American Cancer Society, Mid-South Division, Inc.

Financial Statements

As of and for the years ended August 31, 2006 and 2005

American Cancer Society, Mid-South Division, Inc.
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Report of Independent Auditors

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

We have audited the accompanying balance sheet of the American Cancer Society, Mid-South Division, Inc. (the Society) as of August 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2005 financial statements and, in our report dated December 2, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Society's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Cancer Society, Mid-South Division, Inc. at August 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

November 3, 2006

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
BALANCE SHEETS
AUGUST 31, 2006 AND 2005

ASSETS

	2006	2005
CASH AND CASH EQUIVALENTS	$ 6,841,713	$10,772,779
INVESTMENTS, at fair value		
Division's interest in Combined Investment Pool	17,478,427	23,174,585
Division's interest in Combined Endowment Pool	163,070	159,812
Other investments	11,835,603	10,664,810
Total investments	29,477,100	33,999,207
DUE FROM AFFILIATES	4,215,166	4,460,810
PLEDGES AND GRANTS RECEIVABLE, net	4,433,802	4,872,030
OTHER ASSETS	2,991,444	219,473
DIVISION'S INTEREST IN COMBINED PLANNED GIVING POOL	20,513,224	20,601,986
FIXED ASSETS, net	24,924,093	20,360,430
INTANGIBLE ASSETS	-	28,785
Total assets	$ 93,396,542	$95,315,500

LIABILITIES AND NET ASSETS

	2006	2005
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
Accounts payable and accrued expenses	$ 2,676,490	$ 2,459,510
Accrued retirement plan benefits	1,886,652	1,571,338
Postretirement medical, dental and life insurance accrual	1,348,841	1,317,660
Total accounts payable and accrued expenses	5,911,983	5,348,508
DUE TO AFFILIATES	17,986,199	20,374,129
OTHER LIABILITIES	724,957	568,241
DEBT	1,375,739	6,875,000
Total liabilities	25,998,878	33,165,878
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Available for program and supporting activities	19,708,492	29,201,657
Net investment in fixed assets	22,920,339	12,990,825
Total unrestricted	42,628,831	42,192,482
Temporarily restricted	16,307,842	11,960,638
Permanently restricted	8,460,991	7,996,502
Total net assets	67,397,664	62,149,622
Total liabilities and net assets	$ 93,396,542	$95,315,500

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

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
REVENUE, GAINS AND OTHER SUPPORT					
Support from the public:					
Received directly:					
Contributions	$ 4,918,047	$ 3,557,192	$ -	$ 8,475,239	$ 8,181,265
Special events	42,801,597	669,662	-	43,471,259	42,526,890
Legacies and bequests	1,043,893	3,553,832	6,776	4,604,501	7,433,474
Change in value of split-interest agreements	-	573,165	-	573,165	964,933
Merchandise and other in-kind contributions, at fair value	59,649	2,638,550	-	2,698,199	106,483
Received indirectly:					
Contributions raised indirectly from federated and other fund-raising organizations	1,383,127	939,677	-	2,322,804	2,384,216
Total support from the public	50,206,313	11,932,078	6,776	62,145,167	61,597,261
Grants and contracts from:					
Government agencies	219,524	-	-	219,524	285,451
Affiliates	2,546,185	1,937,167	-	4,483,352	3,435,328
Total grants and contracts	2,765,709	1,937,167	-	4,702,876	3,720,779
Investment income:					
Interest and dividends, net	1,476,420	88,581	-	1,565,001	996,055
Net realized and unrealized investment income gains (losses)	(180,355)	-	-	(180,355)	(81,213)
Net unrealized gains on perpetual trusts	-	-	457,713	457,713	46,023
Total investment income	1,296,065	88,581	457,713	1,842,359	960,865
Exchange transactions:					
Income	4,141,979	-	-	4,141,979	3,509,569
Expenses	(4,091,755)	-	-	(4,091,755)	(3,486,257)
Net exchange transactions	50,224	-	-	50,224	23,312
Other revenue	4,000	-	-	4,000	11,050
Other gains	3,175	-	-	3,175	81,274
Total revenue, gains and other support	54,325,486	13,957,826	464,489	68,747,801	66,394,541
NET ASSET RESTRICTION TRANSFERS					
Satisfaction of activity restrictions	4,765,267	(4,765,267)	-	-	-
Transfer of restriction to National Home Office	4,200,246	(4,200,246)	-	-	-
Expiration of time restrictions	645,109	(645,109)	-	-	-
Total net asset restriction transfers	9,610,622	(9,610,622)	-	-	-

