

American Cancer Society, Inc.

Management's Discussion and Analysis and Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

Ernst & Young LLP



American Cancer Society, Inc.
Contents
December 31, 2016 and 2015

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AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Results from operations – expenses

Total mission program and support services expenses for the years ended December 31, 2016 and 2015 were as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Mission program services: | | |
| Patient support | \$ 309,772 | \$ 347,525 |
| Research | 152,514 | 150,835 |
| Prevention | 113,718 | 122,942 |
| Detection/treatment | 88,184 | 87,214 |
| Total mission program services | <u>664,188</u> | <u>708,516</u> |
| Mission support services: | | |
| Management and general | 47,314 | 51,561 |
| Fund-raising | 175,460 | 180,466 |
| Total mission support services | <u>222,774</u> | <u>232,027</u> |
| Total mission program and mission support services expenses | <u>\$ 886,962</u> | <u>\$ 940,543</u> |

In 2016, we focused on improving operational efficiencies through our strategic growth plan. Our overall programmatic framework remained in place and largely unchanged. Early in 2016, we added human papilloma virus ("HPV") related cancers as a mission priority area. Our unchanged core mission priority areas include lung cancer/tobacco control, preventing cancer through healthy eating and active living, colorectal cancer control, breast cancer control, improving access to healthcare, and improving cancer treatment and patient care. Expenses associated with our extramural and intramural research programs are embedded in each of the priority areas. These areas are the result of careful, scientific analysis of the potential for each to reduce cancer incidence and mortality and to improve the quality of life of individuals facing a cancer diagnosis, at all stages in the cancer continuum, and their caregivers. They are based on three foundational principles: working to ensure access to all aspects of preventive and disease care; providing navigation to help people take advantage of all available services; and ensuring health equity by focusing on populations that experience greater barriers to care. These areas and principles guide our activities, which will position us to have the greatest impact on cancer related outcomes within these core mission areas and are represented across the mission program and support services categories. During 2016, these principles were used to develop a Cancer Control Blueprint, which is predicated on a simple concept to identify the most important questions that still require answers and implement what is proven to work while also making sure that everyone has an equal opportunity to benefit. This blueprint is expected to lead the future of cancer control by preventing more cancers, finding new treatments and cures, and advocating for everyone to have access to the care they need.

Total mission services expenses for the year ended December 31, 2016 were \$887 million, decreasing \$54 million over 2015. During 2016, we implemented cost reduction strategies to align with the decline in support from the public. These strategies were also developed as part of our strategic growth initiatives. We reduced travel and meeting expenses by utilizing technology to conduct more virtual meetings. We utilized the creative materials previously developed as part of our comprehensive, integrated communication and marketing campaign to help reduce 2016 professional fees. We continued this campaign in 2016 and redefined our message placement strategy based on prior year impact and results. Total mission support services expenses were \$223 million for the year ended December 31, 2016, representing 25 percent of total expenses, compared to \$232 million for the year ending December 31, 2015, also representing 25 percent of total expenses.

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Results from operations – expenses, continued

For the year ended December 31, 2016 patient support expenses were \$310 million, a decrease of \$38 million compared to 2015, 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; our Patient Navigator Program that helps cancer patients manage their 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. Due to timing of the receipt of wigs, we provided fewer wigs to constituents in 2016. We expect to return to distributing levels of wigs consistent with prior years in 2017.

Research expenses were \$153 million, a \$2 million increase over 2015, and comprised both our extramural research grants and intramural research program, which includes Cancer Prevention Study-3 (CPS-3), an important, large, prospective study to identify factors that cause or prevent cancer. In 2016, we completed the first full CPS-3 cohort follow-up survey, which, also for the first time, included a comprehensive dietary assessment. We received an excellent response rate to the 20-page survey. We also began the consent and collection of medical records and tissue samples from CPS-3 participants who reported a diagnosis of cancers of the breast, ovary, colorectal, prostate, and the hematopoietic system. We were able to fund 241 grants, which is comparable to 2015. We have increased our research in the areas of translational research and immunotherapy, among other areas. Our partnership with Stand Up To Cancer®, finishing its second year in 2016, has enabled the work of research groups at eight institutions nationwide. We are continuing to develop partnerships and are anticipating an increased investment in pediatric cancer, melanoma, ovarian cancer and nutrition and physical activity.

Prevention expenses were \$114 million, a \$9 million decrease over 2015, and included the launch of the Tobacco Free Generation Campus Initiative, a multi-year program intended to accelerate and expand the adoption and implementation of 100% smoke and tobacco free campuses. We assumed a major leadership role in promoting the human papillomavirus (HPV) vaccination both in the U.S. and in several low income countries as HPV related cancers are common and may be largely preventable. The Board of Directors added the elimination of HPV related cancers as a mission priority area in January 2016.

Detection/treatment expenses were \$88 million, a \$1 million increase compared to 2015, and included activities such as our community grants for breast cancer screening, our work in the area of breast cancer awareness and guidelines and our national campaign to achieve 80 percent colon cancer screening rates by the end of 2018 ("80 percent by 2018"). 80 percent by 2018, a public health program, which we helped launch, has garnered the support of over one thousand diverse organizations who are launching new initiatives to educate patients and the public on appropriate colorectal screening options.

Management and general expenses were \$47 million, a \$5 million decrease compared to 2015, but remained relatively consistent compared to total mission services expenses from 2015. Management and general expenses comprised our general infrastructure costs as well as board governance and oversight and our internal audit function - which provides independent oversight of our accounting and internal control processes. Additionally, efforts directed at infrastructure efficiencies will continue to produce incremental results over time.

Fundraising costs were \$175 million, a decrease of \$5 million compared to 2015. Much of the decrease resulted from our ongoing review of our Relay For Life operating model. We made changes to the model in 2016 to help keep our volunteers engaged, strengthen our portfolio of events, and to improve profitability and thereby have a greater mission impact.

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Results from operations – revenue

Total revenue, gains, and other support for the years ended December 31, 2016 and 2015 were as follows (in thousands):

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Support from the public | \$ 779,168 | \$ 809,894 |
| Investment income | 39,965 | 4,183 |
| Change in value of split-interest agreements | 4,590 | (10,174) |
| Grants and contracts from government agencies | 6,076 | 5,874 |
| Other gains | 11,619 | 6,050 |
| Total revenue, gains, and other support | <u>\$ 841,418</u> | <u>\$ 815,827</u> |

Total revenue for the year ended December 31, 2016 of \$841 million increased by \$26 million when compared to 2015. Stronger investment market performance accounted for much of the increase.

Support from the public in 2016 was \$779 million, down \$31 million compared to the prior year primarily due to a steady decline in participation for Relay For Life. Support from the public is mostly comprised of Relay For Life®, Making Strides Against Breast Cancer®, other special events, planned giving, contributed services and other in-kind contributions and general contributions from our public constituents through a variety of programs channels.

Non-public support, which primarily includes investment income, change in value of split-interest agreements and grants and contracts from government agencies was \$62 million in 2016, a \$56 million increase from 2015. Both investment income and change in value of split-interest agreements were the drivers of the increase as they are subject to the volatility in both interest rates and the stock and fixed income markets, both domestic and global. In addition to investments and split-interest agreements, we regularly review our real estate footprint by examining conditions in the various markets where we have offices. We were able to implement strategies in a number of markets to optimize our space needs, which included the sale of some office buildings resulting in a net gain.

