

2008

Audited Financial
Statements

AND

Management's
Statement
of Responsibility

Management's Statement of Responsibility

February 18, 2009

The management of the American Chemical Society (ACS) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include amounts based on estimates and judgments by management.

The consolidated financial statements have been audited by the independent accounting firm PricewaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors. Their report, which follows, expresses their opinion as to whether the consolidated financial statements, considered in their entirety, fairly present the Society's financial position, operating results, and cash flows in conformity with accounting principles generally accepted in the United States. Management believes that all representations made to the independent auditors during their audit were valid and appropriate.

The Society maintains a system of internal controls over financial reporting which is designed to provide reasonable assurance to the Society's management and the ACS Board of Directors that assets are safeguarded, transactions are executed in accordance with management's authorization, and accounting records support the preparation of reliable published financial statements. The Society's internal controls are maintained through the establishment and communication of accounting and financial policies and procedures and by the selection and training of qualified personnel. There are, however, inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Audit Committee of the ACS Board of Directors has a charter in place that outlines the Committee's responsibilities, which include engaging the independent auditors, reviewing accounting, auditing, internal control, and financial reporting matters, and meeting with management and the independent auditors to ensure that each is carrying out their responsibilities. Recommendations made by the independent auditors are considered and appropriate action is taken with respect to these recommendations. The independent auditors have unrestricted access to the Audit Committee.

Madeleine Jacobs
Executive Director & CEO

Brian A. Bernstein
Treasurer & CFO

AMERICAN CHEMICAL SOCIETY
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007
and Report Thereon


Report of Independent Auditors

To the Board of Directors of the
American Chemical Society:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the consolidated financial position of the American Chemical Society and its subsidiaries (the Society) at December 31, 2008 and 2007 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, in fiscal year 2007 the Society adopted the recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 158 (FAS 158), *Employer's Accounting for Defined Benefit Pension and other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132R, and adopted the measurement date provisions of FAS 158 in fiscal year 2008.

In fiscal year 2008, as discussed in Note 9, the Society also adopted FASB Statement No. 157 (FAS 157), *Fair Value Measurements*. As discussed in Note 4, in fiscal year 2008, the Society also adopted FASB Staff Position No. FAS 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.



February 18, 2009

American Chemical Society
Consolidated Statements of Financial Position
As of December 31
(in thousands)

	2008			2007
	Additional Consolidating Information			
	ACS Programs	Petroleum Research Fund	Total	Total
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 28,958	\$ 1,314	\$ 30,272	\$ 59,409
Accounts and Pledges Receivable, Net	62,158	-	62,158	71,363
Inventories	7,899	-	7,899	7,022
Interfund (Payable) Receivable	(13,510)	13,510	-	-
Collateral Received Under Securities Lending Agreement	17,230	41,787	59,017	67,858
Other	11,216	22	11,238	11,595
Total Current Assets	113,951	56,633	170,584	217,247
Non-Current Assets				
Buildings, Land, and Other Property, Net	109,106	3	109,109	101,136
Investments	321,489	388,568	710,057	1,000,004
Deferred Pension, Pledges Receivable and Other	1,288	-	1,288	1,188
Total Non-Current Assets	431,883	388,571	820,454	1,102,328
Total Assets	\$ 545,834	\$ 445,204	\$ 991,038	\$ 1,319,575
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 27,181	\$ -	\$ 27,181	\$ 26,226
Accrued Expenses	35,198	88	35,286	31,522
Deferred Revenues	98,697	-	98,697	112,233
Current Portion of Long-Term Debt	4,205	-	4,205	4,005
Payable Under Securities Lending Agreement	17,230	41,787	59,017	67,858
Postretirement Benefits and Other	3,292	-	3,292	2,951
Total Current Liabilities	185,803	41,875	227,678	244,795
Non-Current Liabilities				
Deferred Revenues	623	-	623	971
Long-Term Debt	25,111	-	25,111	29,240
Postretirement Benefits and Other	207,186	11,671	218,857	144,302
Total Non-Current Liabilities	232,920	11,671	244,591	174,513
Total Liabilities	418,723	53,546	472,269	419,308
Net Assets				
Unrestricted	89,711	-	89,711	247,406
Temporarily Restricted	17,964	319,158	337,122	558,056
Permanently Restricted	19,436	72,500	91,936	94,805
Total Net Assets	127,111	391,658	518,769	900,267
Total Liabilities and Net Assets	\$ 545,834	\$ 445,204	\$ 991,038	\$ 1,319,575

See accompanying notes to consolidated financial statements.

American Chemical Society
Consolidated Statements of Activities
For the Years Ended December 31
(in thousands)

	2008			2007
	Additional Consolidating Information			
	ACS Programs	Petroleum Research Fund	Total	Total
Change in Unrestricted Net Assets - Operations				
Revenues				
Electronic Services	\$ 359,356	\$ -	\$ 359,356	\$ 335,305
Printed Services	34,684	-	34,684	43,592
Advertising	12,329	-	12,329	13,663
Dues	12,643	-	12,643	12,407
Member Insurance Premiums, Refunds, and Fees	13,599	-	13,599	14,626
Registration Fees and Booth Sales	11,619	6	11,625	12,277
Investment Income	12,454	474	12,928	13,314
Net Assets Released from Restriction	4,663	28,789	33,452	34,391
Other	7,470	-	7,470	7,491
Total Unrestricted Revenues	468,817	29,269	498,086	487,066
Expenses				
Program Expenses				
Information Services	351,435	-	351,435	336,680
Grants and Awards	2,515	27,215	29,730	31,169
Membership and Scientific Advancement	24,080	-	24,080	25,140
Member Insurance Program	14,732	-	14,732	14,268
Education	6,399	-	6,399	6,311
Other	6,007	-	6,007	5,945
Supporting Expenses				
Administrative	40,180	2,054	42,234	42,245
Member Promotion and Retention	4,352	-	4,352	4,134
Other	10,192	-	10,192	10,431
Total Expenses	459,892	29,269	489,161	476,323
Change in Unrestricted Net Assets from Operations Before Non-Operating Activity	8,925	-	8,925	10,743
Change in Unrestricted Net Assets - Non-Operating Activity				
Net Investment (Losses) Gains	(92,873)	-	(92,873)	13,835
Gain on Sale of Journal	1,188	-	1,188	-
Underfunded Pension Expense	(70,765)	-	(70,765)	-
Other	(60)	-	(60)	-
Change in Unrestricted Net Assets - Non-Operating Activity	(162,510)	-	(162,510)	13,835
Cumulative Effect of the Adoption of FAS 158	(4,110)	-	(4,110)	(89,498)
Change in Unrestricted Net Assets	(157,695)	-	(157,695)	(64,920)
Change in Temporarily Restricted Net Assets				
Contributions	2,627	-	2,627	3,087
Net Investment (Losses) Gains	(7,469)	(198,849)	(206,318)	27,394
Investment Income	1,255	15,430	16,685	19,317
Net Assets Released From Restriction	(4,663)	(28,789)	(33,452)	(34,391)
Adjustment of Pledges Receivable	(30)	-	(30)	(46)
Other	(158)	(288)	(446)	(36)
Change in Temporarily Restricted Net Assets	(8,438)	(212,496)	(220,934)	15,325
Change in Permanently Restricted Net Assets				
Contributions	750	-	750	34
Net Investment (Losses) Gains	(4,138)	-	(4,138)	749
Investment Income	13	-	13	13
Other	506	-	506	-
Change in Permanently Restricted Net Assets	(2,869)	-	(2,869)	796
Change in Net Assets	(169,002)	(212,496)	(381,498)	(48,799)
Beginning Net Assets	296,113	604,154	900,267	949,066
Ending Net Assets	\$ 127,111	\$ 391,658	\$ 518,769	\$ 900,267

