercial paper and other short-term investments			-	
Mortgage backed	-	8,157	-	8,157
Asset backed	-	51,794	-	51,794
Short-term investments	5,385	2,971		8,356
Equities				
Domestic	13,850	-	235	14,085
International	1,069	-	-	1,069
Common collective trusts	383	27,523	27	27,933
Other	7,418	1,289	1,055	9,762
Total short-term investments, at fair value	$451,568	$506,134	$ 1,317	$959,019
Securities lent under securities lending program				
Corporate bonds	$ -	$ 15,899	$ -	$ 15,899
U.S. government and government agency obligations	-	1,674	-	1,674
Total securities lent under securities lending program	$ -	$ 17,573	$ -	$ 17,573
Collateral received under securities lending program	$ -	$ 17,927	$ -	$ 17,927
Gift annuity investments, at fair value				
Money market funds	$ 1,694	$ -	$ -	$ 1,694
Corporate bonds	-	6,127	-	6,127
U.S. government and government agency obligations	6,229	6,781	-	13,010
Equities				
Common collective trusts	-	13,330	-	13,330
Other	-	-	785	785
Total gift annuity investments, at fair value	$ 7,923	$ 26,238	$ 785	$ 34,946
Long-term investments, at fair value				
Money market funds	$ 245	$ 426	$ -	$ 671
Time deposits	97	-	-	97
Corporate bonds	2,237	5,655	-	7,892
U.S. government and government agency and obligations	3,781	21,332	-	25,113
Commercial paper and other short-term investments				
Mortgage backed	209	197	-	406
Short-term investments	5,400	-	-	5,400
Equities				
Domestic	47,283	34	-	47,317
International	1,221	-	-	1,221
Common collective trusts	-	12,402	-	12,402
Other	1,497	-	204	1,701
Total long-term investments, at fair value	$ 61,970	$ 40,046	$ 204	$102,220
Beneficial interests in trusts	$ -	$ -	$294,668	$294,668
Liabilities				
Gift annuity obligations	$ -	$ -	$ 25,439	$ 25,439

8. Fair value, continued

The tables below set forth a summary of changes in the fair value of our Level 3 financial assets and liabilities measured on a recurring basis for the years ended August 31, 2012 and 2011:

August 31, 2012	Equities	Other	Beneficial interest in trusts	Gift annuity obligation
Balance, beginning of year	$ 262	$ 2,044	$ 294,668	$ 25,439
Realized and unrealized losses	(5)	-	(6,677)	-
Settlements	(4)	(330)	(20,541)	2,656
Balance, end of year	$ 253	$ 1,714	$ 267,450	$ 28,095

August 31, 2011	Equities	Other	Beneficial interest in trusts	Gift annuity obligation
Balance, beginning of year	$ 283	$ 2,116	$ 284,980	$ 25,926
Realized and unrealized gains	10	-	14,753	-
Purchases, sales, issuances, and settlements (net)	(31)	(72)	(5,065)	(487)
Balance, end of year	$ 262	$ 2,044	$ 294,668	$ 25,439

The unrealized gains and losses are included in the investment income (loss) in the accompanying consolidated statements of activities and are related to assets still held at August 31, 2012 and 2011, respectively.

The following tables set forth additional disclosures for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of August 31, 2012 and 2011:

	August 31, 2012	
Investment type	Fair value	Unfunded commitments
Index non-lending common/collective trust fund	$ 156,101	$ -
Money market fund	17,972	-
Total	$ 174,073	$ -

	August 31, 2011	
Investment type	Fair value	Unfunded commitments
Index non-lending common/collective trust fund	$ 53,665	$ -
Money market fund	16,421	-
Total	$ 70,086	$ -

8. Fair value, continued

The amount of the index non-lending fund includes two funds - the State Street Global Advisor Fund and the Colchester Global Bond Fund. The State Street Global Advisor Fund is composed mainly of common stocks in various business sectors. The fair values of the investments are based on the current market prices or quotations readily available on the day of valuation. Requests for common stock redemption may be made on each business day based upon the net asset value per unit and the closing market value on the valuation date of the investments bought or sold. The fund's investment objective is to approximate as closely as practicable, before expenses, the performance of the Standard & Poor's 500® Tobacco Free over the long term. The Colchester Global Bond Fund is composed of various foreign fixed income securities, and the fair values of the investments are based on quotations from the primary market in which they are traded and are translated at each valuation date from the local currency into U.S. dollars using the prevailing exchange

The money market fund is mainly composed of domestic and foreign money market securities, U.S. government securities, certificates of deposit, repurchase agreements, and commercial paper. The fair values of the investments within the fund are based on the current market prices or quotations readily available on the day of valuation. The per-unit net asset value of the fund is determined at the end of each month. Requests for redemption may be made on each business day based upon the net asset value per unit determined at the close of each day the New York Stock Exchange opens for regular trading and must be made at least 10 days prior to month-end. The fund's investment objective seeks to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable $1.00 per share net asset value.

