Ernst & Young LLP

American Cancer Society, Inc.

Management's Discussion and Analysis and Financial Statements

As of and for the Year Ended December 31, 2013

Building a better working world

American Cancer Society, Inc.
Contents
December 31, 2013

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2013
(UNAUDITED)

During the organizational transformation process, the American Cancer Society, Inc. (the "Society") decided to change the historical fiscal year-end from August 31 to December 31 to align more effectively with our primary business cycles. This change was effective January 1, 2013; therefore, we do not have full comparative information for fiscal year 2013. We do not believe that comparing 2013 results to the last audited period of four months (September – December 2012), is useful information for the reader; therefore, we have elected single year presentation for the fiscal year-end 2013. We will return to comparative presentation for fiscal year 2014. However, specifically for trend presentation of our revenue programs, we have included prior year comparative information using our previous fiscal year of August 31.

Results from operations – expenses

Total mission program and support services expenses for the year ended December 31, 2013 were as follows (in thousands):

Mission program services:		
Patient support	$	279,856
Research		177,489
Prevention		131,915
Detection/treatment		92,191
Total mission program services		681,451
Mission support services:		
Management and general		49,319
Fund-raising		205,974
Total mission support services		255,293
Total mission program and mission support services expenses	$	936,744

Total mission program expenses for the year ended December 31, 2013 were $681 million and, like many charitable organizations, we have continued to experience a consistent or increased demand for programs and services over the past few years. More recently, we have concentrated on directing the maximum amount of resources to serving our constituents' needs balanced with operational reserve strategies to ensure our constituents receive uninterrupted services, regardless of external factors. Additionally, we have focused on effectiveness and efficiency of our infrastructure in order to leverage our resources toward mission program services as much as possible. The remainder of our operational costs, total supporting services expenses, was $255 million.

Patient support expenses were $280 million and included work such as the following: our specific assistance to individuals through the Look Good Feel Better® program; our 24 hours a day, 7 days a week, 365 days a year National Cancer Information Center, which provides consistent, unbiased cancer information to constituents, helping them make informed decisions about their health and cancer care; and our Hope Lodge® facilities, which 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. Research expenses were $177 million and comprised both our extramural research grants and intramural program, which includes our comprehensive cancer prevention study ("CPS-3"). Prevention expenses were $132 million and included activities such as our ongoing advocacy efforts to increase certain state tobacco taxes in addition to general prevention work. Detection/treatment expenses were $92 million and included activities such as our community grants for breast and colorectal cancer screenings, as well as our breast cancer awareness platform and general detection and treatment efforts.

Results from operations – expenses, continued

Our continued focus on developing a prioritized programmatic framework allowed us to implement a core set of mission offerings during fiscal year 2013 that are consistent across the country regardless of location, as well as some specific offerings that are reflective of individual community needs. Our core mission offerings include lung cancer/tobacco control, preventing cancer through nutrition and physical activity, colorectal cancer control, breast cancer control, improving access to healthcare, and improving cancer treatment and patient care. These areas of work are essential to our progress toward saving more lives in the shortest amount of time.

Management and general expenses were $49 million and comprised our general infrastructure costs as well as board governance and oversight and our internal audit function - which provides oversight of our accounting and internal control processes. Additionally, efforts directed at infrastructure efficiencies continue to produce incremental results over time.

Fundraising costs were $206 million and included both continued and new investments to reverse the negative revenue trend experienced in the past few years. The organization is incorporating more aggressive strategies directed at a comprehensive analysis of our portfolio of revenue generating programs, including, but not limited, to net margin. Additionally, with the addition of new leadership during the year, the organization is investing in a variety of different opportunities as we build out a comprehensive portfolio.

Results from operations – revenue

Total revenue, gains, and other support for the year ended December 31, 2013 were as follows (in thousands):

Support from the public	$ 884,587
Investment income	42,404
Change in value of split-interest agreements	32,095
Grants and contracts from government agencies	6,842
Other gains	4,576
Total revenue, gains, and other support	$ 970,504

Total revenue for the year ended December 31, 2013 was $971 million. Although we have faced decreases in revenue for the past few fiscal years, we have deliberately managed our expenses to minimize the net impact of the decline. We have not yet returned to our pre-recession level of $1 billion in total annual revenue and are focused on a net-margin strategy, assessing both gross income and profitability of our individual programs and overall income portfolio. The cancer segment of the health charitable sector continues to be very competitive, including capital campaign and major gift efforts.

Support from the public was $885 million and mostly included Relay For Life® and Making Strides Against Breast Cancer® and general contributions through a variety of programs. We note that our general donor base continues to experience some uncertainty with regard to unemployment, financial markets, and other economic indicators. We attribute at least a portion of the decline in public support over the past few fiscal years to this uncertainty although not the entire decline. We are in the process of root-cause analysis to determine what other factors might be influencing our core programs. We have started this process by embarking upon an extensive review of all aspects of the Relay For Life event and experience, utilizing key volunteers from external partnerships to provide an independent assessment. The recommendations resulting from this assessment are in the process of being implemented. In the meantime, we are implementing changes to the program during 2014 to achieve improved short-term results.