See accompanying notes to the consolidated financial statements.

American Chemical Society
Consolidated Statements of Cash Flows
For the Years Ended December 31
(in thousands)

	2008			2007
	Additional Consolidating Information			Total
	ACS Programs	Petroleum Research Fund	Total	
Cash Flows From Operating Activities				
Change in Net Assets	\$ (169,002)	\$ (212,496)	\$ (381,498)	\$ (48,799)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:				
Net Investment Losses (Gains)	104,480	198,849	303,329	(41,978)
Underfunded Pension Expense	70,765	-	70,765	-
Cumulative Effect of the Adoption of FAS 158	4,110	-	4,110	89,498
Depreciation and Amortization	21,968	6	21,974	22,381
Contributions Restricted for Long-Term Investment	(750)	-	(750)	(34)
Amortization of Prepaid Bond Costs	76	-	76	80
Net (Gain) Loss on Property Dispositions	(23)	-	(23)	245
Changes in Operating Assets and Liabilities:				
Decreases (Increases) in Assets:				
Accounts and Pledges Receivable	9,190	15	9,205	(18,368)
Inventories	(877)	-	(877)	(271)
Interfund (Payable) Receivable	2,181	(2,181)	-	-
Other Assets	193	16	209	9,565
Increases (Decreases) in Assets:				
Accounts Payable	955	-	955	(1,876)
Accrued Expenses	1,604	(53)	1,551	(1,522)
Deferred Revenues	(13,884)	-	(13,884)	11,731
Other Liabilities	1,359	(669)	690	(8,498)
Net Cash Provided by (Used in) Operating Activities	<u>32,345</u>	<u>(16,513)</u>	<u>15,832</u>	<u>12,154</u>
Cash Flows From Investing Activities				
Purchases of Investments	(37,464)	(4,342,794)	(4,380,258)	(3,418,662)
Sales and Maturities of Investments	13,343	4,354,483	4,367,826	3,430,369
Acquisitions of Buildings, Land, and Other Property	(29,284)	(9)	(29,293)	(28,647)
Proceeds from Property Dispositions	11	-	11	2
Net Cash (Used in) Provided by Investing Activities	<u>(53,394)</u>	<u>11,680</u>	<u>(41,714)</u>	<u>(16,938)</u>
Cash Flows From Financing Activities				
Payments on Debt	(4,005)	-	(4,005)	(3,815)
Contributions Restricted for Long-Term Investment	750	-	750	34
Net Cash (Used in) Financing Activities	<u>(3,255)</u>	<u>-</u>	<u>(3,255)</u>	<u>(3,781)</u>
Net Decrease in Cash and Cash Equivalents	<u>(24,304)</u>	<u>(4,833)</u>	<u>(29,137)</u>	<u>(8,565)</u>
Beginning Cash and Cash Equivalents	53,262	6,147	59,409	67,974
Ending Cash and Cash Equivalents	<u>\$ 28,958</u>	<u>\$ 1,314</u>	<u>\$ 30,272</u>	<u>\$ 59,409</u>

See accompanying notes to the consolidated financial statements.

**AMERICAN CHEMICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

1. ORGANIZATION AND PURPOSE

The American Chemical Society (the Society) was founded in 1876. It is a U.S. not-for-profit corporation whose national charter was approved by the U.S. Congress on August 25, 1937. The Society's consolidated financial statements include the operations of two wholly owned for-profit subsidiaries and an insurance trust. The Society was organized for the purposes of encouraging the advancement of chemistry; promoting research in chemical science and industry; increasing and diffusing chemical knowledge; and promoting scientific interests and inquiry through its meetings, reports, papers, and publications. The Society has more than 154,000 members.

The Society is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and accomplishes its exempt purpose through a number of programs. These programs include membership and educational activities such as continuing education programs; national and regional meetings, which provide forums for sharing scientific information; and support for the Society's membership in areas such as employment services and public outreach. In addition, the Society provides expert testimony at the federal, state, and local government levels on topics relevant to the chemical community. The Society also provides a significant service to its members and the chemical community in the form of scientific journals and databases pertaining to chemical and related scientific information that is available in electronic and print formats.

The principal sources of funding for the Society's activities include net revenues generated by the Publications Division and the Chemical Abstracts Service (CAS) Division. The Publications Division publishes a wide range of peer-reviewed scientific journals, periodicals, and books. CAS analyzes, abstracts, and indexes the world's disclosed chemistry-related research literature from more than 10,000 journals plus chemistry-related patents from 57 national and international patent offices. CAS provides access to the resulting, fully-integrated, patent and chemical literature and substance databases through electronic and web-based search, retrieval, and analysis products and services, reference materials, and individual search assistance. Other sources of the Society's revenues include member dues, insurance premiums, registration fees, investment income, and contributions from individuals and institutions to support Society Programs. Products and services are sold domestically and in overseas markets, principally to Europe and Asia. The Society's diverse clientele is composed of its members, chemical and other industrial corporations, academic institutions, and government agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Presentation

The accompanying consolidated financial statements include the accounts of the American Chemical Society and its related entities, which consist of Science Information International, Ltd., a wholly owned international marketing services subsidiary; and Hampden Data Services, Ltd., a wholly owned chemical information software company. The consolidated financial statements also include the accounts of the American Chemical Society Petroleum Research Fund, an endowment fund established to advance scientific education and research in the petroleum field, and the American Chemical Society Insurance Trust, a grantor trust established to enable members of the Society to purchase insurance coverage through group insurance policies. All significant interorganizational transactions have been eliminated. The accounts of the Society's chapters, referred to as local sections and divisions, are not included in the Society's consolidated financial statements because the Society does not have a financial controlling interest in its chapters.