9. Endowment

Interpretation of relevant law

We have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, we classify as permanently restricted net assets: (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the donor-stipulated purpose has been fulfilled and/or the required time period has elapsed, and we have appropriated those amounts for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

During fiscal year 2011, we completed our adoption of the provisions of UPMIFA, which resulted in a reclassification adjustment to net assets of $819.

9. Endowment, continued

The following represents the changes in endowments in 2012 and 2011:

Endowment net assets at the beginning of fiscal year 2011	Pre-Adoption of ASC 958-205-45-13 Balance	Post-Adoption of ASC 958-205-45-13 Balance	Reclassification Adjustment
Permanently restricted	$ 72,312	$ 72,312	$ -
Temporarily restricted	9,856	10,675	(819)
Unrestricted	1,447	628	819
Total	$ 83,615	$ 83,615	$ -

Endowment assets are included in long-term investments, at fair value, on the balance sheets.

Endowment net asset composition by type of fund as of August 31, 2012 is as follows:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (267)	$ 16,228	$ 82,387	$ 98,348
Changes in endowments for the year ended August 31, 2012				
Endowment net assets at August 31, 2011	$ (995)	$ 14,068	$ 77,033	$ 90,106
Investment income	3	1,422	3	1,428
Net appreciation (realized and unrealized)	308	2,581	114	3,003
Contributions	-	-	5,207	5,207
Reclassification of restrictions	452	885	62	1,399
Appropriation of endowment assets for expenditure	(35)	(2,728)	(32)	(2,795)
Endowment net assets at August 31, 2012	$ (267)	$ 16,228	$ 82,387	$ 98,348

9. Endowment, continued

Endowment net asset composition by type of fund as of August 31, 2011 is as follows:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (995)	$ 14,068	$ 77,033	$ 90,106
Changes in endowments for the year ended August 31, 2011				
Endowment net assets at August 31, 2010	$ 1,447	$ 9,856	$ 72,312	$ 83,615
Investment income	170	1,219	-	1,389
Net depreciation (realized and unrealized)	243	4,846	451	5,540
Contributions	-	-	4,039	4,039
Reclassification of restrictions	(811)	115	231	(465)
Appropriation of endowment assets for expenditure	(2,044)	(1,968)	-	(4,012)
Endowment net assets at August 31, 2011	$ (995)	$ 14,068	$ 77,033	$ 90,106

Funds with deficiencies

From time to time, due to adverse market conditions, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or relevant law requires us to retain as a fund of perpetual duration. Deficiencies of this nature are reported in temporarily restricted net assets, to the extent there are accumulated gains available to absorb such loss, or otherwise in unrestricted net assets. Deficiencies of this nature that are reported in unrestricted net assets were $267 and $995 as of August 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that we deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund up to the required level will be classified as an increase in unrestricted net assets.

Return objectives and risk parameters

We have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of relevant market indices while assuming a moderate level of investment risk.

9. Endowment, continued

Spending policy

Unless the donor has specified otherwise, 4%-5% (based on the policy of the respective division) of the fair value of an endowment is available for spending each year, to the extent of a permanently restricted endowment's cumulative undistributed earnings. In addition, the difference between the actual total return each year and the spending percentage is charged or credited to unrestricted or temporarily restricted net assets (depending on the donor's instructions regarding the use of investment income or relevant law). We believe a spending policy is necessary to carry out the statutorily prescribed standard of ordinary business care and prudence and uses a spending rate of 4%-5% in order to maintain the purchasing power of the endowment. Endowment assets at August 31, 2012 consist of:

	Percent of Fair Value	Target Range
Equity securities	50%	46-68%
Debt securities	45%	38-48%
Cash and cash equivalents	5%	1-7%
	100%	

10. Employee retirement benefit plans

We maintain a noncontributory defined benefit pension plan (the "Plan") that covers nearly all of our employees. The current strategic mix for the Plan's assets is a blended exposure to equity and debt market risk. The Plan employs an active management strategy that has historically generated returns in excess of established benchmarks and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility. The Plan's assets at August 31 consist of:

	Percent of Fair Value		Target Range
	2012	2011	
Equity securities	62%	60%	54-75%
Debt securities	37%	36%	25-42%
Cash and cash equivalents	1%	4%	0-10%
	100%	100%	

We employ 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 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.

We also maintain 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.