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

| | Support from the Public Revenue (in millions) | | | | |
|---|--|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Relay For Life | \$ 258 | \$ 287 | \$ 314 | \$ 356 | \$ 378 |
| Other community-based events (Making Strides Against Breast Cancer, DetermiNation and others) | 80 | 83 | 82 | 95 | 95 |
| Distinguished events (gala and golf) | 59 | 56 | 56 | 52 | 51 |
| Direct response strategies (Direct mail, telemarketing) | 55 | 54 | 53 | 54 | 60 |
| Employer-based strategies - independent payroll deduction campaigns | 19 | 20 | 22 | 22 | 20 |
| Major gifts/campaigns | 60 | 61 | 43 | 41 | 39 |
| Planned giving (legacies and bequests) | 141 | 133 | 139 | 144 | 122 |
| United Way/Combined Federal Campaign | 7 | 7 | 8 | 10 | 15 |
| Memorials | 19 | 19 | 21 | 23 | 26 |
| Contributed services and other in-kind contributions | 60 | 78 | 71 | 53 | 51 |
| Other | 21 | 12 | 31 | 35 | 32 |
| Total support from the public | <u>\$ 779</u> | <u>\$ 810</u> | <u>\$ 840</u> | <u>\$ 885</u> | <u>\$ 889</u> |

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Results from operations – revenue, continued

Within support from the public, special events (Relay For Life, Other community-based and Distinguished events) continue to lead our financial results, representing 51 percent of total support from the public in 2016, a \$29 million or 7 percent decline over 2015. Financial results for our signature event, Relay For Life, declined \$29 million, more than 10 percent, and accounted for approximately 65 percent of total special events revenue. The Relay For Life revenue base is very broad over a very diverse set of events (over 4,500 in 2016) and constituents (more than 1.3 million participants) and is a multi-variant vehicle to build awareness, celebrate our cancer survivors and caregivers, deliver prevention and detection messaging, and develop capacity in the communities that we serve. In 2016, we implemented changes to our Relay For Life operating model after extensive analysis of the portfolio and program in response to a market decline in peer to peer fundraising, feedback from participant surveys, and decreasing participation across a crowded event marketplace. The changes included merging or discontinuing underperforming events, rolling out a newly developed volunteer platform used to allow volunteers throughout the country to remain engaged and empower them to support the Society and enhance the Relay For Life experience, and piloting alternative staffing models that better utilize technology to support our events. We began implementing strategies to increase financial performance such as combining events within certain geographical proximity, implementing practices of successful events across under-performing events as well as discontinuing certain of these under-performing events.

Our Making Strides Against Breast Cancer program, raising \$60 million in 2016, is a special event that raises awareness and funds to fight breast cancer and engaging over 400,000 participants nationwide. This revenue accounted for approximately 15 percent of special event revenue during 2016 and remained consistent with prior year performance, due in part to implementation of the Real Men Wear Pink initiative. After piloting some successful events, Real Men Wear Pink was expanded as a nationwide platform to engage different audiences to support our mission.

Major gifts/campaigns during 2016 were 8 percent of public support, which is consistent with 2015. These two years were significantly higher than 2014 and prior years mainly due to significant private grants to fund tobacco control and cancer screening programs as well as the launch of successful new and substantial progress on current campaigns as we grow our Hope Lodge program. Our major gifts have seen increases in both volume and size of individual gifts and are a continued focus in our strategic growth plan. Our campaign revenue represents funds raised for our Hope Lodge campaigns, which are determined by utilizing feasibility studies, such as patient needs assessments and market viability analyses supporting any anticipated capital campaign, including expansions or renovations.

Employee giving, including United Way and Combined Federal Campaign relationships, comprised more than 3 percent of our public support in 2016. Direct response, both mail and telemarketing, made up about 7 percent of public support in 2016, consistent with 2015. Support from our planned giving program (legacies and bequests) totaled \$141 million and, although it can be volatile from year to year, continues to be a material and strong source of revenue. The increase in planned giving support compared to 2015 was due to a change in estimate to reflect current collection trends made in 2016. The decrease in contributed services and other in-kind donations was related to reductions in our donated wig program, which provides specific assistance to individuals undergoing cancer treatment.

Investment income components produced positive results in 2016. Net interest and dividends and realized/unrealized investment gains increased \$36 million due to stronger market performance during 2016.

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Results from operations – revenue, continued

Change in value of split-interest agreements was a gain of \$5 million, an increase of \$15 million over 2015, also driven by the stronger market performance during 2016. These values are derived from the fair values of our beneficial interests in trusts (equivalent to deferred gifts), discount rate and other 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 fair value approach. We 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 management team continues to identify future gifts, although not recognizable under GAAP but accretive to the significant planned giving pipeline of future revenue. Almost all of the change in value of split-interest agreements is from gains recognized due to the appreciation in the underlying market value of the assets in our 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, 2016, cash, cash equivalents, and all investment pools totaled \$949 million. The primary use of cash and cash equivalents was general mission program and support 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. Our strategy utilizes a tiered-structure approach of short-term and a well-diversified portfolio of intermediate and longer-term products, which has provided enhanced asset returns without the addition of substantial risk.

Our cash and cash equivalent balances increased during 2016 as a result of our using longer-term investments to partially fund operations as well as to maintain an appropriate mix of short-term and longer-term investments in line with our investment strategy. Our investment performance for the year ending December 31, 2016 was as follows:

| | <u>Actual Return</u> | <u>Benchmark</u> | <u>Difference</u> | <u>Targeted Benchmark</u> |
|-----------------|----------------------|------------------|-------------------|-----------------------------|
| Operating pool | | | | |
| Tier I | 0.27 % | 0.25 % | 0.02 % | 90 Day U.S. Treasury bill |
| Tier II | 2.04 | 0.25 | 1.79 | 90 Day U.S. Treasury bill |
| Tier III | 1.91 | 0.85 | 1.06 | 2 Year U.S. Treasury note |
| Other | 0.09 | 0.25 | (0.16) | 90 Day U.S. Treasury bill |
| Investment pool | 4.23 | 3.52 | 0.71 | Various equity/fixed income |
| Endowment pool | 6.60 | 5.25 | 1.35 | Various equity/fixed income |

Due to market strength, our investment strategies produced significant returns during fiscal year 2016. The low interest rate environment more heavily impacted the operating pool and investment pool as they have concentrated fixed income allocations. In addition, rising interest rates during the fourth quarter produced lower fixed income valuations at year end. Despite market volatility throughout the year, particularly abroad, equity markets as a whole had a positive impact on the investment and endowment pools, which have equity allocations. This is a long-term approach and is not meant to time the markets. Therefore, we expect additional and continued future gains from these strategies and will continue to monitor financial markets and the economic environment to ensure this approach continues to be appropriate.

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

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 assess these levels periodically as needs change over time.

We continued investing in our Hope Lodge program throughout the country by completing construction of and opening a new Hope Lodge facility in Honolulu, Hawaii and beginning construction of a new facility in Omaha, Nebraska. We have plans to construct additional facilities in particular markets and renovate existing facilities in other parts of the country over the next few years.

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 recognize that, our greatest asset is our dedicated team of staff and volunteers throughout the country that carry out our lifesaving mission on a day to day basis. In 2016, we implemented internal changes related to the opportunities identified by the staff and volunteer engagement study conducted in 2015. One opportunity led to the creation of the volunteer care center, which provides services for welcoming, screening, matching and onboarding new volunteers to better enhance their experience as they donate their invaluable time to the Society. Another led to a new staff recognition program to help increase engagement with and among staff throughout the organization. Our goal in implementing these opportunities is to be a more impactful organization for which to work and volunteer and we will utilize follow up surveys in the future to track progress and continue making improvements.

We continue to analyze our current revenue portfolio and opportunities and in 2017 will continue investing in our comprehensive, integrated, communication and marketing campaign to increase our relevance to our constituents. A significant component of our strategic growth plan in 2017 will be focused on increasing revenues in more diverse and operationally efficient ways. We will seek to build strong corporate partners, increase our online presence as well as our major gifts, and explore new revenue models. We will continue to invest and develop our sports and entertainment platform that began in 2016.

Regarding expenditures, our strategic growth plan will continue guiding our mission priorities. We have committed to doubling our investment in life-saving research over the next few years, maintain our work in prevention and early detection as well as sharpen our focus on patient access to quality healthcare. Our vision for the future of cancer control is to help build low-cancer burden communities by preventing more cancers, finding more cancers early, finding new treatments and cures, and advocating for everyone to benefit equally. We have many Hope Lodge facilities under construction and planned for the future and, when complete, we will invest in operating and maintaining those as well as our existing Hope Lodge facilities to ease the burden of patient and caregiver lodging during cancer treatment. We have launched several crowdfunding platforms and will continue to explore more new and innovative ways for our constituents to invest in our mission. Continued investment will be made in support of the CPS-3 as we complete the medical record and tissue sample collection from our first round of follow-up and begin the laboratory analyses of nutrients in the blood and urine samples collected in the CPS-3 diet validation study, and the statistical analysis of information collected from the diaries and surveys in both sub-studies. These analyses will allow us to report the reliability and quality of diet and physical activity information collected from the total cohort. In addition, numerous other papers are being prepared to assess the reliability of other information collected such as height, weight, and smoking behaviors.