Results from operations – revenue, continued

Total support from the public for the five most recent fiscal years was as follows (in millions):

	2009	2010	2011	2012	2013
Relay For Life	$ 386	$ 388	$ 385	$ 378	$ 356
Other community-based events (Making Strides Against Breast Cancer, Daffofil Days, others)	91	89	92	95	95
Distinguished events (gala and golf)	48	49	50	51	52
Direct response strategies (Direct mail, telemarketing)	65	64	68	60	54
Employer-based strategies - independent payroll deduction campaigns	20	19	19	20	22
Major gifts/campaigns	49	45	35	39	41
Planned giving (legacies and bequests)	136	114	122	122	144
United Way/Combined Federal Campaign	22	18	17	15	10
Memorials	29	28	26	26	23
Contributed services and other in-kind contributions	60	50	51	51	53
Other	24	34	31	32	35
Total support from the public	$ 930	$ 898	$ 896	$ 889	$ 885

Within support from the public, special events (Relay For Life, Other community-based and Distinguished events) continue to lead our financial results, representing approximately 57 percent of the category. Fundraising results for our signature event, Relay For Life, were $356 million and account for approximately 71 percent of total special events revenue. The Relay For Life revenue base is very broad over a very diverse set of events (5,200 events) and constituents (more than 3 million participants) and is a multi-variant, efficient vehicle to build awareness, celebrate our cancer survivors and caregivers, deliver prevention and detection messaging, and develop capacity in the communities that we serve.

Our Making Strides Against Breast Cancer initiative, a $61 million special event this year that raises awareness and funds to fight breast cancer, accounted for approximately 12 percent of special event revenue during fiscal year 2013. This event has seen significant increases over the past few fiscal years and has increased significantly in participation, engaging more than 500,000 people across the nation.

Major gifts/campaigns were above 4 percent of public support during the period and have seen substantial increases over the past year mainly due to campaigns that were in the early stages in prior years and have begun to show tangible results in recent years. As with many other charitable organizations, we continue to utilize feasibility studies supporting any anticipated capital campaign, as the campaign landscape is vastly different and substantially more difficult than before the economic downturn. Employee giving, including United Way and Combined Federal Campaign relationships, comprised about 4 percent of our public support for the period and has declined during the last couple of fiscal years. Direct marketing, both mail and telemarketing, made up 6 percent of public support for the period. During 2012, we decided to eliminate a portion of our direct mail programs due to their high-cost, high-risk and low-relevancy strategy. The probate results of the planned giving program (legacies and bequests) totaled $144 million. Bequests revenue saw an increase in fiscal year 2013 due to the combination of a large significant gift received during 2013 and overall positive market performance.

Results from operations – revenue, continued

Investment income components produced positive results for the period. Net interest and dividends and realized/unrealized investment gains were $42 million. A portion of these gains resulted from strong market performance at the end of the year.

Change in value of split-interest agreements was a positive change of $32 million during 2013. These values are driven by fair values of beneficial interests in trusts (equivalent to deferred gifts) and discount rate assumptions used in the valuation process. Planned giving results will continue to be volatile based on valuation methodologies required in current generally accepted accounting principles (GAAP), which employ a mark-to-market approach. We regularly evaluate the program based on probate results as well as expectancies, both of which are not as prone to significant fluctuations and provide a more accurate assessment of performance. The Planned Giving unit continues to log future gifts, although not recognizable under GAAP but accretive to the significant planned giving pipeline of future revenue. Included in the change in value of split interest agreements is $15 million in gains recognized due to the appreciation of the underlying market value of the assets in our perpetual trusts. We are not the trustee of these trusts and therefore do not have control of the investment decisions surrounding these assets, but rather report our proportionate share of the fair value.

Liquidity and cash flows

At December 31, 2013, cash, cash equivalents, and all investment pools totaled more than $1 billion. The primary use of cash was general mission program and support operations and capital expenditures. We typically utilize the cash proceeds from investment returns to supplement the annual operating and capital budgets; therefore, the reinvestment of operational proceeds into investment vehicles is a key strategy to providing additional liquid resources for future needs.

We invest operating funds in both short- and intermediate-term investments as selected, monitored, and evaluated by senior leadership, independent investment advisors, and an organizational Investment Committee (the "Committee"). The Committee is composed of Society volunteers who are professionals in the banking and investment industry. Due to the nature of the historical investment strategy (primarily short-term and low-risk), we did not incur any substantial losses during the market downturn. However, because that strategy was determined to be suboptimal and during fiscal year 2010, the Committee reevaluated the investment strategy for operating funds and moved to a tiered-structure approach, introducing longer-term products, which have provided enhanced asset returns without the addition of substantial risk.