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

Fair Value of Financial Instruments

Effective January 1, 2008, the Society adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (SFAS 157)*, which establishes a framework for measuring fair value and expands disclosures about such fair value measurements. See Note 9 for the disclosure of the fair value of qualifying financial assets and liabilities as required by SFAS 157.

Investments, including alternative investments, are reported at fair value. Fair value is based on quoted prices for securities traded on public exchanges. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities, or other reasonable valuation methodologies. Fair values for certain hedge funds or commingled fund shares are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ materially from actual results. The fair value of alternative investments may be based on historical cost, obtainable prices for similar assets, or other estimates. The Society reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These investments are generally subject to certain withdrawal restrictions, and are less liquid than the Society's other investments.

The carrying amounts of cash equivalents, and collateral received and payable under a securities lending agreement approximate fair value as a result of their short maturities. The fair values of foreign currency forward contracts are based on the applicable exchange rates at December 31.

Concentration of Credit Risk

Financial instruments that potentially subject the Society to significant concentrations of credit risk principally consist of cash and cash equivalents, accounts receivable and investments. The Society places its cash and investments in various financial institutions that are federally insured for \$100,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At December 31, 2008 and 2007, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The Society has not experienced any losses on its cash and cash equivalents, and investments to date in relation to FDICA and SIPC insurance limits.

Credit Market Risk

The Society invests in common and preferred stocks, fixed income securities, mutual funds and financial instruments including, among others, futures and forward contracts and options intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance sheet risk, may result in gains or losses due to changes in the market (market risk).

Cash Equivalents

All investments with a maturity of three months or less, at the date of purchase, are considered to be cash equivalents.

Investments

Investments are recorded at fair value with the related gain or loss reported in the consolidated statements of activities. Purchases and sales of investments are recorded on the trade date. Investment income, consisting of interest and dividends, is recorded when earned.

Printed and Electronic Information Services

Revenue from the sale of printed materials and electronic information services is recognized when the printed product is shipped or when the electronic information service is provided to the customer. Subscription revenue

from the sale of printed materials and electronic subscriptions is recognized ratably over the term of the subscription. Recoverable costs incurred to produce printed and electronic products are generally deferred until distribution, at which time they are expensed.

Dues, Subscriptions, and Other Payments Received in Advance

The Society receives substantial amounts of dues, subscriptions and other payments each year for services to be rendered and publications to be delivered in future periods. These amounts are included in deferred revenues in the accompanying consolidated statements of financial position and are recognized ratably over the term of the service.

Inventories

Inventories of paper, educational books, and other materials totaled approximately \$938,000 and \$836,000 at December 31, 2008 and 2007, respectively.

Work-in-process inventories totaled approximately \$6,961,000 in 2008 and \$6,186,000 in 2007. Amounts include manuscript acquisition, peer review, composition, and publication costs incurred during the fourth quarter for journals to be sold during the first quarter of the following year.

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis.

Buildings, Land, and Other Property

Buildings and improvements; computer equipment and software; and furniture, fixtures, and office equipment are carried at cost less accumulated depreciation and amortization. Improvements which extend the estimated useful life of an asset are capitalized. Internally developed software is capitalized in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

Assets are amortized on a straight-line basis over the useful life of an asset. One-half year's depreciation or amortization is taken in the year of acquisition. Useful lives generally range from 3 to 10 years for computer equipment and software; 5 to 45 years for buildings and improvements; and 3 to 10 years for furniture, fixtures, and office equipment. Repairs and maintenance costs are charged to expense as incurred.

Temporarily and Permanently Restricted Net Assets

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.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restriction. 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 restriction.

Donor restrictions that permanently limit the use of contributed assets are classified as permanently restricted support. Income earned on permanently restricted assets is recorded in accordance with the donor's designation. Income that is permanently restricted by the donor is reported as permanently restricted support. Income designated as restricted for a future period or for a specific purpose is reported as temporarily restricted support. Upon expiration of the restriction, the temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as net assets released from restriction.

Government Grants and Contracts

Revenues from government contracts are derived from fixed-price arrangements and are recognized based on labor hours expended times a fixed-price rate per hour. Revenues from government grants are recognized as allowable costs are incurred. Both government grants and contracts are subject to audit by federal agencies. Grant and contract revenues are included in other revenues in the accompanying consolidated statements of activities.

Member Insurance Program

The Society maintains a separate Member Insurance Program, the American Chemical Society Insurance Trust (the Trust), which provides members with insurance coverage through several group insurance policies. The Trust currently maintains group insurance policies that provide term life, accidental death and dismemberment, hospital indemnity, long-term disability, long-term care, excess major medical, short-term medical, auto, homeowners, and professional liability coverage. An insurance carrier underwrites these policies while a third-party administrator handles the processing and administration of the claims.

The Trust generates revenues from premiums received from program participants, refunds from the insurance carrier based on favorable claims experience, interest and dividends earned on investments, and interest income earned on reserves held by the insurance carrier to ensure the stability of the program. Trust expenses include the cost of purchasing group insurance policies, as well as the cost of administering these programs.

Given the uncertainty of claims experience in any given year and the resulting impact on the level of experience refunds from the insurance carrier, the Trust can have either a positive or a negative impact on the Society's consolidated statements of activities. The Trust accounted for a \$5,428,000 decrease and a \$3,591,000 increase in the Society's unrestricted net assets for the years ended December 31, 2008 and 2007, respectively. The Trust accounts for \$29,434,000 and \$34,862,000 of the Society's total unrestricted net assets as reported in the consolidated statements of financial position as of December 31, 2008 and 2007, respectively. The activities of the Trust are included in ACS Programs in the consolidated financial statements.

Petroleum Research Fund

The American Chemical Society Petroleum Research Fund is an endowment fund established on October 25, 2000 as a result of an agreement between the Society and Morgan Guaranty Trust Company of New York, approved by the Attorney General for the State of New York, and ordered by the Supreme Court of New York. The agreement dissolved the Petroleum Research Fund Trust (the Trust) and transferred the assets to the Society to create the American Chemical Society Petroleum Research Fund (the Fund), the purpose of which is the same as the Trust. The transfer agreement made the Society responsible for the management and administration of the Fund in an account separate and apart from any other accounts of the Society. As a result of the transfer, the historic dollar value for the Petroleum Research Fund was established at \$72,500,000, the value of the securities originally donated in 1944 to create the Trust. This amount must be held inviolate as permanently restricted assets.

The assets of the Fund consist primarily of domestic equities, foreign equities, and fixed income securities. Under the terms of the transfer agreement, annual payouts from the Fund are capped at a maximum spending rate of 5% of the net asset value of the Fund over a rolling three-year average. The Society uses distributions from the Fund to make grants to further the advancement of scientific education and research in the petroleum field. These grants are expensed when awarded by the ACS Board and accepted by the recipient. Grants that have been awarded and not yet accepted by grant recipients at December 31, 2008 and 2007, totaled approximately \$7,970,000 and \$8,562,000, respectively.