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
STATEMENTS OF ACTIVITIES (continued)
FOR THE YEAR ENDED AUGUST 31, 2006, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	%	Total 2005	%
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	41,791	-	-	41,791	0%	50,948	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	8,483,798	-	-	8,483,798	13%	7,660,588	12%
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	7,559,294	-	-	7,559,294	12%	6,729,638	11%
Patient support - programs to assist cancer patients and their families and ease the burden of cancer for them	10,984,587	-	-	10,984,587	17%	10,759,722	18%
Total program services	27,069,470	-	-	27,069,470	42%	25,200,896	41%
Supporting services:							
Management and general - direction of the overall affairs of the Division through executive, financial and administrative services	2,191,702	-	-	2,191,702	4%	2,478,591	4%
Fund-raising - programs to secure charitable financial support for Programs and supporting services	11,951,506	-	-	11,951,506	19%	11,548,333	18%
Total supporting services	14,143,208	-	-	14,143,208	23%	14,026,924	22%
Total program and supporting services expenses	41,212,678	-	-	41,212,678	65%	39,227,820	63%
Public support allocable to national research, programs and other Activities	22,287,081	-	-	22,287,081	35%	23,267,960	37%
Total program and supporting services expenses and allocation to national activities	63,499,759	-	-	63,499,759	100%	62,495,780	100%
CHANGE IN NET ASSETS	436,349	4,347,204	464,489	5,248,042		3,898,761	
NET ASSETS, beginning of year	42,192,482	11,960,638	7,996,502	62,149,622		58,250,861	
NET ASSETS, end of year	$ 42,628,831	$16,307,842	$ 8,460,991	$67,397,664		$62,149,622	

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

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2006 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005

	Program Services				Supporting Services			Total	
	Research	Prevention	Detection/ Treatment	Patient Support	Management and General	Fund-raising	Other	2006	2005
EXPENSES									
Salaries	$ 24,912	$ 4,290,839	$3,923,592	$ 4,969,101	$ 789,997	$ 5,819,464	$ -	$19,817,905	$19,129,263
Employee benefits	7,169	1,209,454	1,120,362	1,403,451	227,211	1,670,992	-	5,638,639	5,134,125
Payroll taxes	2,191	371,588	344,376	435,821	69,433	511,220	-	1,734,629	1,693,533
Professional fees	73	347,737	164,765	168,632	528,702	972,523	-	2,182,432	2,308,532
Supplies	271	52,090	55,103	85,470	10,430	357,876	-	561,240	450,764
Telephone	1,103	194,606	184,142	228,848	41,102	274,346	-	924,147	1,063,777
Postage and shipping	352	72,526	66,418	85,242	13,572	132,848	-	370,958	379,482
Occupancy	199	279,501	278,370	552,488	253,772	294,187	-	1,658,517	1,603,871
Equipment rental, maintenance and information processing	247	53,861	47,006	64,862	13,944	65,632	-	245,552	397,827
Printing and publications	203	478,906	251,787	258,565	32,568	405,579	-	1,427,608	1,562,998
Meetings and conferences	468	194,978	197,236	197,794	28,392	221,028	-	839,896	690,759
Travel	2,486	522,807	497,725	438,537	77,263	675,858	-	2,214,676	1,883,454
Miscellaneous	103	83,604	32,529	33,594	23,575	75,616	-	249,021	188,680
Special assistance to individuals	-	324	10,278	1,589,634	-	-	-	1,600,236	1,146,836
Awards and grants to individuals and other organizations	-	-	71,235	50,106	-	-	-	121,341	32,818
Awards and grants to Affiliates	99	15,707	15,144	18,908	3,132	23,036	-	76,026	76,025
Insurance	369	58,661	56,560	70,615	11,698	86,032	-	283,935	297,886
Membership dues and subscriptions	35	16,531	11,187	8,387	2,407	13,170	-	51,717	33,798
Depreciation and amortization	1,480	235,205	226,781	284,452	46,904	344,953	-	1,139,775	1,077,069
Interest expense	31	4,873	4,698	40,080	17,600	7,146	-	74,428	76,323
Total program and supporting services expenses	41,791	8,483,798	7,559,294	10,984,587	2,191,702	11,951,506	-	41,212,678	39,227,820
PUBLIC SUPPORT ALLOCABLE TO NATIONAL RESEARCH, PROGRAMS AND OTHER ACTIVITIES	-	-	-	-	-	-	22,287,081	22,287,081	23,267,960
Total expenses and allocation	$ 41,791	$ 8,483,798	$7,559,294	$10,984,587	$ 2,191,702	$11,951,506	$ 22,287,081	$63,499,759	$62,495,780