During fiscal year 2013, Tier 1 of the operating pool generated a positive return of 0.01%, under its 90-day treasury benchmark of 0.05%, while Tier 2 outperformed the same benchmark with a return of 0.92%. Tier 3 generated a return of 0.67% compared to its 2-year Treasury note benchmark of 0.04%. The performance of our long-term investments is benchmarked against a variety of different indices. In fiscal year 2013, our long-term investments generated returns of 4.16%, outperforming the blended benchmark of 2.39%. Our endowment investment pool delivered an annual return of 12.81%, outperforming its blended benchmark of 11.13%. Our tiered strategy produced incremental returns during fiscal year 2013; however, they were still not significant due to the low duration of the portfolio and continued low interest rate environment. Given the current interest rate marketplace, we deliberately increased our cash and cash equivalent assets throughout fiscal year 2013 to limit the fees incurred and maximize earnings. As this is a long-term approach and was not meant to time the markets, we expect additional and continued future gains from the change in strategy but will continue to monitor financial markets and the economic environment to ensure this strategy continues to be appropriate.

Liquidity and cash flows, continued

Our endowment and long-term portfolio investment policy calls for a fully diversified strategy to enhance return. Our policy with regard to minimum and maximum liquidity levels is designed to ensure continued financial health and the continuation of quality program delivery to our constituents. We anticipate reassessing these levels periodically as needs change over time.

To leverage the low interest rate environment and reduce our costs of debt service and compliance, we refinanced our bonds into a long-term note payable during fiscal year 2013.

Looking forward

We believe it is important to discuss our historical results to provide transparency to our decisions and the resulting impact of those decisions, as well as the impact of external pressures such as economic drivers and our response to those drivers. However, we believe it is just as important, if not more so, to provide forward-looking information to illuminate our path.

We continue to challenge ourselves with regard to our current revenue portfolio and are proceeding through a process of forced diversification, based partly on return on investment and net margin analytics. We are targeting increased participation for our Making Strides Against Breast Cancer events by ramping up team recruitment and volunteer coaching strategies. We plan to increase our relationships with corporations in the fight against cancer as well as our collaborations with other cancer organizations to make an even greater impact in the fight. Additionally, we are improving upon an internal financial resource allocation model and process, which includes a deliberate and sustained investment in innovation. We believe this investment will eventually yield the next "big idea" for our revenue portfolio.

With regard to expenditures, we are continuing to work on a mission prioritization process based on one theme – how many lives can we save (impact) in the short-term and long-term (timing). We are operationalizing this as a "mission continuum" approach by assessing what the strategies could be with regard to saving more lives and then in turn, how much those strategies would cost the organization. We anticipate the distribution of our program expenditures will differ in the future based on the outcome of this work. Much of our immediate focus will be on the new 80 percent by 2018 Colorectal Cancer Screening Initiative that aims to increase interventions to reduce colorectal cancer death rates by leveraging committed partners in the community to deliver coordinated and quality colorectal cancer screening and follow-up care. Our global health strategy, a very cost effective program, is in the process of being revised to focus on certain priorities, one of which is international tobacco use prevention.

As we look forward with regard to liquidity, we are focused on a few particular areas in the near term. We continue to investigate strategies for reducing risk of our defined benefit plan to minimize the impact of market volatility and funding requirements; we are still in the active evaluation phase of this opportunity. Also, CPS-3, an important, large prospective study to identify factors that cause or prevent cancer, is an integral mission-critical expenditure. Our challenge will be to identify and raise significant funds to follow the initial cohort group of 300,000 volunteers for a preliminary period of years.

Looking forward, continued

For the year ended December 31, 2013, 73 percent of total expenses were allocated to mission program services – our mission activities – with the remainder being divided between the cost of raising funds (22 percent) and management and general (5 percent). This GAAP allocation is influenced by a variety of factors, including the grassroots nature of the majority of our revenue-producing programs. A grassroots approach is a more costly way of raising funds, generating an average donation amount of less than sixty dollars, but it also engages many more constituents with the American Cancer Society. Also, we currently have minimal support from governments, large corporations, or foundations, which are generally less expensive methods of raising money. We believe these allocation results are reasonable and within well-established Better Business Bureau Wise Giving Alliance norms, particularly given the nature of our historic business model. We have been awarded the Better Business Bureau's Wise Giving Seal. While functional allocation results are a popular focus of charity watchdog organizations, it is a limiting metric because it does not approximate effectiveness or worthiness of an organization. Yet we are not satisfied with our current allocations, and believe we can significantly increase the percentage of expenses we spend on mission program services over time.

When comparing organizations solely on the basis of efficiency ratios, the user should be aware that *efficiency* does not necessarily equate to *effectiveness*. Comparison of nonprofits, particularly across sectors, is difficult at best because of the wide variety of missions and business models and the lack of a systematic way of determining effectiveness. We have placed a high priority on the challenge of demonstrating and communicating effectiveness and are engaging others as we work to improve our efforts.

Subsequent to the merger of the various operational entities (part of the enterprise's transformation process), we have embarked on a comprehensive, enterprise risk management program as we are now able to operationalize and manage a unified program. This work will enhance our operational decisions and could affect our financial reporting in the future.

We eagerly await the financial reporting work that the standard-setters have been considering during this past year and have attempted to align our financial reporting in the direction where we believe the standard-setters are headed in order to minimize impact to our readers and to our operations. There may be some adjustments based on the final decisions of those bodies.

Further discussion of our mission, goals, and progress is provided in our annual *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.

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Report of Independent Auditors

The Board of Directors
American Cancer Society, Inc.