Other Expenses

Supporting expenses identified as “other” in the consolidated statements of activities include expenses associated with the Society’s web programs, new business development, the investment program and fund-raising activities.

Foreign Currency Transactions

Portions of the Society's receipts and expenditures are in foreign currencies. The Society enters into foreign currency forward contracts to reduce the risk that exchange rate fluctuations will impact the U.S. dollar value of future foreign net revenues.

The Society is required to recognize unrealized gains and losses related to unsettled foreign currency forward contracts at December 31. Forward contracts and related receivables/payables outstanding at December 31 are recorded at fair value using the appropriate forward exchange rates at December 31. To the extent the year-end rate differs from the forward contract rate, an unrealized gain or loss results. The Society had unrealized losses of \$2,419,000 and \$2,607,000 as of December 31, 2008 and 2007, respectively. The unrealized losses are included in net investment gains from non-operating activities in the consolidated statements of activities. The cumulative impact is included in accrued expenses in the consolidated statements of position.

The following table summarizes the notional amounts relating to unsettled foreign currency forward contracts maturing at various times through 2010:

	<u>2008</u>	<u>2007</u>
Notional Amount of Unsettled Forward Contracts:		
Contracts Maturing in 2008	\$ -	\$ 47,513,000
Contracts Maturing in 2009	53,406,000	11,015,000
Contracts Maturing in 2010	12,626,000	-
Total Contracts at December 31	<u>\$ 66,032,000</u>	<u>\$ 58,528,000</u>

To the extent that actual remittances in foreign currencies differ from contracted amounts, and the exchange rates at time of settlement are different from contracted exchange rates, the Society will realize gains or losses on settlement. The Society recognized a realized gain of \$68,000 in 2008 and a net loss of \$62,000 in 2007 from foreign exchange transactions. The realized gains and losses are included in information services expenses in the consolidated statements of activities.

Reclassifications

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

3. RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 were available for the following programs:

	<u>2008</u>	<u>2007</u>
Petroleum Research Fund	\$ 319,158,000	\$ 531,654,000
Grants and Awards	15,143,000	23,170,000
Membership and Scientific Advancement	1,778,000	2,221,000
Education	943,000	790,000
Other	100,000	221,000
Total Temporarily Restricted Net Assets	<u>\$ 337,122,000</u>	<u>\$ 558,056,000</u>

Temporarily restricted net assets were released from restriction for the following programs by incurring expenses satisfying the purposes specified by the donors during the years ended December 31:

	<u>2008</u>	<u>2007</u>
Petroleum Research Fund	\$ 28,789,000	\$ 30,357,000
Grants and Awards	2,170,000	1,742,000
Membership and Scientific Advancement	1,641,000	2,053,000
Education	716,000	172,000
Other	136,000	67,000
Total Net Assets Released from Restriction	<u>\$ 33,452,000</u>	<u>\$ 34,391,000</u>

Permanently restricted net assets are invested in perpetuity. The income generated by these assets is used to support donor-specified programs or general activities of the Society. At December 31, the Society held the following permanently restricted net assets, the income from which supports the following programs:

	<u>2008</u>	<u>2007</u>
Petroleum Research Fund	\$ 72,500,000	\$ 72,500,000
Grants and Awards	17,390,000	19,889,000
Membership and Scientific Advancement	853,000	1,217,000
Education	869,000	944,000
Other	324,000	255,000
Total Permanently Restricted Net Assets	<u>\$ 91,936,000</u>	<u>\$ 94,805,000</u>

The Society incurred direct fund-raising expenses of \$878,000 in 2008 and \$931,000 in 2007. Fund-raising costs are included in other supporting expenses in the consolidated statements of activities.

4. ENDOWMENTS

In August of 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FASB Staff Position (FSP 117-1) provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. In 2007 the District of Columbia signed into law the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA).

The law became effective on January 23, 2008. The Society implemented FSP 117-1 in 2008 and evaluated its endowment funds to ensure compliance with UPMIFA. No adjustments were made as a result of implementing FSP 117-1.

The Society's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets the original value of gifts donated to permanent endowments, the original value of subsequent gifts to permanent endowments, and accumulations to permanent endowments made in accordance with explicit donor instructions stipulated in the gift instruments. The remaining portions of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are made available for expenditure in a manner consistent with the donor gift instrument, the program operating budgets, and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination as to the preservation and use of the donor-restricted endowment funds:

- The donor gift instrument;
- The duration and preservation of the fund;
- The purposes of the Society and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The Society's investment policies.

Donor-restricted endowment funds are pooled for purposes of management and investment and are invested in accordance with the Society's investment policy. The investment policy is intended to assure the ACS Board of Directors and the Board Committee on Pensions and Investments that the assets of the Society are being invested in accordance with the best long-term interests of the Society and its donors, given the following considerations:

- The Society's risk tolerance;
- The Society's need to obtain real, or inflation-adjusted, growth in its investments; and
- The Society's requirement for current income to support programs and activities.

The Society has adopted investment policies for endowment assets that attempt to generate a sufficient level of funding to programs supported by endowments. The policy is designed to achieve real growth in asset base over the long-term. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period or purpose. Under this policy, as approved by the Board Committee on Pensions and Investments, endowment assets are invested in a manner intended to provide an average rate of return of approximately 8 percent annually with a moderate level of investment risk. Actual returns in any given year will vary from this amount.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Expenditures of endowment assets are recorded in accordance with the explicit donor instructions stipulated in the gift instruments.

The Society has 23 donor-restricted endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In accordance with these principles, the Society has permanently and temporarily restricted donor endowment funds. The following table shows the beginning balance of the Society's endowment funds as of January 1, 2008, changes in endowment net assets for the current year, and ending balance as of December 31, 2008:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total
Endowment Net Assets as of January 1, 2008	\$ 94,805,000	\$ 553,628,000	\$ 648,433,000
Investment Return			
Investment Income	13,000	16,652,000	16,665,000
Net (Depreciation)	<u>(4,138,000)</u>	<u>(206,174,000)</u>	<u>(210,312,000)</u>
Total Investment Return	(4,125,000)	(189,522,000)	(193,647,000)
Contributions	750,000	459,000	1,209,000
Net Assets Released from Restriction	-	(30,619,000)	(30,619,000)
Other Changes	506,000	(720,000)	(214,000)
Endowment Net Assets as of December 31, 2008	<u>\$ 91,936,000</u>	<u>\$ 333,226,000</u>	<u>\$ 425,162,000</u>

The Society classifies its permanently and temporarily donor-restricted endowment funds as follows at December 31:

	2008	2007
Permanently Restricted Net Assets		
(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	<u>\$ 91,936,000</u>	<u>\$ 94,805,000</u>
Temporarily Restricted Net Assets		
(1) The portion of perpetual endowment funds subject to a time restriction	103,000	232,000
(2) The portion of perpetual endowment funds subject to a purpose restriction	333,123,000	553,396,000
Total Temporarily Restricted Net Assets	<u>\$ 333,226,000</u>	<u>\$ 553,628,000</u>

5. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable, due in less than one year, consisted of the following at December 31:

	2008	2007
Accounts Receivable	\$ 62,115,000	\$ 71,714,000
Pledges Receivable	<u>1,064,000</u>	<u>772,000</u>
Accounts and Pledges Receivable	63,179,000	72,486,000
Less: Allowance for Doubtful Receivables	<u>1,021,000</u>	<u>1,123,000</u>
Accounts and Pledges Receivable, Net	<u>\$ 62,158,000</u>	<u>\$ 71,363,000</u>

The Society's pledges receivable represent unconditional promises to give. Long-term pledges are recorded in non-current other assets and totaled \$806,000 and \$876,000 as of December 31, 2008 and 2007, respectively.