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

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

CASH FLOWS FROM OPERATING ACTIVITIES	**2006**	**2005**
Change in net assets	$ 5,248,042	$ 3,898,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,139,775	1,077,069
Net unrealized gains on perpetual trusts	(457,713)	(46,023)
Net realized and unrealized investment losses	182,623	81,213
Other revenue	(4,000)	(11,050)
Change in value of split - interest agreements	(573,165)	(964,933)
Support from the public restricted for fixed asset acquisitions	1,931,977	2,072,686
Changes in assets and liabilities:		
Due from Affiliates	245,644	(1,115,740)
Pledges and grants receivable, net	438,228	217,437
Other assets	(2,771,971)	(26,795)
Division's interest in combined planned giving pool	1,119,642	2,072,693
Intangible assets	28,785	(28,785)
Accounts payable and accrued expenses	563,475	911,461
Due to Affiliates	(2,387,930)	3,573,505
Other liabilities	377,486	541,483
Net cash provided by operating activities	5,080,898	12,252,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(5,703,438)	(3,458,036)
Proceeds from sale of fixed assets	4,000	13,987
Purchase of investments	(63,193,260)	(77,603,478)
Proceeds from maturity or sale of investments	67,532,743	74,603,260
Support from the public restricted for fixed asset acquisitions	(1,931,977)	(2,072,686)
Net cash used in investing activities	(3,291,932)	(8,516,953)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on debt	(6,125,000)	(1,275,000)
Payments on capital lease obligations	(220,771)	(78,116)
Proceeds from issuance of debt	625,739	5,000,000
Net cash provided by (used in) financing activities	(5,720,032)	3,646,884
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,931,066)	7,382,913
CASH AND CASH EQUIVALENTS, beginning of year	10,772,779	3,389,866
CASH AND CASH EQUIVALENTS, end of year	$ 6,841,713	$ 10,772,779
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 55,201	$ 72,222

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

AMERICAN CANCER SOCIETY, MID-SOUTH DIVISION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006 AND 2005

1. ORGANIZATION AND ACCOUNTING POLICIES

Organization

The American Cancer Society (the "Society"), is the nationwide, community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives and diminishing suffering from cancer through research, education, advocacy and service. The American Cancer Society, Mid-South Division, Inc. (the "Division") is one of 13 chartered divisions through which the Society's objectives are carried out.

In addition to the other 12 chartered divisions, the Division is affiliated with the American Cancer Society, Inc. (the “National Home Office”) and the American Cancer Society Cancer Action Network, Inc. (“ACS CAN”). The Division is also affiliated with the American Cancer Society Foundation (the “Foundation”) and the American Cancer Society of Puerto Rico, Inc. (“Puerto Rico”), which are membership corporations with the National Home Office as its only member. These related organizations are collectively referred to as “Affiliates” herein.

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 and Investments

Pending actual disbursement for budgeted program expenditures, funds are invested in securities designed to maximize resources available for programs while minimizing risk. To help achieve these objectives, the 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.