AMERICAN CANCER SOCIETY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
DECEMBER 31, 2016
(UNAUDITED)

Looking forward, continued

In terms of liquidity, we continue to investigate a number of strategies for reducing the impact of market volatility on our funding requirements and financial results related to our defined benefit plan. In 2016, our defined benefit plan was frozen, which means that participants will no longer earn future benefits in the plan. We also made enhancements to our defined contribution plans to provide fair and market-based benefits to our staff. The net impact on liquidity of the changes to these plans will be a significant reduction in the funding volatility and will allow us to direct more funds to our mission. We expect to see the impact of this cost saving strategy beginning in 2017.

Underlying the objectives for outcomes included in our strategic growth plan, will be an assessment of the enterprise in terms of our go-to-market strategies, structure, competencies and people. In 2016, we began the work of replacing our core and supplemental financial and constituent management systems, which includes a review and reengineering of our internal operations. This investment will continue through 2017 and 2018 and will result in efficiencies, which will be a critical aid in driving the success of the enterprise outcomes so that as an organization we are able to support the strategic growth plan objectives both now and well into the future, including a strong focus on our customers.

Over the next few years, all of the above in combination are expected to close the current operating deficit of expenses over revenue. Management and the Board of Directors are monitoring the progress of the deficit situation closely.

Management and the Board of Directors have developed an enterprise risk management framework. In 2017, we will use that framework to better inform and enhance our operational decisions. Such decisions could affect our financial results as it may guide us to new and different opportunities in the future.

We have played an active role in providing feedback on and are supportive of the financial statement changes issued by the standard-setters in 2016. As much as is practical, we have proactively aligned our financial reporting in the direction where the standards have changed in order to minimize impact to our financial statement users and to our operations. In 2017, we continue to assess the impact of these changes to our financial reporting practices and continue to voluntarily provide transparency on issues we know are important to our constituents. We are in the process of reviewing the Lease and Revenue Recognition standards to assess the impact, if any, on our financial reporting.

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.

Report of Independent Auditors

Management and The Board of Directors
American Cancer Society, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the American Cancer Society, Inc. (“the Society”), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 7, 2017

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands)

| | | Donor Restricted | | |
|---|---------------------|-------------------------------|-------------------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Our mission program and mission support expenses were: | | | | |
| Mission program services: | | | | |
| Patient support | \$ 309,772 | \$ - | \$ - | \$ 309,772 |
| Research | 152,514 | | | 152,514 |
| Prevention | 113,718 | - | - | 113,718 |
| Detection/treatment | 88,184 | - | - | 88,184 |
| Total mission program services | <u>664,188</u> | <u>-</u> | <u>-</u> | <u>664,188</u> |
| Mission support services: | | | | |
| Management and general | 47,314 | - | - | 47,314 |
| Fund-raising | 175,460 | - | - | 175,460 |
| Total mission support services | <u>222,774</u> | <u>-</u> | <u>-</u> | <u>222,774</u> |
| Total mission program and mission support services expenses | <u>886,962</u> | <u>-</u> | <u>-</u> | <u>886,962</u> |
| Our mission program and mission support expenses were funded by: | | | | |
| Support from the public: | | | | |
| Special events, including Relay for Life® and Making Strides Against Breast Cancer® | 314,504 | 78,386 | - | 392,890 |
| Contributions | 116,034 | 65,298 | 8 | 181,340 |
| Bequests | 97,466 | 33,447 | 7,059 | 137,972 |
| Contributed services, merchandise and other in-kind contributions | 21,519 | 38,209 | - | 59,728 |
| Other | 5,371 | 1,867 | - | 7,238 |
| Total support from the public | <u>554,894</u> | <u>217,207</u> | <u>7,067</u> | <u>779,168</u> |
| Investment income | 30,539 | 9,424 | 2 | 39,965 |
| Change in value of split-interest agreements | 1,830 | 1,885 | 875 | 4,590 |
| Grants and contracts from government agencies | 5,620 | 456 | - | 6,076 |
| Other gains | 10,418 | 1,201 | - | 11,619 |
| Total revenues, gains and other support | <u>603,301</u> | <u>230,173</u> | <u>7,944</u> | <u>841,418</u> |
| Use of amounts restricted by donors for specified purpose or time | 200,589 | (199,360) | (1,229) | - |
| Change in net assets prior to impact of retirement plan liability | <u>(83,072)</u> | <u>30,813</u> | <u>6,715</u> | <u>(45,544)</u> |
| Net increase in retirement plan liability | 6,206 | - | - | 6,206 |
| Change in net assets | <u>(89,278)</u> | <u>30,813</u> | <u>6,715</u> | <u>(51,750)</u> |
| Net assets, beginning of period | <u>617,137</u> | <u>279,241</u> | <u>279,006</u> | <u>1,175,384</u> |
| Net assets, end of period | <u>\$ 527,859</u> | <u>\$ 310,054</u> | <u>\$ 285,721</u> | <u>\$1,123,634</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands)

| | | Donor Restricted | | |
|---|---------------------|-------------------------------|-------------------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Our mission program and mission support expenses were: | | | | |
| Mission program services: | | | | |
| Patient support | \$ 347,525 | \$ - | \$ - | \$ 347,525 |
| Research | 150,835 | | | 150,835 |
| Prevention | 122,942 | - | - | 122,942 |
| Detection/treatment | 87,214 | - | - | 87,214 |
| Total mission program services | <u>708,516</u> | <u>-</u> | <u>-</u> | <u>708,516</u> |
| Mission support services: | | | | |
| Management and general | 51,561 | - | - | 51,561 |
| Fund-raising | 180,466 | - | - | 180,466 |
| Total mission support services | <u>232,027</u> | <u>-</u> | <u>-</u> | <u>232,027</u> |
| Total mission program and mission support services expenses | <u>940,543</u> | <u>-</u> | <u>-</u> | <u>940,543</u> |
| Our mission program and mission support expenses were funded by: | | | | |
| Support from the public: | | | | |
| Special events, including Relay for Life® and Making Strides Against Breast Cancer® | 345,465 | 76,770 | - | 422,235 |
| Contributions | 118,193 | 49,899 | 11 | 168,103 |
| Bequests | 80,512 | 49,938 | (45) | 130,405 |
| Contributed services, merchandise and other in-kind contributions | 23,279 | 54,662 | - | 77,941 |
| Other | 9,441 | 1,769 | - | 11,210 |
| Total support from the public | <u>576,890</u> | <u>233,038</u> | <u>(34)</u> | <u>809,894</u> |
| Investment income | 2,568 | 1,614 | 1 | 4,183 |
| Change in value of split-interest agreements | (1,277) | 1,383 | (10,280) | (10,174) |
| Grants and contracts from government agencies | 5,366 | 508 | - | 5,874 |
| Other gains (losses) | 5,643 | 454 | (47) | 6,050 |
| Total revenues, gains (losses) and other support | <u>589,190</u> | <u>236,997</u> | <u>(10,360)</u> | <u>815,827</u> |
| Use of amounts restricted by donors for specified purpose or time | 223,285 | (222,984) | (301) | - |
| Change in net assets prior to impact of retirement plan liability | <u>(128,068)</u> | <u>14,013</u> | <u>(10,661)</u> | <u>(124,716)</u> |
| Net decrease in retirement plan liability | <u>(86,688)</u> | <u>-</u> | <u>-</u> | <u>(86,688)</u> |
| Change in net assets | <u>(41,380)</u> | <u>14,013</u> | <u>(10,661)</u> | <u>(38,028)</u> |
| Net assets, beginning of period | <u>658,517</u> | <u>265,228</u> | <u>289,667</u> | <u>1,213,412</u> |
| Net assets, end of period | <u>\$ 617,137</u> | <u>\$ 279,241</u> | <u>\$ 279,006</u> | <u>\$1,175,384</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands)