	<u>2008</u>	<u>2007</u>
Pledges Receivable Due in:		
Two to Five Years	\$ 776,000	\$ 856,000
More than Five Years	30,000	20,000
Total Long-Term Pledges Receivable	<u>\$ 806,000</u>	<u>\$ 876,000</u>

6. BUILDINGS, LAND, AND OTHER PROPERTY

At December 31, buildings, land, and other property consisted of the following:

	<u>2008</u>	<u>2007</u>
Computer Equipment and Software	\$ 134,172,000	\$ 132,716,000
Buildings and Improvements	104,518,000	101,804,000
Furniture, Fixtures, and Office Equipment	26,826,000	36,540,000
Land	2,975,000	2,975,000
	<u>268,491,000</u>	<u>274,035,000</u>
Less: Accumulated Depreciation and Amortization	<u>159,382,000</u>	<u>172,899,000</u>
Buildings, Land, and Other Property, Net	<u>\$ 109,109,000</u>	<u>\$ 101,136,000</u>
Depreciation and Amortization	<u>\$ 21,974,000</u>	<u>\$ 22,381,000</u>

7. INVESTMENTS

The Society maintains balanced investment portfolios structured to generate current income and long-term appreciation. Funds for current operating needs are invested in cash equivalents. Investments include purchases and sales of securities pending settlement of \$319,514,000 and \$373,298,000, respectively, for 2008 and \$120,061,000 and \$106,132,000, respectively, for 2007. Certain unconsolidated local sections and divisions (affiliates) have funds invested with the Society. These funds totaled \$5,694,000 and \$7,162,000 at December 31, 2008 and 2007, respectively.

Interest and dividend income is distributed to the Society and its affiliates monthly based on their proportionate interest in the investment portfolio. Gains and losses are allocated to the participants on a monthly basis. Investment expenses are netted against investment income. Investment expenses totaled \$1,616,000 and \$1,870,000 for the years ended December 31, 2008 and 2007, respectively.

At December 31, long-term investments consisted of the following:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash Equivalents	\$ 36,575,000	\$ 36,575,000	\$ 12,868,000	\$ 12,868,000
Domestic Equities	388,168,000	263,644,000	293,978,000	299,242,000
Fixed Income Securities	281,088,000	263,081,000	443,715,000	442,455,000
Foreign Equities	144,436,000	125,693,000	148,185,000	245,439,000
Alternative Investments	26,000,000	21,064,000	-	-
Total Long-Term Investments	<u>\$ 876,267,000</u>	<u>\$ 710,057,000</u>	<u>\$ 898,746,000</u>	<u>\$ 1,000,004,000</u>

The Society engages in a securities lending program whereby the Society lends certain securities in its investment portfolios to qualified borrowers on a short-term, fully collateralized basis. Concurrently with the delivery of the Society's securities to a borrower, the borrower delivers collateral in an amount equal to a required percentage of the fair value of the securities loaned, including accrued interest. This exchange is facilitated by the Society's lending agent, BNY Mellon, N.A. For U.S. securities and foreign securities denominated and payable in US dollars, the required collateral percentage is 102% of the securities' fair value. The required percentage with respect to the fair value of foreign securities is 105%. Throughout the duration of the loan, the collateral is marked-to-market on a daily basis. On any given day, if the collateral currently held is less than 102% of the original fair value of a loaned U.S. security or 105% of a foreign security, the borrower is required to deliver the difference at the close of trading by the next business day. On the termination date of the loan, the borrower must return to the lending agent the same, or substantially the same securities that were borrowed. The lending agent, in its agreement with the Society, guarantees the repayment of the loan in the event the borrower defaults. The Society retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Society also retains the right to redeem the loaned securities prior to their stipulated redemption date.

At December 31, 2008 and 2007, respectively, the Society recorded \$59,017,000 and \$67,858,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in current assets and current liabilities in the consolidated statements of financial position.

8. LONG-TERM DEBT

At December 31, long-term debt consisted of the following:

	<u>2008</u>	<u>2007</u>
District of Columbia Pooled Loan Program Revenue bonds (Series A); interest payable monthly, with rates established weekly by the Bank of America, N.A. taking into consideration a variety of factors, including several external indices, current market conditions, and short-term expectations of the credit markets. The rate at December 31, 2008 was 1.20%. Principal is payable semiannually with final payment due July 1, 2015.	\$ 5,270,000	\$ 5,895,000
County of Franklin, Ohio, Development Revenue bonds (Series 1999); interest payable semiannually, with rates ranging from 5.125% to 5.80%; principal payable annually with final payment due October 1, 2014.	24,405,000	27,785,000
	<u>29,675,000</u>	<u>33,680,000</u>
Less: Unamortized Bond Issuance Costs	(359,000)	(435,000)
Current Portion of Long-Term Debt	<u>(4,205,000)</u>	<u>(4,005,000)</u>
Long-Term Portion of Debt, Net	<u>\$ 25,111,000</u>	<u>\$ 29,240,000</u>

The District of Columbia Pooled Loan Program Revenue bonds (Series A) were issued in the face amount of \$9,560,000 in May 2000. The Series A Bonds were issued for the purpose of refinancing \$9,376,000 on a mortgage loan that came due on May 1, 2000, on a building owned by the Society. The remaining balance of \$184,000 was used to pay issuance costs on the bonds.

The County of Franklin, Ohio, Development Revenue bonds (Series 1999) were issued in the face amount of \$45,000,000 in October 1999. The Series 1999 Bonds were issued for the purpose of constructing a 46,000 square-foot building to be used as a data center, purchasing computer and telecommunications equipment, and funding certain building improvements at the CAS campus in Columbus, Ohio. The full amount of the proceeds was expended through March 31, 2001.