We have audited the accompanying financial statements of the American Cancer Society, Inc. (the Society), which comprise the balance sheet as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Cancer Society, Inc. at December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 23, 2014

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands)

		Donor Restricted		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Our mission program and support expenses were:				
Mission program services:				
Patient support	$ 279,856	$ -	$ -	$ 279,856
Research	177,489			177,489
Prevention	131,915	-	-	131,915
Detection/treatment	92,191	-	-	92,191
Total mission program services	681,451	-	-	681,451
Mission support services:				
Management and general	49,319	-	-	49,319
Fund-raising	205,974	-	-	205,974
Total mission support services	255,293	-	-	255,293
Total mission program and mission support services expenses	936,744	-	-	936,744
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®	423,455	73,913	-	497,368
Contributions	133,490	49,667	136	183,293
Bequests	97,201	41,659	1,914	140,774
Contributed services, merchandise and other in-kind contributions	23,110	29,706	-	52,816
Other	9,281	1,055	-	10,336
Total support from the public	686,537	196,000	2,050	884,587
Investment income	25,664	16,740	-	42,404
Change in value of split-interest agreements	2,864	14,080	15,151	32,095
Grants and contracts from government agencies	3,968	2,874	-	6,842
Other gains (losses)	4,543	473	(440)	4,576
Total revenues, gains and other support	723,576	230,167	16,761	970,504
Use of amounts restricted by donors for specified purpose or time	197,016	(196,379)	(637)	-
Net decrease in retirement plan liability	(161,372)	-	-	(161,372)
Change in net assets	145,220	33,788	16,124	195,132
Net assets, beginning of period	640,413	223,675	263,945	1,128,033
Net assets, end of period	$ 785,633	$ 257,463	$ 280,069	$1,323,165

The notes beginning on page 13 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands)

	Mission program				Mission support		
	Patient support	Research	Prevention	Detection / treatment	Management and general	Fund-raising	Total
Mission program and support expenses							
Salaries	$ 113,431	$ 34,026	$ 57,146	$ 42,299	$ 22,659	$ 103,005	$ 372,566
Employee benefits	39,366	10,143	17,603	13,542	7,160	32,679	120,493
Payroll taxes	8,723	2,478	4,183	3,195	1,473	7,612	27,664
Professional fees	15,221	15,817	11,996	6,673	4,646	14,804	69,157
Grants for mission program services	3,266	94,042	4,495	4,653	72	101	106,629
Educational materials	15,037	5,101	11,294	5,703	1,357	8,502	46,994
Direct assistance, including wigs, and Look Good Feel Better® kits	33,556	-	21	237	-	-	33,814
Travel	4,558	1,309	3,470	2,304	802	5,236	17,679
Postage and shipping	3,468	989	3,336	1,117	2,433	3,479	14,822
Meetings and conferences	2,075	900	1,944	1,142	992	2,769	9,822
Community office locations, including rent, maintenance and utilities	16,971	3,261	5,633	3,831	2,696	8,641	41,033
Technology	3,663	2,311	1,764	1,213	674	2,811	12,436
Telecommunications	4,066	2,325	2,035	1,451	639	3,283	13,799
Depreciation and amortization	7,036	2,198	3,607	2,541	1,322	6,063	22,767
Miscellaneous	9,419	2,589	3,388	2,290	2,394	6,989	27,069
Total mission program and mission support services expenses	$ 279,856	$ 177,489	$ 131,915	$ 92,191	$ 49,319	$ 205,974	$ 936,744

The notes beginning on page 13 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands)

Cash flows from operating activities		
Cash received from (paid for):		
Special events	$	551,590
Contributions		182,411
Bequests		127,395
Other support from the public		8,764
Government grants		10,291
Interest and dividends on investments, net		20,011
Other revenue		8,663
Program services		30,671
Interest on debt		(2,136)
Employees and suppliers		(791,804)
Direct assistance		(11,812)
Retirement plan contributions		(48,612)
Grants for mission program services		(118,173)
Net cash paid for operating activities		(32,741)
Cash flows from investing activities		
Purchase of fixed assets		(8,274)
Proceeds from disposal of fixed assets		3,983
Support from the public restricted for fixed asset acquisition		10,471
Purchase of investments		(195,922)
Proceeds from maturity or sale of investments		260,136
Net cash received from investing activities		70,394
Cash flows from financing activities		
Payments on debt		(43,435)
Proceeds from issuance of debt		41,040
Proceeds from annuitants		2,095
Payments to annuitants		(3,199)
Support from the public restricted for long-term investment		2,050
Net cash paid for financing activities		(1,449)
Net change in cash and cash equivalents		36,204
Cash and cash equivalents, beginning of period		138,696
Cash and cash equivalents, end of period	$	174,900

The notes beginning on page 13 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands)

Cash flows from operating activities		
Change in net assets	$	195,132
Adjustments to reconcile change in net assets to net cash paid for operating activities:		
Depreciation and amortization		22,819
Net realized and unrealized investment gains		(22,393)
Change in value of split-interest agreements		(32,095)
Loss on disposal of fixed assets		1,397
Net decrease in retirement plan liability		(161,372)
Support from the public restricted for long-term investment		(2,050)
Support from the public restricted for fixed asset acquisition		(10,471)
Changes in assets and liabilities:		
Receivables, net		5,308
Prepaid expenses and other assets		(1,663)
Bequests receivable		(14,932)
Beneficial interests in trusts		2,838
Research and other program grants payable		(11,543)
Accounts payable and other accrued expenses and employee retirement benefits		(2,484)
Other liabilities		(1,232)
Net cash paid for operating activities	$	(32,741)