| | Mission program | | | | Mission support | | Total |
|---|-------------------|-------------------|-------------------|-----------------------|------------------------|-------------------|-------------------|
| | Patient support | Research | Prevention | Detection / treatment | Management and general | Fund-raising | |
| Mission program and mission support expenses | | | | | | | |
| Salaries | \$ 133,235 | \$ 25,543 | \$ 50,444 | \$ 36,567 | \$ 22,133 | \$ 85,525 | \$ 353,447 |
| Employee benefits | 42,530 | 6,666 | 14,492 | 10,663 | 6,618 | 24,623 | 105,592 |
| Payroll taxes | 9,701 | 1,770 | 3,516 | 2,583 | 1,553 | 6,030 | 25,153 |
| Professional fees | 12,021 | 9,472 | 8,958 | 4,523 | 4,344 | 8,655 | 47,973 |
| Grants for mission program services | 3,500 | 95,419 | 4,571 | 5,664 | - | - | 109,154 |
| Educational materials | 24,928 | 1,872 | 9,081 | 14,439 | 1,966 | 15,101 | 67,387 |
| Direct assistance, including wigs, and Look Good Feel Better® kits | 21,590 | - | 19 | 160 | - | - | 21,769 |
| Travel | 5,812 | 1,353 | 3,200 | 1,836 | 734 | 4,320 | 17,255 |
| Postage and shipping | 4,334 | 253 | 3,750 | 1,171 | 1,984 | 3,080 | 14,572 |
| Meetings and conferences | 2,578 | 922 | 1,506 | 879 | 484 | 2,200 | 8,569 |
| Community office locations, including rent, maintenance and utilities | 20,965 | 2,443 | 5,009 | 3,578 | 2,299 | 8,397 | 42,691 |
| Technology | 6,494 | 2,300 | 2,261 | 1,368 | 1,415 | 4,678 | 18,516 |
| Telecommunications | 3,862 | 1,600 | 1,472 | 1,114 | 537 | 2,314 | 10,899 |
| Depreciation and amortization | 7,613 | 1,185 | 2,371 | 1,835 | 1,190 | 4,579 | 18,773 |
| Miscellaneous | 10,609 | 1,716 | 3,068 | 1,804 | 2,057 | 5,958 | 25,212 |
| Total mission program and mission support services expenses | <u>\$ 309,772</u> | <u>\$ 152,514</u> | <u>\$ 113,718</u> | <u>\$ 88,184</u> | <u>\$ 47,314</u> | <u>\$ 175,460</u> | <u>\$ 886,962</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands)

| | Mission program | | | | Mission support | | Total |
|---|-------------------|-------------------|-------------------|-----------------------|------------------------|-------------------|-------------------|
| | Patient support | Research | Prevention | Detection / treatment | Management and general | Fund-raising | |
| Mission program and mission support expenses | | | | | | | |
| Salaries | \$ 137,577 | \$ 23,685 | \$ 54,564 | \$ 38,122 | \$ 23,587 | \$ 84,681 | \$ 362,216 |
| Employee benefits | 44,274 | 6,163 | 15,423 | 11,056 | 7,264 | 25,181 | 109,361 |
| Payroll taxes | 10,098 | 1,650 | 3,828 | 2,718 | 1,674 | 6,031 | 25,999 |
| Professional fees | 15,749 | 9,840 | 8,824 | 4,898 | 4,431 | 10,908 | 54,650 |
| Grants for mission program services | 3,360 | 95,981 | 4,154 | 6,419 | 174 | 251 | 110,339 |
| Educational materials | 34,620 | 2,688 | 10,376 | 9,010 | 1,788 | 16,031 | 74,513 |
| Direct assistance, including wigs, and Look Good Feel Better® kits | 36,449 | - | 19 | 176 | 389 | - | 37,033 |
| Travel | 8,241 | 1,128 | 4,391 | 2,363 | 1,047 | 5,737 | 22,907 |
| Postage and shipping | 5,258 | 372 | 4,478 | 1,430 | 2,110 | 3,602 | 17,250 |
| Meetings and conferences | 3,351 | 441 | 2,113 | 1,063 | 590 | 2,874 | 10,432 |
| Community office locations, including rent, maintenance and utilities | 20,419 | 2,376 | 5,240 | 3,775 | 2,352 | 8,383 | 42,545 |
| Technology | 6,205 | 2,059 | 2,166 | 1,226 | 1,240 | 3,993 | 16,889 |
| Telecommunications | 4,708 | 1,734 | 1,747 | 1,225 | 655 | 2,625 | 12,694 |
| Depreciation and amortization | 7,725 | 1,183 | 2,646 | 1,976 | 1,300 | 4,708 | 19,538 |
| Miscellaneous | 9,491 | 1,535 | 2,973 | 1,757 | 2,960 | 5,461 | 24,177 |
| Total mission program and mission support services expenses | <u>\$ 347,525</u> | <u>\$ 150,835</u> | <u>\$ 122,942</u> | <u>\$ 87,214</u> | <u>\$ 51,561</u> | <u>\$ 180,466</u> | <u>\$ 940,543</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015
(In Thousands)

| | 2016 | 2015 |
|--|-------------------|------------------|
| Cash flows from operating activities | | |
| Cash received from (paid for): | | |
| Special events | \$ 441,214 | \$ 470,871 |
| Contributions | 157,298 | 136,592 |
| Bequests | 100,370 | 120,908 |
| Other support from the public | 7,316 | 11,254 |
| Government grants | 6,196 | 5,637 |
| Interest and dividends on investments, net | 24,968 | 21,565 |
| Other revenue | 9,435 | 8,063 |
| Program services | 29,695 | 29,949 |
| Interest on debt | (790) | (613) |
| Employees and suppliers | (723,380) | (744,697) |
| Direct assistance | (3,771) | (4,084) |
| Retirement plan contributions | (81,142) | (52,417) |
| Grants for mission program services | (103,428) | (114,178) |
| Net cash paid for operating activities | <u>(136,019)</u> | <u>(111,150)</u> |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (12,673) | (9,899) |
| Proceeds from disposal of fixed assets | 14,801 | 5,950 |
| Support from the public restricted for fixed asset acquisition | 13,118 | 21,418 |
| Purchase of investments | (174,735) | (187,027) |
| Proceeds from maturity or sale of investments | 342,015 | 205,576 |
| Net cash received from investing activities | <u>182,526</u> | <u>36,018</u> |
| Cash flows from financing activities | | |
| Payments on debt | (2,306) | (2,261) |
| Proceeds from annuitants | 426 | 543 |
| Payments to annuitants | (3,059) | (6,228) |
| Support from the public restricted for long-term investment | 7,067 | 329 |
| Net cash received from (paid for) financing activities | <u>2,128</u> | <u>(7,617)</u> |
| Net change in cash and cash equivalents | 48,635 | (82,749) |
| Cash and cash equivalents, beginning of year | <u>67,765</u> | <u>150,514</u> |
| Cash and cash equivalents, end of year | <u>\$ 116,400</u> | <u>\$ 67,765</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015
(In Thousands)

| Cash flows from operating activities | 2016 | 2015 |
|--|---------------------|---------------------|
| Change in net assets | \$ (51,750) | \$ (38,028) |
| Adjustments to reconcile change in net assets to net cash paid for operating activities: | | |
| Depreciation and amortization | 18,785 | 19,574 |
| Net realized and unrealized investment (gains) losses | (14,997) | 17,382 |
| Change in value of split-interest agreements | (4,590) | 10,174 |
| Gain on disposal of fixed assets | (8,248) | (3,773) |
| Net increase (decrease) in retirement plan liability | 6,206 | (86,688) |
| Support from the public restricted for long-term investment | (7,067) | (329) |
| Support from the public restricted for fixed asset acquisition | (13,118) | (21,418) |
| Changes in assets and liabilities: | | |
| Receivables, net | (12,714) | (12,112) |
| Prepaid expenses and other assets | (11) | 4,769 |
| Bequests receivable | (17,940) | (7,477) |
| Beneficial interests in trusts | (12,920) | (1,058) |
| Research and other program grants payable | 5,727 | (3,839) |
| Accounts payable and other accrued expenses and employee retirement benefits | (22,480) | 16,358 |
| Other liabilities | (902) | (4,685) |
| Net cash paid for operating activities | <u>\$ (136,019)</u> | <u>\$ (111,150)</u> |

The notes beginning on page 16 are an integral part of the financial statements.

AMERICAN CANCER SOCIETY, INC.