The estimated fair value of the Society's debt was \$25,162,000 and \$34,956,000 as of December 31, 2008 and 2007, respectively. Total interest paid in 2008 and 2007 was approximately \$1,676,000 and \$1,930,000, respectively.

The loan agreements require the Society to meet certain financial covenants which, in the opinion of management, the Society satisfied for the years ended December 31, 2008 and 2007, respectively.

The Society has a line of credit with a bank for working capital needs. The amount of the line of credit varies according to the cyclical needs of the Society and ranges from \$1,000,000 to \$10,000,000 throughout the year. There were no borrowings outstanding under the line of credit as of December 31, 2008 or 2007.

Annual maturities of long-term debt are as follows:

<u>Years Ended December 31</u>	<u>Principal Amount</u>
2009	\$ 4,205,000
2010	4,420,000
2011	4,655,000
2012	4,905,000
2013	5,170,000
Thereafter	6,320,000
	<u>\$ 29,675,000</u>

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (SFAS 157)*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States requiring use of fair value. This standard establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering assumptions, SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities (i.e., U.S. Treasury issues, equities and mutual funds traded on major exchanges);
- Level 2 – Inputs, other than quoted prices in active markets for identical assets or liabilities, that are observable either directly or indirectly, such as interest rates, yield curves and quoted prices in active markets for similar assets or liabilities (i.e., U.S. Agency issues, corporate bonds, money market funds, equity common funds, debt outstanding and foreign exchange forward contracts); and
- Level 3 – Unobservable inputs in which there is little or no market data, requiring the reporting entity to develop its own assumptions (i.e., Hedge funds).

The Society adopted SFAS 157 as of January 1, 2008, for financial assets and liabilities. The Society utilizes the best information available in measuring fair value and financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The adoption of SFAS 157 did not have any impact on the Society's financial results.

The following table summarizes the valuation of the Society's financial instruments according to the SFAS 157 classifications:

	<u>Total</u>	<u>Active Markets for Identical Assets (Level 1)</u>	<u>Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Financial Assets				
Cash and Cash Equivalents	\$ 30,272,000	\$ 4,226,000	\$ 26,046,000	\$ -
Investments	710,057,000	145,255,000	543,738,000	21,064,000
Collateral Received Under Securities Lending Agreement	59,017,000	707,000	58,310,000	-
Financial Liabilities				
Payable Under Securities Lending Agreement	\$ 59,017,000	\$ 707,000	\$ 58,310,000	\$ -
Foreign Currency Forward Contracts	3,806,000	-	3,806,000	-

The change in fair value of the Society's investments valued using significant unobservable inputs (Level 3) is shown below:

Fair Value Recorded at January 1, 2008	\$ -
Purchases	26,000,000
Total Gains or (Losses) (Realized/Unrealized)	(4,936,000)
Fair Value Recorded at December 31, 2008	<u>\$ 21,064,000</u>

There are no other financial instruments subject to fair value measurement on a recurring basis.

10. DEFINED BENEFIT PENSION, POSTRETIREMENT MEDICAL BENEFITS, AND OTHER BENEFITS

In August 2006, the Pension Protection Act of 2006 was signed into law. The new law affects defined benefit and defined contribution plans, as well as plan participants and plan sponsors.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132R (SFAS 158)*. SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets of a not-for-profit organization. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

On December 31, 2007, the Society adopted the provisions of SFAS 158 by recognizing the funded status of its defined benefit pension and postretirement medical benefit plans in the consolidated statements of financial position based on the September 30, 2007 measurement date. On December 31, 2008, the Society adopted the measurement date provisions of SFAS 158 and accordingly, the retirement plan's funded status was determined using a measurement date of December 31, 2008. This change is reflected in the schedule of changes in benefit obligations and plan assets and the composition of accrued benefit costs and amounts recognized in the Society's consolidated financial statements, which is included in this footnote.

The 2007 adoption of SFAS 158 had the following incremental effect on the Society's statement of financial position as of December 31, 2007:

	<u>Before Application of SFAS 158</u>	<u>Incremental Effect</u>	<u>After Application of SFAS 158</u>
Prepaid Expenses and Other Assets	\$ 16,400,000	\$ (16,400,000)	\$ -
Total Assets	1,335,975,000	(16,400,000)	1,319,575,000
Pension Liability	-	50,076,000	50,076,000
Postretirement Medical Liability	50,230,000	22,981,000	73,211,000
Total Liabilities	346,251,000	73,057,000	419,308,000
Unrestricted Net Assets	336,904,000	(89,498,000)	247,406,000
Total Net Assets	989,765,000	(89,498,000)	900,267,000
Total Liabilities and Net Assets	1,336,016,000	(16,441,000)	1,319,575,000

The 2008 adoption of the measurement date provision of SFAS 158 resulted in an increased expense and liability in the amount of \$4,110,000.

The Society has a funded noncontributory defined benefit pension plan, which is qualified under Section 401(a) of the Internal Revenue Code and covers substantially all employees. The Society makes actuarially determined contributions to satisfy all funding requirements. In December 2000, the Society amended the Plan agreement, effective November 1, 2001, to provide a cash balance defined benefit option to all new employees hired on or after the effective date, while preserving the current final average pay defined benefit option for current employees who did not elect the cash balance option. The amendment did not change the benefit for service accrued up to October 31, 2001. Effective September 1, 2007, the defined benefit pension plan was closed to new employees.

In 2007, the Society announced that all benefit-eligible employees hired on or after September 1, would participate in the new ACS Defined Contribution Retirement Plan (DCRP). The plan provides an employer contribution equal to 6% of base pay, plus a company match equal to 50% of the first 6% a participant contributes to the 403(b) Tax Deferred Investment Program and/or the DCRP. Employees hired before September 1, 2007 were given a choice to remain in the defined benefit pension plan, or prospectively move to this new DCRP.

The Society provides postretirement medical benefits to all employees who were employed as of October 31, 2001, have earned at least five years of service, reach retirement age while employed by the Society, and are collecting retirement benefits from the Society's pension plan. The medical benefits plan is contributory with participants' contributions adjusted annually. The plan's prescription benefit is actuarially equivalent to Medicare Part D and eligible for the federal subsidy.

The estimated net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income for 2009 is \$9,502,000. The estimated net actuarial loss and prior service cost/ (credit) for the postretirement medical plan that will be amortized from accumulated other comprehensive income for 2009 are \$1,648,000 and (\$3,487,000), respectively.

In December 2008, the Society communicated to plan participants that effective October 31, 2009, the Society will freeze further accruals associated with its defined benefit pension plan (final average pay and cash balance options). All current participants will be transitioned to the DCRP. Years of service and earnings for staff who have an accrued benefit in the final average pay option, will be frozen as of October 31, 2009. For staff enrolled in the cash balance option, the Society's contributions to the plan will cease at the conclusion of the last full pay period in October 2009. Participants in the cash balance plan will continue to receive interest credits, currently at 4.27% per annum, applied to frozen account balances as of October 31, 2009. Participants in each plan option will become eligible for pay-out (provided participants are vested) at a future date upon termination of employment in accordance with plan provisions.