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

10. Employee retirement benefit plans, continued

Information related to our Plan, SERP, and postretirement benefit plan at August 31, 2012 and the related changes during the year then ended are as follows:

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Change in benefit obligation				
Benefit obligation at beginning of year	$ 591,027	$ 17,025	$ 608,052	$ 54,999
Service cost	26,421	623	27,044	384
Interest cost	28,561	832	29,393	2,549
Amendments	58	191	249	458
Actuarial loss	120,805	2,929	123,734	4,515
Benefits paid	(34,161)	(2,172)	(36,333)	(2,534)
Benefit obligation at end of year	$ 732,711	$ 19,428	$ 752,139	$ 60,371
Change in plan assets				
Fair value of plan assets at beginning of year	$ 416,927	$ -	$ 416,927	$ -
Actual expenses paid	(1,360)	-	(1,360)	-
Actual return on plan assets	40,224	-	40,224	-
Employer contributions	30,000	2,172	32,172	2,534
Benefits paid	(34,161)	(2,172)	(36,333)	(2,534)
Fair value of plan assets at end of year	$ 451,630	$ -	$ 451,630	$ -
Funded status and amounts recognized in our consolidated balance sheets in employee retirement benefits	$ (281,081)	$ (19,428)	$ (300,509)	$ (60,371)
Weighted average actuarial assumptions				
Discount rate:				
Net periodic pension cost	4.25%	5.00%	4.75%	5.00%
Benefit obligation	5.00%	4.25%	5.00%	5.00%
Expected return on plan assets	7.25%	N/A	N/A	N/A
Rate of compensation increase	2.00%-10.50%	3.00%-5.00%	0.00%-10.50%	2.00%-10.50%
Changes in plans assets and benefit obligations recognized in unrestricted net assets include:				
Net transition obligation	$ -	$ -	$ -	$ (717)
Net actuarial loss	91,218	1,400	92,618	5,344
Prior services (credit) cost	(612)	(799)	(1,411)	759
Total recognized as change in unrestricted net assets	$ 90,606	$ 601	$ 91,207	$ 5,386

10. Employee retirement benefit plans, continued

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Components of net periodic benefit cost:				
Service cost	$ 26,421	$ 623	$ 27,044	$ 384
Interest cost	28,561	832	29,393	2,549
Expected return on plan assets	(30,950)	-	(30,950)	-
Administrative expenses	1,080	-	1,080	-
Amortization of:				
Unrecognized prior service cost (credit)	669	419	1,088	(176)
Unrecognized actuarial loss (gain)	16,755	(183)	16,572	-
Other	-	602	602	699
Recognized net actuarial loss	-	-	-	659
Net periodic benefit cost	$ 42,536	$ 2,293	$ 44,829	$ 4,115
Accumulated benefit obligation	$ 665,907	$ 13,994	$ 679,901	$ -
Estimated future benefits payable in the next:				
12 months	$ 39,495	$ 1,964	$ 41,459	$ 3,844
13 - 24 months	40,172	2,950	43,122	3,881
25 - 36 months	40,293	3,906	44,199	3,917
37 - 48 months	41,087	3,907	44,994	3,914
48 - 60 months	43,241	1,723	44,964	3,920
Thereafter	228,770	7,328	236,098	19,322

Information related to our Plan, SERP, and postretirement benefit plan at August 31, 2011 and the related changes during the year then ended are as follows:

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Change in benefit obligation				
Benefit obligation at beginning of year	$ 589,241	$ 16,876	$ 606,117	$ 57,716
Service cost	28,636	726	29,362	530
Interest cost	26,115	790	26,905	2,673
Plan participant contributions	-	-	-	69
Amendments	-	-	-	577
Actuarial gain	(18,558)	(1,054)	(19,612)	(3,670)
Benefits paid	(34,407)	(313)	(34,720)	(2,896)
Benefit obligation at end of year	$ 591,027	$ 17,025	$ 608,052	$ 54,999
Change in plan assets				
Fair value of plan assets at beginning of year	$ 374,721	$ -	$ 374,721	$ -
Actual expenses paid	(1,226)	-	(1,226)	-
Actual return on plan assets	44,383	-	44,383	-
Employer contributions	33,456	313	33,769	2,896
Benefits paid	(34,407)	(313)	(34,720)	(2,896)
Fair value of plan assets at end of year	$ 416,927	$ -	$ 416,927	$ -