BALANCE SHEETS

DECEMBER 31, 2016 and 2015

(In Thousands)

Assets

| | 2016 | 2015 |
|--------------------------------|--------------|--------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 116,400 | \$ 67,765 |
| Investments | 84 | 84 |
| Receivables, net | 18,421 | 17,460 |
| Prepaid expenses | 15,460 | 15,701 |
| Bequests receivable | 93,459 | 75,519 |
| Total current assets | 243,824 | 176,529 |
| Receivables, net | 48,812 | 37,059 |
| Other assets | 6,024 | 5,772 |
| Gift annuity investments | 37,168 | 37,072 |
| Investments | 795,260 | 945,101 |
| Beneficial interests in trusts | 321,145 | 305,465 |
| Fixed assets, net | 253,744 | 266,409 |
| Total assets | \$ 1,705,977 | \$ 1,773,407 |

Liabilities and net assets

| | | |
|--|--------------|--------------|
| Current liabilities: | | |
| Accounts payable and other accrued expenses | \$ 69,403 | \$ 67,564 |
| Research and other program grants payable | 82,692 | 84,727 |
| Employee retirement benefits | 17,386 | 44,304 |
| Debt | 2,337 | 2,304 |
| Other liabilities | 6,854 | 6,422 |
| Total current liabilities | 178,672 | 205,321 |
| Research and other program grants payable | 118,327 | 110,565 |
| Employee retirement benefits | 203,835 | 195,030 |
| Other liabilities | 13,250 | 14,584 |
| Debt | 48,658 | 50,997 |
| Gift annuity obligations | 19,601 | 21,526 |
| Total liabilities | 582,343 | 598,023 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted: | | |
| Available for mission program and support activities | 325,110 | 404,029 |
| Net investment in fixed assets | 202,749 | 213,108 |
| Total unrestricted | 527,859 | 617,137 |
| Temporarily restricted | 310,054 | 279,241 |
| Permanently restricted | 285,721 | 279,006 |
| Total net assets | 1,123,634 | 1,175,384 |
| Total liabilities and net assets | \$ 1,705,977 | \$ 1,773,407 |

The notes beginning on page 16 are an integral part of the financial statements.

**AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(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 organization. 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, our mission program activities – which are the four areas above, and second, mission 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 years ended December 31, 2016 and 2015, our mission expenses were allocated to these two areas as follows:

| | 2016 | | 2015 | |
|--------------------------|-------------------|--------------|-------------------|--------------|
| Mission program expenses | \$ 664,188 | 75 % | \$ 708,516 | 75 % |
| Mission support expenses | 222,774 | 25 | 232,027 | 25 |
| Total | <u>\$ 886,962</u> | <u>100 %</u> | <u>\$ 940,543</u> | <u>100 %</u> |

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(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 | 7-15% |
| Developed non-U.S. equities | 7-15% |
| Emerging markets equities | 1-9% |
| Global real estate investment trusts | 0-8% |
| High quality fixed income | 36-62% |
| Global/non-U.S. fixed income | 6-16% |
| Inflation linked bonds | 3-7% |
| Cash equivalents | 0-3% |

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

| | December 31, 2016 | | December 31, 2015 | |
|---|--------------------------|--------------|--------------------------|--------------|
| Money market funds and time deposits | \$ 2,190 | - % | \$ 2,595 | - % |
| Corporate bonds | 154,153 | 18 | 227,333 | 23 |
| U.S. government and government agency and obligations | 170,910 | 21 | 188,661 | 19 |
| Commercial paper and other short-term investments | 180,023 | 22 | 215,159 | 22 |
| Equities | 277,842 | 33 | 303,134 | 31 |
| Other | 47,394 | 6 | 45,375 | 5 |
| | <u>\$ 832,512</u> | <u>100 %</u> | <u>\$ 982,257</u> | <u>100 %</u> |

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(Dollars in thousands)

2. Liquidity considerations, continued

Investments, continued

The components of our investment income were as follows:

| | Year Ended December 31, 2016 | | | |
|--|-------------------------------------|-------------------------------|-------------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Interest and dividends, net | \$ 20,618 | \$ 4,348 | \$ 2 | \$ 24,968 |
| Net realized and unrealized investment gains | 9,921 | 5,076 | - | 14,997 |
| Total investment income | <u>\$ 30,539</u> | <u>\$ 9,424</u> | <u>\$ 2</u> | <u>\$ 39,965</u> |

| | Year Ended December 31, 2015 | | | |
|---|-------------------------------------|-------------------------------|-------------------------------|-----------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Interest and dividends, net | \$ 17,748 | \$ 3,816 | \$ 1 | \$ 21,565 |
| Net realized and unrealized investment losses | (15,180) | (2,202) | - | (17,382) |
| Total investment income | <u>\$ 2,568</u> | <u>\$ 1,614</u> | <u>\$ 1</u> | <u>\$ 4,183</u> |

Interest and dividend income in the statements of activities and above is presented net of fees paid to our investment advisors. Those fees were \$2,817 and \$3,281 for the years ended December 31, 2016 and 2015, respectively.

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 \$17,567 and \$15,546 at December 31, 2016 and 2015, respectively, and are included in gift annuity investments in the accompanying balance sheets.

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 years ended December 31, 2016 and 2015, approximately 44% and 62% of our revenue from bequests was cash and 56% and 38% will be received in future years, respectively.

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.

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(Dollars in thousands)

2. Liquidity considerations, continued

Use of net assets

Included in unrestricted net assets at December 31, 2016 and 2015 is \$202,749 and \$213,108, respectively, that is our net investment in 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 below may be spent for the purpose specified by the donor. Included in temporarily restricted net assets at December 31, 2016 and 2015 is \$187,934 and \$178,461, respectively, 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, which includes earnings on permanently restricted net assets, as of December 31, 2016 and 2015 has been limited by our donors for the following purposes:

| | Temporarily | | Permanently | |
|---|--------------------|-------------------|--------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Mission programs: | | | | |
| Patient Support: | | | | |
| Hope Lodge facilities | \$ 78,342 | \$ 65,461 | \$ 14,742 | \$ 14,742 |
| Other | 13,584 | 12,419 | 16,818 | 16,282 |
| Research | 54,274 | 53,487 | 67,448 | 65,717 |
| Prevention | 4,620 | 1,556 | 1,482 | 1,482 |
| Detection/treatment | 17,384 | 12,786 | 1,652 | 1,652 |
| Across mission programs: | | | | |
| Time restrictions (primarily planned giving including perpetual trusts) | 122,780 | 110,606 | 132,490 | 128,194 |
| Specific geographic locations | 16,749 | 20,669 | 31,819 | 31,578 |
| Fixed asset acquisitions / building fund | 72 | 92 | - | - |
| Other mission program and mission support services | 2,249 | 2,165 | 19,270 | 19,359 |
| Total | \$ 310,054 | \$ 279,241 | \$ 285,721 | \$ 279,006 |

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(Dollars in thousands)

2. Liquidity considerations, continued

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, 2016 and 2015 is \$205,361 and \$199,567, respectively. The present value of our future payments as of December 31, 2016 and 2015 is \$201,019 and \$195,292, respectively. The discount at December 31, 2016 of \$4,342 will be recognized as grants for mission program services expense in 2017 through 2020. As of December 31, 2016, our future payments are as follows:

Payable in the next:

| | |
|----------------|-------------------|
| 12 months | \$ 82,692 |
| 13 - 24 months | 62,978 |
| 25 - 36 months | 39,976 |
| 37 - 48 months | 17,413 |
| 49 - 60 months | 2,302 |
| Discount | (4,342) |
| Total | <u>\$ 201,019</u> |

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 2026. Our future minimum annual lease payments under leases with terms that are not cancellable are as follows as of December 31, 2016:

Payable in the next:

| | |
|----------------|------------------|
| 12 months | \$ 23,168 |
| 13 - 24 months | 18,895 |
| 25 - 36 months | 14,910 |
| 37 - 48 months | 12,095 |
| 49 - 60 months | 9,903 |
| Thereafter | 8,452 |
| Total | <u>\$ 87,423</u> |

Rental expense under operating leases was \$28,833 and \$23,666 for the years ended December 31, 2016 and 2015, respectively.