The Division also maintains investments independent of the CIP and CEP. These investment objectives are subject to the limitations currently defined by the National Home Office’s Board of Directors and are set to provide maximum current and long-term income within the approved risk parameters.

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). The Society believes 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% in order to maintain the purchasing power of the endowment.

Fair Value of Financial Instruments

The Division's financial instruments consist of cash and temporary investments, due from affiliates, pledges and grants receivable, legacies and bequests receivable, beneficial interests in trusts, investments, accounts payable and accrued expenses, due to affiliates and debt.

Pledges and grants receivable and legacies and bequests receivable are recorded at net realizable value which approximates fair value. Investments and beneficial interests in trusts 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 4.00% to 5.00%. These rates approximate the rates of return on U.S. government securities at the origination of the pledge and are commensurate with the risk associated with the ultimate collection of the receivables. The discount is amortized using an effective yield over the expected collection period of the receivables.

Fixed Assets and Depreciation

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

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

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

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

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 donor stipulated time has elapsed. 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 years 2006 and 2005, 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 7.25% and 7%, respectively, and a discount rate of 4.75% and 5%, respectively, commensurate with the risks involved. The initial gift to the nonperpetual BIT's carrying value is recognized as temporarily restricted public support (legacy or contribution revenue) depending upon the initial source of the gift. Any subsequent adjustments to the nonperpetual BIT are recorded as a change in value of split-interest agreements.

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 or absence of donor-imposed restrictions.

Gift Annuities

Gift annuities require an annuity to be paid to the donor or the donor's beneficiary, funded by the donated assets, over a designated period of time or the beneficiary's lifetime, with the remainder becoming a gift to the 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 years ended August 31, 2006 and 2005, the Division recognized $5,237,995 and $8,434,895, respectively, 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.

Due from Affiliates

The Division's Due from Affiliates typically consists of receivables resulting from normal operations of the Affiliates and mission delivery related grants from the National Home Office. As of August 31, 2006 and 2005, the Division recorded a receivable from the National Home Office in the amount of $2,447,897and $3,077,621, respectively. As of August 31, 2006 and 2005, the Division has recorded a receivable from other Affiliates in the amount of $1,767,269 and $1,383,189, respectively. These receivables are included in Due from Affiliates in the accompanying balance sheets and are expected to be received during the subsequent fiscal years.

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, 2006 and 2005, the Division has recorded a payable to the National Home Office in the amount of $17,179,981 and $20,309,608, respectively, to support such programs and initiatives. As of August 31, 2006 and 2005, the Division has recorded other payables to Affiliates in the amount of $806,218 and $64,521, respectively. These payables are included in Due to Affiliates in the accompanying balance sheets and are expected to be paid during the subsequent fiscal years.

Accounting for Contributions

Contributions are recognized when all unconditional promise to give is made or when cash is received, if an unconditional promise does not exist. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give without a stipulated due date and for which the 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.

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.

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

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

Contributions Raised Directly by Affiliates

The American Cancer Society Foundation remits 60% of its unrestricted contributions to the appropriate Division, which are recorded as the Division’s share of public support raised by Affiliates.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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.

Presentation of Certain Prior Year Information

The fiscal year 2006 financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information in total does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Division's financial statements for the fiscal year ended August 31, 2005, from which the summarized information was derived. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. INVESTMENTS

The fair value of investments as of August 31, 2006 and 2005 are as follows:

	2006	2005
Combined Investment Pool	$ 17,478,427	$ 23,174,585
Combined Endowment Pool	163,070	159,812
Time deposits	5,000	642,500
Corporate bonds	2,508,697	2,688,919
U.S. government and government agency obligations	5,645,274	3,687,287
Mortgage backed securities	3,306,325	3,512,885
Other investments	370,307	133,219
Total investments	$ 29,477,100	$ 33,999,207

Investment advisory fees paid by the Division were approximately $29,000 and $23,000 for the fiscal years ended August 31, 2006 and 2005, respectively.