The notes beginning on page 13 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
BALANCE SHEET
DECEMBER 31, 2013
(In Thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	174,900
Investments		4,083
Receivables, net		19,497
Prepaid expenses and other assets		23,153
Bequests receivable		73,775
Total current assets		295,408
Receivables, net		16,689
Gift annuity investments		39,283
Investments		943,609
Beneficial interests in trusts		304,182
Fixed assets, net		292,387
Total assets	$	1,891,558
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued expenses	$	61,374
Research and other program grants payable		94,629
Debt		2,243
Other liabilities		13,367
Total current liabilities		171,613
Research and other program grants payable		114,168
Employee retirement benefits		192,441
Other liabilities		16,574
Debt		46,872
Gift annuity obligations		26,725
Total liabilities		568,393
Commitments and contingencies		
Net assets:		
Unrestricted:		
Available for mission program and support activities		545,611
Net investment in fixed assets		240,022
Total unrestricted		785,633
Temporarily restricted		257,463
Permanently restricted		280,069
Total net assets		1,323,165
Total liabilities and net assets	$	1,891,558

The notes beginning on page 13 are an integral part of the financial statements.

(Dollars in thousands)

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.

- 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.

- Prevention – Programs that provide the public and health professionals with information and education to prevent cancer occurrence or to reduce risk of developing cancer.

- 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 hours a day, 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 the year ended December 31, 2013, our mission expenses were allocated to these two areas as follows:

Mission program expenses	$	681,451	73 %
Mission support expenses		255,293	27
Total	$	936,744	100 %

(Dollars in thousands)

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. The overall short-term investment balance is targeted based on our projected daily and monthly net cash flows and is generally intended to ensure all operating needs are met throughout the year without tapping into our long-term investments. 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%

Together, all of our investment pools, at fair value, were as follows:

Money market funds and time deposits	$ 28,612	3 %
Corporate bonds	188,824	19
U.S. government and government agency and obligations	300,591	30
Commercial paper and other short-term investments	96,551	10
Equities	338,448	34
Other	33,949	4
	$ 986,975	100 %

(Dollars in thousands)

2. Liquidity considerations, continued

Investments, continued

The components of our investment income were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends, net	$ 15,821	$ 4,190	$ -	$ 20,011
Net realized and unrealized investment gains	9,843	12,550	-	22,393
Total investment income	$ 25,664	$ 16,740	$ -	$ 42,404

Interest and dividend income in the statement of activities is presented net of fees paid to our investment advisors. Those fees were approximately $2,827 for the year ended December 31, 2013.

Gift annuity investments

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 $12,558 at December 31, 2013 and are included in gift annuity investments on the accompanying balance sheet.

Planned gifts (bequests and beneficial interest in trusts)

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. Depending on the number and mortality of any third party beneficiaries, we may not receive cash for our interest in the BIT's for a number of years. During the year ended December 31, 2013, approximately 40% of our revenue from bequests was cash and 60% will be received in future years.

The management of the assets within the various trusts, including the 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 the investment income be distributed on at least an annual basis.

(Dollars in thousands)

2. Liquidity considerations, continued

Use of net assets

Included in unrestricted net assets at December 31, 2013 is $240,022 that is invested in our fixed assets and is not available to spend on current operations.

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 December 31, 2013 is $151,257 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 December 31, 2013 has been limited by our donors for the following purposes:

	Temporarily	Permanently
Mission programs:		
Patient Support:		
Hope Lodge facilities	$ 42,190	$ 14,617
Other	21,449	17,025
Research	51,184	62,707
Prevention	3,775	1,482
Detection/treatment	14,216	1,602
Across mission programs:		
Time restrictions (primarily planned giving including perpetual trusts)	109,150	132,150
Specific geographic locations	14,033	32,984
Fixed asset acquisitions / building fund	472	-
Other mission program and mission support services	994	17,502
Total	$ 257,463	$ 280,069

Research and other program grants

As part of our commitment to 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 December 31, 2013 is $211,443. The present value of our future payments as of December 31, 2013 is $208,787. The discount at December 31, 2013 of $2,656 will be recognized as grants for mission program services expense in 2013 through 2017. As of December 31, 2013, our future payments are as follows:

Payable in the next:	
12 months	$ 94,629
13 - 24 months	63,162
25 - 36 months	37,068
37 - 48 months	14,190
49 - 60 months	2,404
Discount	(2,656)
Total	$ 208,797

(Dollars in thousands)

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 December 31, 2013:

Payable in the next:		
12 months	$	20,870
13 - 24 months		17,337
25 - 36 months		13,325
37 - 48 months		10,364
49 - 60 months		8,645
Thereafter		21,964
Total	$	92,505

Debt

We have financed certain properties based on market conditions and cash flow needs at the time of financing. Our outstanding debt as of December 31, 2013 is as follows:

Type	Issuer	Maturity Date	Interest rate	Balance at 12/31/2013	Collateral
Industrial Revenue Bonds	Oklahoma Industries Authority	2022	0.06%	6,535	Certificates of deposit, property and letters of credit, which expire at various dates through 2014
Note Payable	TD Bank, N.A.	2020	Libor + 0.90%	41,040	All assets constituting general revenues
Notes Payable	Various	Various	2.00% - 5.75%	1,540	Not Applicable
Total				$ 49,115	

Our future principal payments are as follows:

Payable in the next:		
12 months	$	2,243
13 - 24 months		2,281
25 - 36 months		3,343
37 - 48 months		2,339
49 - 60 months		2,388
Thereafter		36,521
Total	$	49,115

(Dollars in thousands)

2. Liquidity considerations, continued

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, 2013, 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 21^{st} 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 $5,686 for the year ended December 31, 2013. 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 $3,139 for these benefits from our general assets during the year ended December 31, 2013.

We expect to contribute approximately $45,198 to all of our plans over the next 12 months.

Receivables

As of December 31, 2013, we expect future cash receipts from unconditional pledges and grants receivable of $16,320, 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 for the year ended December 31, 2013 are as follows:

Media communication and production services	$	5,149
Discovery Shops		21,404
Cosmetic kits and wigs		17,803
Other in-kind contributions		8,460
Total contributed services, merchandise, and other in-kind contributions at fair value	$	52,816

<u>OTHER REQUIRED DISCLOSURES</u>

4. Significant accounting policies

Accounting for contributions

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.

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.

Bequests receivable

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 and are reported as investment income in the statement of activities. Income received from the trusts is reported as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions.

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.

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 investments and gift annuity investments, as appropriate.

(Dollars in thousands)

4. Significant accounting policies, continued

Fixed assets, depreciation

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

Advertising costs

Our advertising costs are expensed as incurred and were $25,041 for the year ended December 31, 2013.

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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

The following are assumptions we used to estimate certain reported amounts, which are not required to be measured at fair value on a recurring basis, as of December 31, 2013. The assumptions used to estimate amounts, which are required to be measured at fair value on a recurring basis are included in footnote 8.

Discount rates:

Pledges receivable	1.50% to 5.25%
Research and other program grants payable	0.70% to 6.25%

Our cost-reimbursement 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 financial position.

(Dollars in thousands)

4. Significant accounting policies, continued

Income Taxes

Consistent with our mission, we 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).

5. Activities with joint costs

For the year ended December 31, 2013, 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:

Patient support	$	55,095
Prevention		38,660
Detection/treatment		20,329
Management and general		7,611
Fundraising		65,709
Total	$	187,404

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 gains (losses) in the accompanying statement of activities and are as follows for the year ended December 31, 2013:

	Exchange Income		Exchange Expenses	
Special events	$	54,244	$	54,244
Discovery Shop		22,787		33,574
Sales to third parties		8,156		8
Other		4,964		37
	$	90,151	$	87,863

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 statement of activities.

(Dollars in thousands)

7. Fixed assets and rental expense

Our fixed assets are as follows as of December 31, 2013:

		2013
Land	$	38,209
Buildings and leasehold improvements		384,736
Furniture, fixtures, equipment, and other capitalized assets		99,981
Computer software		57,406
Construction in progress		1,248
Less: accumulated depreciation and amortization		(289,193)
Net fixed assets	$	292,387

Depreciation expense including expenses on assets used in exchange transactions for the year ended December 31, 2013 was approximately $19,642.

Rental expense under operating leases was $23,796 for the year ended December 31, 2013.

8. Fair value

Fair value of financial instruments

Our financial instruments consist of cash and cash equivalents, investments, receivables (Level 2), gift annuity investments, bequests receivable (Level 2), beneficial interests in trusts, research and other program grants payable (Level 2), accounts payable and accrued expenses (Level 2), gift annuity obligations, and debt (Level 2). Receivables, bequests receivable, and research and other program grants payable are recorded at their net realizable value, which approximates fair value. 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.

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 can 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.

8. Fair value, continued

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 year ended December 31, 2013, there were no significant transfers in or out of Levels 1, 2, or 3.

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.

8. Fair value, continued

Fair value measurement, continued

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. For the year ended December 31, 2013, 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 6.50% and a discount rate of 6.50%, 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 year-end for each trust, the 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. 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.

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 year-end 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 based on the present value of our estimated future cash outflows. For the year ended December 31, 2013, the assumptions used in the valuation of the annuity liability include mortality in accordance with the Annuity 2000 Table and a discount rate of 2.30% for all annuities, 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.