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(Dollars in thousands)

2. Liquidity considerations, continued

Debt

We have financed certain properties based on market conditions and cash flow needs at the time of financing. Our outstanding debt, subject to certain loan covenants, as of December 31, 2016 and 2015 is as follows:

| <u>Type</u> | <u>Issuer</u> | <u>Maturity Date</u> | <u>Interest rate</u> | <u>Balance at 12/31/2016</u> | <u>Balance at 12/31/2015</u> | <u>Collateral</u> |
|--------------------------|-------------------------------|----------------------|----------------------|------------------------------|------------------------------|--|
| Industrial Revenue Bonds | Oklahoma Industries Authority | 2022 | 0.78% | \$ 4,730 | \$ 5,370 | Certificates of deposit, property and letters of credit, which expire at various dates through 2017 |
| Note Payable | TD Bank, N.A. | 2020 | Libor + 0.90% | 36,115 | 37,757 | New York City Hope Lodge facility, net book value of \$30,944 and all assets constituting general revenues |
| Note Payable | Alliance Finance Fund | 2044 | 1.00% | 9,750 | 9,750 | Salt Lake City Hope Lodge Facility, net book value of \$14,131 |
| Notes Payable | Various | Various | 2.00% - 5.75% | 400 | 424 | Not Applicable |
| Total | | | | <u>\$ 50,995</u> | <u>\$ 53,301</u> | |

Our future principal payments are as follows:

Payable in the next:

| | |
|----------------|------------------|
| 12 months | \$ 2,337 |
| 13 - 24 months | 2,390 |
| 25 - 36 months | 2,425 |
| 37 - 48 months | 2,470 |
| 49 - 60 months | 1,666 |
| Thereafter | 39,707 |
| Total | <u>\$ 50,995</u> |

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(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 (the "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, 2017 and 2016, the plan was funded at 100%, based on regulatory funding levels. We anticipate the funding percentage to decrease as the relief provisions provided by the Moving Ahead for Progress in the 21st Century Act expire over the next few years.

We also sponsor a defined contribution plan with benefits based on individual employee salary deferrals and a related matching amount by the Society, subject to a maximum. Our matching amounts totaled \$10,148 and \$7,439 for the years ended December 31, 2016 and 2015, respectively. As part of the adjustments to our overall retirement benefits package, we made a one-time contribution to our defined contribution plans totaling \$25,038 during 2016. We sponsor a Supplemental Executive Retirement Plan (the SERP) for certain participants whose income exceeds the maximum income that can be considered under the defined benefit pension plan. We have segregated short-term investments sufficient for payment of benefits under this plan.

In addition, we have an unfunded postretirement benefit plan for post-retirement medical, dental, and life insurance coverage for certain employees hired prior to 1995, subject to deductibles, co-payment provisions, and other limitations. We paid \$2,729 and \$3,048 for these benefits from our general assets during the years ended December 31, 2016 and 2015, respectively.

We expect to contribute approximately \$17,386, of which \$13,000 is being funded at management's discretion, to all of our defined benefit plans over the next 12 months. Effective July 1, 2016, the Plan and the SERP were frozen to new participants and participants are no longer earning benefits for service under the Plan. See Note 10 for additional information.

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015
(Dollars in thousands)

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 years ended December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|--|------------------|------------------|
| Media communication and production services | \$ 13,162 | \$ 16,632 |
| Discovery Shops | 22,528 | 21,892 |
| Cosmetic kits and wigs | 12,955 | 27,882 |
| Guestroom program | 4,938 | 4,865 |
| Peer review services (approximately 509 and 576 volunteers donated 18,324 and 20,740 hours, respectively) | 1,560 | 1,711 |
| Other in-kind contributions | 4,585 | 4,959 |
| Total contributed services, merchandise, and other in-kind contributions at fair value | <u>\$ 59,728</u> | <u>\$ 77,941</u> |

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OTHER REQUIRED DISCLOSURES

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.

Advertising costs

Our advertising costs are expensed as incurred and were \$51,997 and \$57,650 for the years ended December 31, 2016 and 2015, respectively.

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 change in value of split interest agreements in the statements 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.

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4. Significant accounting policies, continued

Fair value of financial instruments

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.

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.

Fixed assets

Fixed assets are recorded at cost for purchased items and fair value for contributed items.

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 |

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4. Significant accounting policies, continued

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, 2016 and 2015. 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:

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Pledges receivable | 1.50% to 5.25% | 1.50% to 5.25% |
| Research and other program grants payable | 0.70% to 1.75% | 0.70% to 6.25% |

Our cost-reimbursement grant programs are subject to independent audit under federal regulations 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.

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).

Adoption of new accounting pronouncements

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value and make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share expedient. The guidance requires retrospective application and is required for periods beginning after December 15, 2015. We have adopted the provisions of ASU 2015-07 as of December 31, 2016 and 2015 within Note 8 and Note 10.

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5. Activities with joint costs

For the years ended December 31, 2016 and 2015, 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:

| | 2016 | 2015 |
|------------------------|-------------------|-------------------|
| Patient support | \$ 95,548 | \$ 104,806 |
| Prevention | 35,630 | 42,838 |
| Detection/treatment | 10,629 | 12,203 |
| Management and general | 8,833 | 9,006 |
| Fundraising | 60,925 | 69,373 |
| Total | <u>\$ 211,565</u> | <u>\$ 238,226</u> |

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 mission support expenses.

Exchange transaction income and expenses are netted and included in other gains (losses) in the accompanying statements of activities and are as follows for the years ended December 31, 2016 and 2015:

| | Exchange Income | | Exchange Expenses | |
|------------------------|----------------------------|------------------|------------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Special events | \$ 49,559 | \$ 49,342 | \$ 49,559 | \$ 49,342 |
| Discovery Shop | 23,596 | 23,079 | 35,818 | 34,827 |
| Sales to third parties | 7,244 | 8,207 | 13 | 19 |
| Other | 6,780 | 5,747 | 204 | 1,090 |
| | <u>\$ 87,179</u> | <u>\$ 86,375</u> | <u>\$ 85,594</u> | <u>\$ 85,278</u> |

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 statements of activities.

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7. Fixed assets

Our fixed assets are as follows as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Land | \$ 34,057 | \$ 36,804 |
| Buildings and leasehold improvements | 387,049 | 388,084 |
| Furniture, fixtures, equipment, and other capitalized assets | 56,452 | 57,716 |
| Computer software | 48,570 | 58,953 |
| Construction in progress | 1,387 | 2,127 |
| Less: accumulated depreciation and amortization | <u>(273,771)</u> | <u>(277,275)</u> |
| Net fixed assets | <u>\$ 253,744</u> | <u>\$ 266,409</u> |

Depreciation expense including expenses on assets used in exchange transactions for the years ended December 31, 2016 and 2015 was \$18,765 and \$19,533, respectively.

8. Fair value

Fair value measurement

Refer to Note 4 for a description of our fair value of financial instrument policy.

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. Our valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

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

The significance of transfers between levels was evaluated based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended December 31, 2016 and 2015, 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.

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8. Fair value, continued

Fair value measurement, continued

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.

Investments in limited partnerships (see Note 10) are valued using the market approach, on the basis of the relative interests of each participating investor (including each participant), in the fair value of the underlying net assets of each limited partnership.

Nonperpetual trusts, included on the balance sheets as beneficial interest in 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 years ended December 31, 2016 and 2015, 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 5.00% and 5.35%, respectively, and a discount rate of 5.00% and 5.35%, respectively, commensurate with the risks involved. The expected mortality is estimated using the 1983 Basic Mortality Table. 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, included on the balance sheets as beneficial interests in 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 years ended December 31, 2016 and 2015, the assumptions used in the valuation of the annuity liability include mortality in accordance with the 2012 Individual Annuity Reserving Table and a discount rate of 3.00% and 2.70% 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.