3. PLEDGES AND GRANTS RECEIVABLE

As of August 31, 2006 and 2005, the expected future cash receipts from unconditional pledges and grants receivable are as follows:

	2006	2005
Due in one year or less	$ 3,052,123	$ 2,688,060
Due in one year through five years	1,511,024	2,432,561
	4,563,147	5,120,621
Less: discount	(129,345)	(248,591)
Total	$ 4,433,802	$ 4,872,030

4. FIXED ASSETS

Fixed assets as of August 31, 2006 and 2005 are as follows:

	2006	2005
Land	$ 2,339,711	$ 2,339,711
Buildings and leasehold improvements	24,248,079	18,500,823
Furniture, fixtures, equipment and other capitalized asset	3,619,923	3,205,378
Construction in progress	2,596,640	3,076,874
Less: accumulated depreciation and amortization	(7,880,260)	(6,762,356)
Net fixed assets	$ 24,924,093	$ 20,360,430

Included within fixed assets as of August 31, 2006 and 2005 is $18,771,268 and $7,474,320, respectively, that relates to Hope Lodges constructed or in construction by the Division. The Hope Lodges are centers where patients receiving cancer treatment can stay, free of charge, throughout the duration of their treatment.

5. DEBT

Debt as of August 31, 2006 and 2005 is as follows:

The Division has a note payable of $625,739 and $625,000, respectively, outstanding at August 31, 2006 and 2005 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 2.52%. 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 2007. The entire loan was renewed on September 28, 2006 for $625,739 and matures on March 11, 2007.

Industrial development bonds outstanding at August 31, 2006 and 2005 are $750,000 and $1,250,000, respectively. 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 2.48% to 4.09% during fiscal year 2006. 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.

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. As a response to Hurricane Katrina, the National Home Office and other divisions granted the Division $2,500,000 to aid in the construction of the Lodge. In addition, the National Home Office granted a $1,000,000 interest free, no time limit loan to the Division. This grant and loan enabled the Division to pay off all of the outstanding bonds associated with the New Orleans Hope Lodge in December 2005 and complete the construction of the building as of August 2006.

Approximate annual payments as of August 31, 2006, excluding interest, are payable as follows:

Fiscal year:	
2007	$ 625,739
2008	-
2009	250,000
2010	500,000
2011	-
Thereafter	-
Total	$ 1,375,739

6. PENSION PLANS

The Division is a participant in the noncontributory defined benefit pension plan (the “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 years 2006 and 2005 was $1,929,052 and $1,876,000, respectively, based on 13% of participants’ applicable earnings. The Division’s liability for contributions accrued and unpaid as of August 31, 2006 and 2005 was $1,286,035 and $1,250,667, respectively.

The Division also maintains a nonqualified and unfunded Supplemental Executive Retirement Plan (the "SERP") for certain employees whose income exceeds the maximum income that can be considered under the Plan. Information related to the Division's SERP as of August 31, 2006 and 2005, and the related changes during the year then ended are as follows:

Measurement date	August 31, 2006	August 31, 2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,196,563	$ 605,301
Service cost	35,956	28,050
Interest cost	58,692	36,857
Amendments	-	14,946
Actuarial (gain)/loss	(97,613)	523,599
Benefits paid	(23,941)	(12,190)
Benefit obligation at end of year	$ 1,169,657	$ 1,196,563
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	23,941	12,190
Benefits paid	(23,941)	(12,190)
Fair value of plan assets at end of year	$ -	$ -
Reconciliation of funded status		
Funded status	$ (1,169,657)	$ (1,196,563)
Unrecognized prior service cost	167,216	181,838
Unrecognized actuarial loss	401,824	722,840
Net amount recognized	$ (600,617)	$ (291,885)
Amounts recognized in the balance sheets		
Prepaid benefit cost	$ -	$ -
Accrued benefit liability	(600,617)	(320,670)
Intangible assets	-	28,785
Net amount recognized	$ (600,617)	$ (291,885)
Actuarial assumptions		
Discount rate:		
Net periodic pension cost	5.00%	6.00%
Benefit obligation	6.00%	5.00%
Rate of compensation increase	Varies by individual: 4.00% to 5.00%	Varies by individual: 3.00% to 5.75%
Components of net periodic benefit cost		
Service cost	$ 35,956	$ 28,050
Interest cost	58,692	36,857
Expected return on plan assets	-	-
Amortization of:		
Unrecognized prior service cost	14,621	14,621
Unrecognized actuarial loss	223,404	6,936
Net periodic benefit cost	$ 332,673	$ 86,464
Accumulated benefit obligation	$ 309,535	$ 320,670
Vested benefit obligation	309,535	320,670