(Dollars in thousands)

8. Fair value, continued

The following table sets forth by level, within the fair value hierarchy, our assets and liabilities measured at fair value on a recurring basis as of December 31, 2013. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Financial assets and liabilities measured at fair value			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments, current				
Money market funds and time deposits	$ 4,083	$ -	$ -	$ 4,083
Gift annuity investments, at fair value				
Money market funds and time deposits	$ -	$ 2,170	$ -	$ 2,170
Corporate bonds	-	3,760	-	3,760
U.S. government and government agency obligations	6,334	3,057	-	9,391
Commercial paper and other short-term investments				
Mortgage backed	-	726	-	726
Equities				
Preferred stocks	105	-	-	105
Domestic	17,197	-	21	17,218
International	2,698	-	-	2,698
Mutual funds	2,415	-	-	2,415
Other	-	-	800	800
Total gift annuity investments, at fair value	$ 28,749	$ 9,713	$ 821	$ 39,283
Investments				
Money market funds and time deposits	$ 305	$ 22,054	$ -	$ 22,359
Corporate bonds	-	185,064	-	185,064
U.S. government and government agency obligations	4,025	287,175	-	291,200
Commercial paper and other short-term investments				
Mortgage backed	-	41,319	-	41,319
Asset backed	-	47,207	-	47,207
Short-term investments	-	7,299	-	7,299
Equities				
Preferred stocks	17	-	-	17
Domestic	85,132	-	235	85,367
International	82,148	-	-	82,148
Common collective trusts	-	148,480	-	148,480
Other	31,110	1,158	881	33,149
Total investments	$ 202,737	$ 739,756	$ 1,116	$ 943,609
Beneficial interests in trusts	$ -	$ -	$ 304,182	$ 304,182
Liabilities				
Gift annuity obligations	$ -	$ -	$ 26,725	$ 26,725

(Dollars in thousands)

8. Fair value, continued

The table below provides a summary of changes in the fair value of our Level 3 financial assets and liabilities measured on a recurring basis for the year ended December 31, 2013:

	Equities	Other	Beneficial interest in trusts	Gift annuity obligation
Balance, beginning of year	$ 228	$ 1,778	$ 277,609	$ 27,734
Unrealized gains	1	-	15,040	
Other	27	(97)	11,533	(1,009)
Balance, end of year	$ 256	$ 1,681	$ 304,182	$ 26,725

The unrealized gains are included in the investment income in the accompanying statement of activities and are related to assets still held at December 31, 2013.

The following table 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 December 31, 2013:

Investment type	Fair value	Unfunded commitments
Index non-lending common/collective trust fund	$ 34,797	$ -
Inflation-index securities common/collective trust fund	113,683	-
Money market fund	22,053	-
Total	$ 170,533	$ -

The index non-lending fund was mainly composed of common stocks in various business sectors. 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. 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 Index over the long term.

The inflation-indexed fund was mainly composed of foreign fixed income securities in various government agencies. The fair values of the investments are based on quotations from the primary market in which they are traded and translated at each valuation date from the local currency into U.S. dollars using the prevailing exchange rates. Securities traded on generally recognized securities exchanges are valued at their closing price. If there are no sales, valuation is at the midpoint between the last recorded bid and ask prices. Securities traded only in over-the-counter markets for which reliable quotations are available are valued at the midpoint between the latest current bid and ask prices. Requests for redemption may only be made on the first business day of each month and must be made at least 10 business days before month-end. The fund investment objective is to achieve favorable income-oriented returns from a globally diversified portfolio of primarily debt or debt-like securities.

(Dollars in thousands)

8. Fair value, continued

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 New York Prudent Management of Institutional Funds Act (NYPMIFA) 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 NYPMIFA.

Endowment assets are included in investments on the balance sheet.

Endowment net asset composition by type and changes in endowments	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at December 31, 2012	$ (23)	$ 19,084	$ 83,673	$ 102,734
Investment income	-	1,694	-	1,694
Net appreciation (realized and unrealized)	-	13,836	-	13,836
Contributions	-	-	3,640	3,640
Reclassification of restrictions	15	(481)	466	-
Appropriation of endowment assets for expenditure	-	(4,134)	(441)	(4,575)
Donor restricted endowment net assets at December 31, 2013	$ (8)	$ 29,999	$ 87,338	$ 117,329

(Dollars in thousands)

9. Endowment, continued

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 $8 as of December 31, 2013. 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.

Spending policy

Unless the donor has specified otherwise, 4% 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% in order to maintain the purchasing power of the endowment. Endowment assets at December 31, 2013 consist of:

	Percent of Fair Value	Target Range
Equity securities	64 %	46-68%
Debt securities	35	31-47%
Cash and cash equivalents	1	1-7%
	100 %	

(Dollars in thousands)

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 December 31, 2013 consist of:

	Percent of Fair Value	Target Range
Equity securities	68 %	55-69%
Debt securities	31	25-45%
Cash and cash equivalents	1	1-5%
	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.