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8. Fair value, continued

The following tables set forth by level, within the fair value hierarchy, our assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets | Financial assets and liabilities measured at fair value as of December 31, 2016 | | | |
|--|---|------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments, current | | | | |
| Money market funds and time deposits | \$ 84 | \$ - | \$ - | \$ 84 |
| Gift annuity investments, at fair value | | | | |
| Money market funds and time deposits | \$ - | \$ 662 | \$ - | \$ 662 |
| Corporate bonds | 112 | 4,680 | - | 4,792 |
| U.S. government and government agency obligations | 3,501 | 3,438 | - | 6,939 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | 29 | 199 | - | 228 |
| Equities | | | | |
| Preferred stocks | 20 | 101 | - | 121 |
| Domestic | 18,757 | - | - | 18,757 |
| International | 3,270 | - | - | 3,270 |
| Mutual funds | 1,800 | - | - | 1,800 |
| Other | - | - | 599 | 599 |
| Total gift annuity investments, at fair value | \$ 27,489 | \$ 9,080 | \$ 599 | \$ 37,168 |
| Investments | | | | |
| Money market funds and time deposits | \$ 990 | \$ 454 | \$ - | \$ 1,444 |
| Corporate bonds | 60 | 149,301 | - | 149,361 |
| U.S. government and government agency obligations | - | 163,971 | - | 163,971 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | - | 82,325 | - | 82,325 |
| Asset backed | - | 71,357 | 914 | 72,271 |
| Short-term investments | 13,888 | 11,311 | - | 25,199 |
| Equities | | | | |
| Preferred stocks | 653 | - | - | 653 |
| Domestic | 71,135 | - | 2,073 | 73,208 |
| International | 80,220 | 9 | - | 80,229 |
| Common collective trusts measured at net asset value * | | | | 116,387 |
| Other | 28,547 | 667 | 998 | 30,212 |
| Total investments | \$ 195,493 | \$ 479,395 | \$ 3,985 | \$ 795,260 |
| Beneficial interests in trusts | \$ - | \$ - | \$ 321,145 | \$ 321,145 |
| Liabilities | | | | |
| Gift annuity obligations | \$ - | \$ - | \$ 19,601 | \$ 19,601 |

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8. Fair value, continued

| Assets | Financial assets and liabilities measured at fair value as of December 31, 2015 | | | |
|--|---|------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments, current | | | | |
| Money market funds and time deposits | \$ 84 | \$ - | \$ - | \$ 84 |
| Gift annuity investments, at fair value | | | | |
| Money market funds and time deposits | \$ - | \$ 910 | \$ - | \$ 910 |
| Corporate bonds | 107 | 4,569 | - | 4,676 |
| U.S. government and government agency obligations | 3,977 | 3,324 | - | 7,301 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | 22 | 175 | - | 197 |
| Equities | | | | |
| Preferred stocks | - | 95 | - | 95 |
| Domestic | 17,559 | 23 | - | 17,582 |
| International | 3,847 | - | - | 3,847 |
| Mutual funds | 1,828 | - | - | 1,828 |
| Other | - | - | 636 | 636 |
| Total gift annuity investments, at fair value | \$ 27,340 | \$ 9,096 | \$ 636 | \$ 37,072 |
| Investments | | | | |
| Money market funds and time deposits | \$ 1,601 | \$ - | \$ - | \$ 1,601 |
| Corporate bonds | - | 222,657 | - | 222,657 |
| U.S. government and government agency obligations | 59 | 181,301 | - | 181,360 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | - | 127,612 | - | 127,612 |
| Asset backed | - | 68,446 | - | 68,446 |
| Short-term investments | 15,797 | 3,107 | - | 18,904 |
| Equities | | | | |
| Preferred stocks | 932 | - | - | 932 |
| Domestic | 67,300 | - | 250 | 67,550 |
| International | 72,417 | 433 | - | 72,850 |
| Common collective trusts measured at net asset value * | | | | 138,450 |
| Other | 42,701 | 878 | 1,160 | 44,739 |
| Total investments | \$ 200,807 | \$ 604,434 | \$ 1,410 | \$ 945,101 |
| Beneficial interests in trusts | \$ - | \$ - | \$ 305,465 | \$ 305,465 |
| Liabilities | | | | |
| Gift annuity obligations | \$ - | \$ - | \$ 21,526 | \$ 21,526 |

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8. Fair value, continued

* In accordance with *Fair Value Measurement (Topic 820)*, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

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 years ended December 31, 2016 and 2015:

| | | Commercial | | Beneficial | Gift |
|----------------------------|-----------------|-------------------|-----------------|--------------------|-------------------|
| | Equities | Paper | Other | interest in | annuity |
| December 31, 2016 | | | | trusts | obligation |
| Balance, beginning of year | \$ 250 | \$ - | \$ 1,796 | \$ 305,465 | \$ 21,526 |
| Purchases | 1,891 | 914 | - | - | - |
| Unrealized gains | - | - | - | 1,026 | - |
| Other | (68) | - | (199) | 14,654 | (1,925) |
| Balance, end of year | <u>\$ 2,073</u> | <u>\$ 914</u> | <u>\$ 1,597</u> | <u>\$ 321,145</u> | <u>\$ 19,601</u> |
| | | | | | |
| | Equities | Commercial | | Beneficial | Gift |
| | | Paper | Other | interest in | annuity |
| December 31, 2015 | | | | trusts | obligation |
| Balance, beginning of year | \$ 258 | \$ - | \$ 1,540 | \$ 315,823 | \$ 22,959 |
| Unrealized losses | - | - | - | (10,250) | - |
| Other | (8) | - | 256 | (108) | (1,433) |
| Balance, end of year | <u>\$ 250</u> | <u>\$ -</u> | <u>\$ 1,796</u> | <u>\$ 305,465</u> | <u>\$ 21,526</u> |

The unrealized gains (losses) are included in change in value of split interest agreements in the accompanying statements of activities. The unrealized gains (losses) related to assets still held at December 31, 2016 and 2015 were \$1,526 and \$(9,611), respectively.

The following tables set forth additional disclosures for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2016 and 2015:

| | December 31, 2016 | | December 31, 2015 | |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| Investment type | Fair value | Unfunded commitments | Fair value | Unfunded commitments |
| Index non-lending common / collective trust fund | \$ 23,485 | \$ - | \$ 20,993 | \$ - |
| Inflation-index securities common / collective trust fund | 92,902 | - | 117,457 | - |
| Total | <u>\$ 116,387</u> | <u>\$ -</u> | <u>\$ 138,450</u> | <u>\$ -</u> |

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8. Fair value, continued

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.

The limited partnership (refer to Note 10) was mainly comprised of private real estate holdings. The private real estate holdings are recorded at net asset value, which approximates fair value as determined by independently conducted appraisals of the properties. The appraisals of the private real estate holdings have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. Requests for redemption may be made by delivering a redemption notice at least 45 days in advance. The partnerships investment objective is to give investors a robust core real estate portfolio that provides a diversified portfolio of the highest quality assets, both durable and growing income with highly liquid assets and a conservative risk profile. There are no unfunded commitments.

9. Endowment

Interpretation of relevant law

As a New York corporation, we are subject to and 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 sheets. Permanently restricted net assets of \$285,721 and \$279,006 at December 31, 2016 and 2015 on the balance sheets reflect assets to be held in perpetuity such as endowments, which are included in the table below, as well as perpetual trusts.

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9. Endowment, continued

| Endowment net asset composition by type and changes in endowments | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets at December 31, 2015 | \$ (36) | \$ 22,288 | \$ 88,992 | \$ 111,244 |
| Investment income | - | 1,869 | - | 1,869 |
| Net appreciation (realized and unrealized) | - | 4,823 | - | 4,823 |
| Contributions | - | - | 648 | 648 |
| Reclassification of restrictions | 26 | (123) | 97 | - |
| Appropriation of endowment assets for expenditure | - | (5,035) | - | (5,035) |
| Donor restricted endowment net assets at December 31, 2016 | \$ (10) | \$ 23,822 | \$ 89,737 | \$ 113,549 |

| Endowment net asset composition by type and changes in endowments | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets at December 31, 2014 | \$ (17) | \$ 27,158 | \$ 88,761 | \$ 115,902 |
| Investment income | - | 1,189 | - | 1,189 |
| Net depreciation (realized and unrealized) | - | (2,121) | - | (2,121) |
| Contributions | - | - | 835 | 835 |
| Reclassification of restrictions | (19) | 623 | (604) | - |
| Appropriation of endowment assets for expenditure | - | (4,561) | - | (4,561) |
| Donor restricted endowment net assets at December 31, 2015 | \$ (36) | \$ 22,288 | \$ 88,992 | \$ 111,244 |

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 \$10 and \$36 as of December 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that we deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund up to the required level will be classified as an increase in unrestricted net assets.