Estimated future benefit payments		
2007	$	278,872
2008		13,685
2009		29,898
2010		17,508
2011		20,609
2012-2016		169,232

The Division expects to contribute $278,872 in fiscal year 2007.

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.

7. POSTRETIREMENT NONPENSION BENEFITS

Employees hired prior to January 1, 1995 retiring from the Society on or after attaining age 55 who have rendered at least ten years of service to the Society receive postretirement medical, dental, and life insurance coverage. These benefits are subject to deductibles, co-payment provisions, and other limitations, and the Society may amend or change the postretirement plan periodically. Effective January 1, 2006, the Division rejoined the Society postretirement medical and life insurance plans. Actuarial information regarding the accumulated postretirement benefit obligation is calculated solely for the postretirement plan as a whole.

The Society accrued 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. For the fiscal year ended August 31, 2006, the Division recognized postretirement benefit expense of $126,447.

For fiscal year ended August 31, 2005, the Division recognized postretirement benefit expense of $258,224. The following table sets forth the future liability and amounts recognized for postretirement benefits in the Division's balance sheet:

Measurement date		August 31, 2005
Change in benefit obligation		
Benefit obligation at beginning of year	$	1,933,213
Service cost		31,097
Interest cost		112,548
Actuarial loss		269,408
Benefits paid		(115,228)
Benefit obligation at end of year	$	2,231,038
Change in plan assets		
Fair value of plan assets at beginning of year	$	-
Employer contributions		(115,228)
Benefits paid		115,228
Fair value of plan assets at end of year	$	-
Reconciliation of funded status		
Funded status	$	(2,231,038)
Unrecognized prior transition amount		211,631
Unrecognized prior service cost		445,090
Unrecognized actuarial (gain)/loss		256,657

Net amount recognized	$	(1,317,660)
Amounts recognized in the balance sheets consist of:		
Prepaid benefit cost	$	-
Accrued benefit liability		(1,317,660)
Net amount recognized	$	(1,317,660)
Components of net periodic benefit cost		
Service cost	$	31,097
Interest cost		112,548
Amortization of:		
Unrecognized transition amount		26,454
Unrecognized prior service cost		88,125
Unrecognized actuarial (gain)/loss		-
Net periodic benefit cost	$	258,224
Actuarial assumptions		
Discount rate:		
Net periodic pension cost		6.00%
Benefit obligation		5.00%
Rate of compensation increase		Varies by individual: 3.00% to 5.75%
Assumed health care cost trend rates		
Health care cost trend rate assumed for next year		
--Pre-65		11.50%
--Post-65		13.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)		
--Pre-65		5.50%
--Post-65		5.50%
Year that the rate reaches the ultimate trend rate		
--Pre-65		2017
--Post-65		2021
Effect of a 1% increase in medical trend rate		
On benefit obligation	$	35,357
On service cost plus interest cost		1,735
Effect of a 1% decrease in medical trend rate		
On benefit obligation	$	(31,330)
On service cost plus interest cost		(1,331)

Estimated future benefit payments		
2006	$	112,174
2007		119,034
2008		126,067
2009		132,327
2010		139,408
2011-2015		786,655

8. OPERATING LEASES

The Division occupies office and other 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, 2006:

Fiscal year:	
2007	$ 701,624
2008	517,301
2009	362,130
2010	244,764
2011	224,853
Thereafter	676,260
Total	$ 2,726,932

Rental expense from operating leases for the years ended August 31, 2006 and 2005 was approximately $771,000 and $874,000, respectively.