Effective December 31, 2009, the Society's contributions toward the overall cost of retiree health insurance for future eligible retirees will be capped at the 2009 level. Cost sharing and service credits will continue.

The following table presents the change in benefit obligations, change in plan assets, and the composition of accrued benefit costs and amounts recognized in the accompanying consolidated statements of financial position and consolidated statements of activities for the years ended December 31, 2008 and December 31, 2007. The table incorporates the impact of changing the plan's valuation date to December 31, 2008.

Defined Benefit Pension and Postretirement Medical Benefits:

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Change in Benefit Obligations				
Benefit Obligations at January 1	\$ 551,479,000	\$ 518,752,000	\$ 73,857,000	\$ 70,006,000
Service Cost	16,393,000	12,165,000	2,353,000	1,925,000
Interest Cost	44,073,000	30,525,000	5,893,000	4,132,000
Plan Participants' Contributions	-	-	843,000	589,000
Actuarial (Gain) Loss	(10,570,000)	10,184,000	1,681,000	(460,000)
Benefits Paid	(29,393,000)	(20,147,000)	(4,313,000)	(2,568,000)
Curtailments	(78,790,000)	-	-	-
Plan Change	-	-	(29,880,000)	-
Expected/Received				
Medicare Part D Reimbursements	-	-	271,000	233,000
Benefit Obligations at December 31	<u>\$ 493,192,000</u>	<u>\$ 551,479,000</u>	<u>\$ 50,705,000</u>	<u>\$ 73,857,000</u>
Change in Plan Assets				
Fair Value of Plan Assets at				
January 1	\$ 501,403,000	\$ 446,847,000	\$ -	\$ -
Actual Return on Plan Assets	(137,646,000)	61,453,000	-	-
Employer Contribution	10,000,000	13,250,000	3,198,000	1,746,000
Plan Participants' Contributions	-	-	843,000	589,000
Benefits Paid	(29,393,000)	(20,147,000)	(4,045,000)	(2,568,000)
Expected/Received				
Medicare Part D Reimbursements	-	-	4,000	233,000
Fair Value of Plan Assets at December 31	<u>\$ 344,364,000</u>	<u>\$ 501,403,000</u>	<u>\$ -</u>	<u>\$ -</u>
Funded Status	\$ (148,828,000)	\$ (50,076,000)	\$ (50,705,000)	\$ (73,857,000)
Contributions from Measurement Date to Fiscal Year-end	-	-	-	646,000
Net Liability at December 31	<u>\$ (148,828,000)</u>	<u>\$ (50,076,000)</u>	<u>\$ (50,705,000)</u>	<u>\$ (73,211,000)</u>
Amounts Recognized in Financial Position				
Current Liabilities	\$ -	\$ -	\$ (3,097,000)	\$ (2,728,000)
Noncurrent Liabilities	(148,828,000)	(50,076,000)	(47,608,000)	(70,483,000)
Net Liability at December 31	<u>\$ (148,828,000)</u>	<u>\$ (50,076,000)</u>	<u>\$ (50,705,000)</u>	<u>\$ (73,211,000)</u>
Amounts Recognized in Unrestricted Net Assets - Non-Operating Activity				
Unrecognized Loss	\$ 166,665,000	\$ 66,260,000	24,030,000	24,067,000
Unrecognized Prior Service Cost (Credit)	-	216,000	(30,624,000)	(1,048,000)
Net Amount Recognized in Financial Statements	<u>\$ 166,665,000</u>	<u>\$ 66,476,000</u>	<u>\$ (6,594,000)</u>	<u>\$ 23,019,000</u>

The accumulated benefit obligation for the Society's pension plan is \$483,120,000 and \$465,179,000 at December 31, 2008 and 2007, respectively.

Components of Net Periodic Benefit Cost for the Year Ended December 31:

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Service Cost	\$ 12,934,000	\$ 12,166,000	\$ 1,882,000	\$ 1,925,000
Interest Cost	35,288,000	30,525,000	4,715,000	4,132,000
Expected Return on Plan Assets	(42,868,000)	(37,785,000)	-	-
Amortization of Prior Service Cost	45,000	45,000	(243,000)	(243,000)
Amortization of Net Actuarial Loss	820,000	2,242,000	1,351,000	1,444,000
Net Periodic Benefit Costs	6,219,000	7,193,000	7,705,000	7,258,000
Curtailment Loss	159,000	-	-	-
After Curtailment	<u>\$ 6,378,000</u>	<u>\$ 7,193,000</u>	<u>\$ 7,705,000</u>	<u>\$ 7,258,000</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets

The following table provides information for other changes in plan assets and benefit obligations recognized in unrestricted net assets for the 15 month period from October 1, 2007 to December 31, 2008, and the 12 month period from October 1, 2006 to October 1, 2007:

	Pension Plan		Postretirement Medical Plan	
	2007-2008	2006-2007	2007-2008	2006-2007
Net Loss (Gain)	\$ 180,220,000	\$ (13,485,000)	\$ 1,681,000	\$ (460,000)
Prior Service Cost (Credit)	-	-	(29,880,000)	-
Amortization of Prior Service Cost	(216,000)	(45,000)	303,000	243,000
Amortization of Loss	(1,025,000)	(2,242,000)	(1,688,000)	(1,444,000)
Reduction in PBO Due to Curtailment	(78,790,000)	-	-	-
Total Recognized in Other Comprehensive Income	<u>\$ 100,189,000</u>	<u>\$ (15,772,000)</u>	<u>\$ (29,584,000)</u>	<u>\$ (1,661,000)</u>

Assumptions

Assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Discount Rate	6.63%	6.50%	6.63%	6.50%
Rate of Compensation Increase	4.25%	4.25%	N/A	N/A

Assumptions used to determine net periodic benefit cost for year ended December 31:

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Discount Rate	6.50%	6.00%	6.50%	6.00%
Expected Return on Plan Assets	8.50%	8.50%	N/A	N/A

The Society determines the long-term expected rate of return on plan assets by examining historic capital market returns, correlations between asset classes and the Plan's normal asset allocation. Current and near-term market factors such as inflation and interest rates are then evaluated to arrive at the expected return on plan assets. Peer group and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

The rates of increase in the per capita cost of covered postretirement benefits is assumed to be 7.50% in 2008 for retirees not yet eligible for Medicare and 8.50% for retirees who are eligible for Medicare. These rates are assumed to decrease one-half percent per year to 5.00% in 2013 and 2015. Thereafter, these rates are assumed to remain level.

Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical benefits. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on Total Service and Interest Cost Components	\$ 1,233,000	\$ (979,000)
Effect on Postretirement Benefit Obligation	3,242,000	(2,763,000)

Plan Assets

The Society's pension plan asset allocation as of December 31, by asset category is as follows:

	Plan Assets at December 31	
	2008	2007
Domestic Equities	41%	43%
Foreign Equities	19%	25%
Fixed Income Securities	39%	31%
Cash Equivalents	1%	1%
Total	100%	100%

The Society utilizes a total return investment approach based on modern portfolio theory. Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term total return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the plan, duration of the plan liabilities, the income and liquidity requirements, legal constraints, and the financial condition of the Society.

The investment portfolio is comprised of a diversified combination of domestic equities, international equities, fixed income securities and cash equivalents. The Society's investment policy states that domestic equities normally comprise 45% of total assets, foreign equities 15%, fixed income securities 40% and cash equivalents a nominal amount. The allocation among domestic equities, international equities and fixed income securities is determined by prevailing market conditions and relative valuations between asset classes. The plan's financial condition is monitored on an on-going basis by means of quarterly investment portfolio reviews, an annual independent actuarial valuation, and periodic asset/liability studies.

Cash Contribution

The Society expects to contribute approximately \$22,000,000 to its defined benefit pension plan in 2009.

Projected Benefit Payments

The Society expects to make the following benefit payments in future years:

	<u>Projected Pension Payments</u>	<u>Projected Postretirement Medical Payments</u>	<u>Projected Medicare Part D Subsidy Receipts</u>
Fiscal Year 2009	\$ 25,818,000	\$ 3,097,000	\$ 270,000
Fiscal Year 2010	27,679,000	3,367,000	267,000
Fiscal Year 2011	29,297,000	3,579,000	-
Fiscal Year 2012	31,117,000	3,752,000	-
Fiscal Year 2013	32,777,000	3,926,000	-
Fiscal Year 2014 - 2018	187,465,000	21,394,000	-

Employee Savings Plans

In 2008 the Society had a 401(a) defined contribution savings plan available to substantially all employees. Employees may make contributions up to the lesser of \$46,000, less the Society's match, or 100% of base compensation, with some restrictions. In addition, employees may make contributions up to 100% of base pre-tax compensation, subject to certain IRS limits, into a 403(b) tax-deferred investment program. The Society provides matching funds at the rate of 50% up to the first 3% of base compensation for participants in the ACS defined benefit pension plan under the final average pay option and 50% up to the first 6% of base compensation for participants in the ACS defined benefit pension plan under the cash balance option. Employer contributions to the Employee Savings Plan totaled approximately \$2,970,000 and \$2,634,000 in 2008 and 2007, respectively.

Supplemental Retirement Plan

The Society established a nonqualified, supplemental retirement plan effective January 1, 1995, covering certain employees. Plan participants are entitled to benefits, once vested, based upon actuarially determined amounts designed to replace pension benefits lost through changes in the Internal Revenue Code. Vested benefits become payable in March of each year. The Society's expense for the supplemental retirement plan totaled \$347,000 and \$456,000 for the years ended December 31, 2008 and 2007, respectively.

11. OPERATING LEASES

The Society leases office facilities as well as office and equipment under operating leases with original lease terms ranging from 1 to 10 years. Two of the Society's operating leases provide for a renewal option term of 5 years at their fair rental value at the time of renewal. The Society has two types of office lease agreements for which payments are received. The first is with an organization that leases space in a building owned by the Society. The other agreements are with third parties that sublet office space in which the Society is the primary lessee. The lease terms range from 5 to 6 years.

At December 31, 2008, future lease payments to be made by the Society, and future lease receipts from tenants, under noncancelable operating leases were as follows:

<u>Years Ending December 31</u>	<u>Lease Payments To Be Made</u>	<u>Lease Payments To Be Received</u>
2009	\$ 1,834,000	\$ 1,028,000
2010	1,656,000	859,000
2011	386,000	19,000
2012	380,000	20,000
2013	287,000	8,000
Thereafter	19,000	-
	<u>\$ 4,562,000</u>	<u>\$ 1,934,000</u>

Rent expense for operating leases was approximately \$2,196,000 in 2008 and \$1,779,000 in 2007.

12. INCOME TAXES

The Society is generally exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Society is subject to taxation on any net unrelated business income. At December 31, 2008, the Society had a net operating loss carryforward for income tax purposes of approximately \$5,784,000, which expires over the years 2009 through 2028. A deferred tax asset has not been recorded for the net operating loss because the Society has determined it is not recoverable as of December 31, 2008.

Effective January 1, 2007, the Society adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (FIN 48)*. This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The Society evaluated its tax positions on tax returns filed, as well as un-filed tax return positions. The impact of implementing FIN 48 was not material, and therefore, the Society has not recorded a FIN 48 liability.

13. COMMITMENTS AND CONTINGENCIES

In 2002, ACS brought suit against three former employees and the company they founded in a case styled, *American Chemical Society v. Leadscope, Inc., et al.*, Case No. 02-CVC-07-7653 (Franklin County, Ohio Court of Common Pleas). Leadscope, Inc., and the individual defendants counterclaimed, seeking damages in excess of \$50 million. Trial in this matter commenced on February 4, 2008. The jury rendered its verdict on March 27, 2008, rejecting the Society's claims of breach of employment agreements and misappropriation of trade secrets, and finding against the Society on three separate counts: defamation, tortious interference with business relations, and unfair competition. The jury's award to Leadscope, Inc. and the three individual defendants/counterclaim plaintiffs (referred to collectively as "Leadscope") totaled \$26.5 million.

Following the jury verdict, Leadscope filed motions seeking prejudgment interest, attorneys' fees, and expenses. Subsequently, Leadscope withdrew the motion for prejudgment interest. Through the attorneys' fees motion, Leadscope sought an additional \$11 million. On February 6, 2009, the Trial Court awarded Leadscope fees and expenses of \$7.9 million.

The Society filed an appeal on November 20, 2008 in the Ohio Court of Appeals. The Society will vigorously contest the liability awarded in this case and management believes there is a significant chance of obtaining substantial relief on appeal. In addition, the Society has insurance coverage which, depending on the appellate court's ruling, could cover a significant portion of any remaining award. Accordingly, the Society's potential liability is uncertain. The appeal process is expected to take at least 18 months.

The Society has also been named as a defendant in various other legal actions arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of these actions will not have a material adverse impact on the Society's consolidated financial statements.

14. SUBSEQUENT EVENT

In January 2009, the Society received a gift of approximately \$33.2 million from the Hach Scientific Foundation to be used for the purposes of benefiting science education. The Society will continue the Hach Scientific Foundation's support of a scholarship program for undergraduate chemistry majors pursuing careers teaching chemistry, a scholarship program for chemists who seek to teach chemistry, and outreach grants for chemistry teachers.