(Dollars in thousands)

10. Employee retirement benefit plans, continued

Information related to our Plan, SERP, and postretirement benefit plan at December 31, 2013 and the related changes during the four months 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	$ 740,130	$ 18,008	$ 758,138	$ 60,078
Service cost	32,135	650	32,785	496
Interest cost	30,625	698	31,323	2,473
Amendments	-	604	604	-
Actuarial gain	(79,213)	(3,065)	(82,278)	(6,417)
Benefits paid	(72,917)	(5,473)	(78,390)	(3,139)
Retiree drug subsidy reimbursement	-	-	-	115
Benefit obligation at end of year	$ 650,760	$ 11,422	$ 662,182	$ 53,606
Change in plan assets				
Fair value of plan assets at beginning of year	$ 479,155	$ -	$ 479,155	$ -
Actual expenses paid	(1,820)	-	(1,820)	-
Actual return on plan assets	78,929	-	78,929	-
Employer contributions	40,000	5,473	45,473	3,139
Benefits paid	(72,917)	(5,473)	(78,390)	(3,139)
Fair value of plan assets at end of year	$ 523,347	$ -	$ 523,347	$ -
Funded status and amounts recognized in our balance sheet in employee retirement benefits	$ (127,413)	$ (11,422)	$ (138,835)	$ (53,606)
Weighted average actuarial assumptions				
Discount rate:				
Net periodic pension cost	5.00%	5.00%	5.00%	5.00%
Benefit obligation	5.00%	5.00%	5.00%	5.00%
Expected return on plan assets	7.50%	N/A	7.50%	N/A
Rate of compensation increase	4.13%	Varies	Varies	4.13%
Amounts not yet recognized in net periodic pension costs				
Unrecognized prior service costs (credit) at beginning of year	$ 812	$ 1,579	$ 2,391	$ (2,347)
Change in prior service (credit) cost	(439)	8	(431)	279
Unrecognized prior service costs (credit) at end of year	$ 373	$ 1,587	$ 1,960	$ (2,068)

(Dollars in thousands)

10. Employee retirement benefit plans, continued

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Retirement Benefits
Amounts not yet recognized in net periodic pension costs, continued				
Unrecognized actuarial losses at beginning of year	$ 271,497	$ 3,313	$ 274,810	$ 13,251
Change in actuarial losses	(149,106)	(4,191)	(153,297)	(7,440)
Unrecognized actuarial losses at end of year	$ 122,391	$ (878)	$ 121,513	$ 5,811
Unrecognized transition obligation at beginning of year	$ -	$ -	$ -	$ 520
Change in transition obligation	-	-	-	(483)
Unrecognized transition obligation at end of year	$ -	$ -	$ -	$ 37
Amounts recognized as a reduction to unrestricted net assets				
Amounts recognized as a reduction to unrestricted net assets at beginning of year	$ 272,309	$ 4,892	$ 277,201	$ 11,423
Change in prior services (credit) cost	(439)	8	(431)	279
Change in actuarial losses	(149,106)	(4,191)	(153,297)	(7,440)
Change in transition obligation	-	-		(483)
Amounts recognized as a reduction to unrestricted net assets at end of year	$ 122,764	$ 709	$ 123,473	$ 3,779
Components of net periodic benefit cost:				
Service cost	$ 32,135	$ 650	$ 32,785	$ 496
Interest cost	30,625	698	31,323	2,473
Expected return on plan assets	(34,373)	-	(34,373)	-
Administrative expenses	2,220	-	2,220	-
Amortization of:				
Unrecognized prior service cost (credit)	439	265	704	(279)
Unrecognized actuarial losses	24,935	143	25,078	1,023
Unrecognized transition obligation	-	-	-	483
Other	-	1,316	1,316	-
Net periodic benefit cost	$ 55,981	$ 3,072	$ 59,053	$ 4,196
Accumulated benefit obligation	$ 587,354	$ 8,537	$ 595,891	$ 53,606

(Dollars in thousands)

10. Employee retirement benefit plans, continued

	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Retirement Benefits
Estimated future benefits payable in the next:				
12 months	$ 40,063	$ 1,303	$ 41,366	$ 3,895
13 - 24 months	39,955	2,112	42,067	3,928
25 - 36 months	39,677	1,922	41,599	3,940
37 - 48 months	41,716	1,515	43,231	3,945
49 - 60 months	43,580	1,246	44,826	3,937
Thereafter	231,176	5,724	236,900	19,316

We expect to contribute $41,303 to the Plan and SERP over the next 12 months. We expect to contribute $3,719 to our postretirement benefit plan over the next 12 months. 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 12 months are $451 and $6,956, 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 12 months, are $18, $279, and $64, 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 December 31, 2013 by asset category is as follows:

	Financial assets measured at fair value on a recurring basis			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ -	$ -	$ -
Money market funds	-	10,067	-	10,067
Corporate bonds	-	33,058	-	33,058
U.S. government and government agency obligations	-	74,983	-	74,983
Commercial paper and other short-term investments				
Mortgage backed	-	15,323	-	15,323
Assets backed	-	-	-	-
Short-term investments	12,926	-	-	12,926
Equity				
Preferred stock	662	-	-	662
Domestic	174,662	-	-	174,662
International	82,770	-	-	82,770
Common collective trusts	-	89,271	-	89,271
Government money fund	4,435	-	-	4,435
Limited partnership	-	-	339	339
Other	24,712	139	-	24,851
Total investment assets, at fair value	$ 300,167	$ 222,841	$ 339	$ 523,347

(Dollars in thousands)

10. Employee retirement benefit plans, continued

The table below provides a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2013:

Balance, beginning of period	$	446
Sales		(107)
Balance, end of period	$	339

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 net assets.

12. Subsequent events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through May 23, 2014, the date the financial statements were available to be issued. During this period, there were no subsequent events that required recognition or disclosure in the financial statements.

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