9. RESTRICTED NET ASSETS

Temporarily restricted net assets and the earnings from permanently restricted net assets as of August 31, 2006 and 2005 have been restricted by donors as follows:

	Temporarily		**Permanently**	
	2006	**2005**	**2006**	**2005**
Patient support	$ 334,120	$ 243,535	$ -	$ -
Prevention	1,110,456	1,626,457	-	-
Detection/treatment	531,832	430,814	-	-
Fixed asset acquisitions	9,584,067	5,496,442	-	-
Hope Lodges	360,917	348,598	-	-
Time restrictions	4,386,450	3,814,792	8,460,991	7,996,502
Total	$ 16,307,842	$11,960,638	$ 8,460,991	$ 7,996,502

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.

10. EXCHANGE TRANSACTIONS AND CONTRIBUTED MERCHANDISE

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

Exchange transaction income and expenses for fiscal years 2006 and 2005 are as follows:

	Exchange Income		Exchange Expenses	
	2006	**2005**	**2006**	**2005**
Special events	$ 3,976,982	$ 3,323,542	$ 3,982,982	$ 3,323,542
Cars For a Cure	47,855	99,460	63,233	125,590
Sales to third parties	40,220	36,728	40,220	36,710
Rental income	59,772	49,424	5198	-
Program services fees	17,150	415	122	415
	$ 4,141,979	$ 3,509,569	$ 4,091,755	$ 3,486,257

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 costs of the special events that ultimately benefit the donor rather than the Division are recorded as exchange transaction income and exchange transaction expense. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying statements of activities.

Contributed Merchandise:

Cars For a Cure

The Division participates in the Cars For a Cure program to solicit donations of used vehicles from the public. The Division sells these donated vehicles, primarily at wholesale dealer auctions, to generate cash to support the Division's life saving programs. The contribution of the vehicle is recorded as merchandise and other in-kind contributions in the accompanying statements of activities at the gross wholesale proceeds for vehicles sold by August 31 and at estimated gross proceeds for donated vehicles not sold by August 31. The transactions recorded during fiscal years 2006 and 2005 are as follows:

	2006	**2005**
Contribution Amount for Donated Vehicles	$ 47,855	$ 99,460
Exchange Transaction Income/Expense Attributable to Vehicle Sold	47,855	99,460
Exchange Selling Expenses	15,378	26,130
Net Proceeds Realized	32,477	73,330

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11. 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 years 2005 and 2004 (the latest years for which audited figures are available), the National Home Office's expenditures were as follows:

	2005	**2004**
Program services:		
Research	32%	34%
Prevention	18%	17%
Detection/treatment	14%	11%
Patient support	13%	13%
Total program services	77%	75%
Supporting services:		
Management and general	11%	11%
Fund-raising	12%	14%
Total supporting services	23%	25%
Total program and supporting services	100%	100%

This revenue sharing is reflected in the statements of activities as public support allocable national research, programs and other activities.

12. ACTIVITIES WITH JOINT COSTS

In fiscal years 2006 and 2005, 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 $16,931,391 and $16,318,567 of joint costs for fiscal years 2006 and 2005, respectively, that were functionally allocated as follows:

	2006	**2005**
Fund-raising	$ 7,717,105	$ 6,561,981
Management and general	349,381	649,970
Prevention	2,894,314	3,430,843
Detection/treatment	3,070,345	2,981,231
Patient support	2,900,246	2,694,542
Total	$ 16,931,391	$ 16,318,567

13. COMMITMENTS AND 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.

The Division is committed to improving the quality of life for cancer patients through Hope Lodge facilities. The Division intends to start a capital campaign in fiscal year 2007 to raise funds for the construction of a Hope Lodge facility in Memphis, Tennessee. The actual construction will be contingent upon reaching the campaign goal.

14. TAX STATUS

The Society (including the National Home Office, its chartered Divisions, and the Foundation) 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 under Section 501(c)(3). The Society prepares an Internal Revenue Service Form 990 for the combined Divisions.