10. Employee retirement benefit plans, continued

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Funded status and amounts recognized in our consolidated balance sheets in employee retirement benefits	$ (174,100)	$ (17,025)	$ (191,125)	$ (54,999)
Weighted average actuarial assumptions				
Discount rate:				
Net periodic pension cost	4.75%	4.75%	4.75%	5.00%
Benefit obligation	5.00%	5.00%	5.00%	5.00%
Expected return on plan assets	7.50%	N/A	N/A	N/A
Rate of compensation increase	2.00%-10.50%	0.00%-7.00%	0.00%-10.50%	2.00%-10.50%
Changes in plans assets and benefit obligations recognized in unrestricted net assets include:				
Net transition obligation	$ -	$ -	$ -	$ (734)
Net actuarial gain	(33,109)	(21,383)	(54,492)	(4,857)
Prior services (credit) cost	(669)	(506)	(1,175)	877
Total recognized as change in unrestricted net assets	$ (33,778)	$ (21,889)	$ (55,667)	$ (4,714)
Components of net periodic benefit cost:				
Service cost	$ 28,636	$ 726	$ 29,362	$ 530
Interest cost	26,115	790	26,905	2,673
Expected return on plan assets	(28,799)	-	(28,799)	-
Administrative expenses	1,140	-	1,140	-
Amortization of:				
Unrecognized prior service cost	670	505	1,175	(325)
Unrecognized actuarial loss (gain)	22,230	(163)	22,067	-
Other	-	(92)	(92)	698
Recognized net actuarial loss	-	-	-	1,306
Net periodic benefit cost	$ 49,992	$ 1,766	$ 51,758	$ 4,882
Accumulated benefit obligation	$ 541,103	$ 11,605	$ 552,708	$ -

We expect to contribute $23,264 to the Plan and SERP over the next 12 months. We expect to contribute $3,844 to our postretirement benefit plan over the next 12 months.

Included in unrestricted net assets at August 31, 2012 and 2011 related to our Plan and SERP are the following amounts that we have not yet recognized in net periodic pension cost: unrecognized prior service costs of $2,920 and $4,331, respectively, and unrecognized actuarial losses of $291,709 and $199,091, respectively. The prior service cost and actuarial losses included in unrestricted net assets related to our Plan and SERP that we expect to recognize in net periodic pension cost over the next 4 months are $774 and $27,470, respectively.

10. Employee retirement benefit plans, continued

Included in unrestricted net assets at August 31, 2012 and 2011 related to our postretirement benefit plan are the following amounts that we have not yet recognized in net periodic pension cost: unrecognized transition obligation of $758 and $1,475, respectively, unrecognized prior service credit of $2,439 and $3,198, respectively, and unrecognized actuarial losses of $15,696 and $10,352, respectively. The transition obligation, prior service credit, and actuarial losses included in unrestricted net assets related to our postretirement benefit plan that we expect to recognize in net periodic benefit cost over the next 4 months, are $716, $279, and $1,134, respectively.

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.

The fair value of the Plan's assets at August 31, 2012 and 2011, respectively, by asset category is as follows:

	Financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 171	$ -	$ -	$ 171
Money market funds	-	12,919	-	12,919
Corporate bonds	-	35,026	-	35,026
U.S. government and government agency obligations	404	52,514	-	52,918
Commercial paper and other short-term investments				
Mortgage backed	-	28,713	-	28,713
Assets backed	-	3,324	-	3,324
Short-term investments	-	37,260	-	37,260
Equity				
Preferred Stock				
Domestic	134,650	-	-	134,650
International	69,179	-	-	69,179
Common collective trusts	-	50,453	-	50,453
Government money fund	4,404	-	-	4,404
Other	22,481	132	-	22,613
Total investment assets, at fair value	$ 231,289	$ 220,341	$ -	$ 451,630

10. Employee retirement benefit plans, continued

	Financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 511	$ -	$ -	$ 511
Money market funds	-	8,891	-	8,891
Corporate bonds	-	48,695	-	48,695
U.S. government and government agency obligations	-	53,756	-	53,756
Commercial paper and other short-term investments				
Mortgage backed	-	32,069	-	32,069
Assets backed	-	3,381	-	3,381
Short-term investments	-	3,732	-	3,732
Equity				
Domestic	176,528	10,812	1,300	188,640
International	4,018	-	-	4,018
Common collective trusts	-	56,639	-	56,639
Government money fund	16,444	-	-	16,444
Other	-	151	-	151
Total investment assets, at fair value	$ 197,501	$ 218,126	$ 1,300	$ 416,927

The tables below provide a summary of changes in the fair value of the Plan's Level 3 assets for the years ended August 31, 2012 and 2011, respectively:

	2012	2011
Balance, beginning of year	$ 1,300	$ 6,023
Realized and unrealized losses	-	181
Sales	-	(4,474)
Settlements	(1,300)	(430)
Balance, end of year	$ -	$ 1,300

11. Commitments and contingencies

We are a party to legal claims arising in the course of our normal business activities. Although the ultimate outcome of these claims cannot be ascertained at this time, we believe that none of these matters, when resolved, will have a material effect on our consolidated net assets.

12. Subsequent events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through February 13, 2013, the date the consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no subsequent events that required disclosure other than the merger of the National Home Office and the Divisions (see Note 4).

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.