Return objectives and risk parameters

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

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9. Endowment, continued

Spending policy

We considered the following factors in developing our spending policy with regard to donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) our mission and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) our other resources, (7) our investment policies, and (8) where appropriate, alternatives to spending from the donor-restricted funds and the possible effects of those alternatives.

Unless the donor has specified otherwise, 4% of the three year rolling average 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 consist of:

| | Percent of Fair Value | | Target Range |
|---------------------------|------------------------------|--------------|---------------------|
| | 2016 | 2015 | |
| Equity securities | 60 % | 52 % | 35-61% |
| Debt securities | 40 | 47 | 37-71% |
| Cash and cash equivalents | 0 | 1 | 0-5% |
| | <u>100 %</u> | <u>100 %</u> | |

10. Employee retirement benefit plans

We maintain a noncontributory defined benefit pension plan that previously covered 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, consist of:

| | Percent of Fair Value | | Target Range |
|---------------------------|------------------------------|--------------|---------------------|
| | 2016 | 2015 | |
| Equity securities | 65 % | 59 % | 41-97% |
| Debt securities | 34 | 40 | 15-68% |
| Cash and cash equivalents | 1 | 1 | 1-5% |
| | <u>100 %</u> | <u>100 %</u> | |

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10. Employee retirement benefit plans, continued

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 for certain participants whose income exceeds the maximum income that can be considered under the Plan.

Effective July 1, 2016, the Plan and SERP were frozen to new participants and participants are no longer earning benefits for service performed under the Plan and SERP. As a result of this curtailment of benefits, we recognized a curtailment gain as a decrease in our projected benefit obligation during 2015, the year in which the decision was made. In addition, we enhanced potential benefits available to our employees through our defined contribution plan, including a one-time contribution totaling \$25,038 made in 2016.

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.

During 2015, we amended the benefits available for medical, dental, and life insurance coverage for our postretirement population. As a result of this amendment, we recognized a reduction to our projected benefit obligation.

Beginning in 2017, we will move from utilizing a weighted average discount rate, which was derived from the yield curve used to measure the obligation at the beginning of the period, to a spot rate yield curve to estimate the pension benefit obligation and net periodic benefit costs. The change in accounting provides a more accurate measurement of interest costs by applying the spot rate that could be used to settle each projected cash flow individually. The change in accounting is not expected to have a material impact on net periodic benefit costs for the year ended December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS
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10. Employee retirement benefit plans, continued

Information related to our Plan, SERP, and postretirement benefit plan at December 31, 2016 and 2015 and the related changes during the years then ended are as follows:

| December 31, 2016 | Retirement Benefits | Supplemental Retirement Benefits | Total Retirement Benefits | Postretirement Nonpension Benefits |
|--|------------------------|--|---------------------------------|--|
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 706,007 | \$ 7,051 | \$ 713,058 | \$ 40,955 |
| Service cost | 10,704 | 128 | 10,832 | 208 |
| Interest cost | 30,900 | 291 | 31,191 | 1,768 |
| Amendments | - | - | - | - |
| Actuarial loss | 21,034 | 875 | 21,909 | 544 |
| Benefits paid | (36,040) | (1,926) | (37,966) | (2,729) |
| Retiree drug subsidy reimbursement | - | - | - | 180 |
| Benefit obligation at end of year | \$ 732,605 | \$ 6,419 | \$ 739,024 | \$ 40,926 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$ 514,679 | \$ - | \$ 514,679 | \$ - |
| Actual expenses paid | (4,339) | - | (4,339) | - |
| Actual return on plan assets | 43,029 | - | 43,029 | - |
| Employer contributions | 41,400 | 1,926 | 43,326 | 2,729 |
| Benefits paid | (36,040) | (1,926) | (37,966) | (2,729) |
| Fair value of plan assets at end of year | \$ 558,729 | \$ - | \$ 558,729 | \$ - |
| Funded status and amounts recognized in our balance sheet in employee retirement benefits | | | | |
| | \$(173,876) | \$ (6,419) | \$(180,295) | \$ (40,926) |
| Weighted average actuarial assumptions | | | | |
| Discount rate: | | | | |
| Net periodic pension cost | 4.38% | Varies | 4.38% | 4.21% |
| Benefit obligation | 4.38% | Varies | 4.38% | 4.21% |
| Expected return on plan assets | 7.25% | N/A | 7.25% | N/A |
| Rate of compensation increase | N/A | N/A | N/A | 4.13% |
| Amounts not yet recognized in net periodic pension costs | | | | |
| Unrecognized prior service costs (credit) at beginning of year | \$ 4 | \$ 450 | \$ 454 | \$ (18,183) |
| Change in prior service (credit) cost | (4) | (228) | (232) | 3,809 |
| Unrecognized prior service costs (credit) at end of year | \$ - | \$ 222 | \$ 222 | \$ (14,374) |
| Unrecognized actuarial losses (gains) at beginning of year | \$ 188,328 | \$ (1,260) | \$ 187,068 | \$ 9,228 |
| Change in actuarial losses (gains) | 1,799 | 1,012 | 2,811 | (182) |
| Unrecognized actuarial losses (gains) at end of year | \$ 190,127 | \$ (248) | \$ 189,879 | \$ 9,046 |

AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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10. Employee retirement benefit plans, continued

| December 31, 2016 | Retirement Benefits | Supplemental Retirement Benefits | Total Retirement Benefits | Postretirement Retirement Benefits |
|---|--------------------------------|---|--|---|
| Amounts recognized as a reduction (increase) to unrestricted net assets | | | | |
| Amounts recognized as a reduction to unrestricted net assets at beginning of year | \$ 188,332 | \$ (810) | \$ 187,522 | \$ (8,955) |
| Change in prior services (credit) cost | (4) | (228) | (232) | 3,809 |
| Change in actuarial losses (gains) | 1,799 | 1,012 | 2,811 | (182) |
| Amounts recognized as a reduction to unrestricted net assets at end of year | <u>\$ 190,127</u> | <u>\$ (26)</u> | <u>\$ 190,101</u> | <u>\$ (5,328)</u> |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 10,704 | \$ 128 | \$ 10,832 | \$ 208 |
| Interest cost | 30,900 | 291 | 31,191 | 1,768 |
| Expected return on plan assets | (38,138) | - | (38,138) | - |
| Administrative expenses | 4,220 | - | 4,220 | - |
| Amortization of: | | | | |
| Unrecognized prior service cost (credit) | 4 | 89 | 93 | (3,809) |
| Unrecognized actuarial losses (gains) | 14,463 | (223) | 14,240 | 726 |
| Settlement/curtailment expense | - | 224 | 224 | - |
| Net periodic benefit cost | <u>\$ 22,153</u> | <u>\$ 509</u> | <u>\$ 22,662</u> | <u>\$ (1,107)</u> |
| Accumulated benefit obligation | \$ 732,605 | \$ 6,419 | \$ 739,024 | \$ 40,926 |
| Estimated future benefits payable in the next: | | | | |
| 12 months | \$ 42,706 | \$ 1,526 | \$ 44,232 | \$ 2,860 |
| 13 - 24 months | 42,477 | 1,717 | 44,194 | 2,810 |
| 25 - 36 months | 43,905 | 224 | 44,129 | 2,782 |
| 37 - 48 months | 43,032 | 1,739 | 44,771 | 2,741 |
| 49 - 60 months | 42,017 | 3 | 42,020 | 2,698 |
| Thereafter | 209,504 | 1,238 | 210,742 | 12,838 |

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10. Employee retirement benefit plans, continued

| December 31, 2015 | Retirement Benefits | Supplemental Retirement Benefits | Total Retirement Benefits | Postretirement Nonpension Benefits |
|--|--------------------------------|---|--|---|
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 768,150 | \$ 10,649 | \$ 778,799 | \$ 58,815 |
| Service cost | 29,196 | 407 | 29,603 | 381 |
| Interest cost | 31,834 | 417 | 32,251 | 2,419 |
| Amendments | - | - | - | (16,674) |
| Actuarial (gain) loss | (25,493) | 252 | (25,241) | (1,127) |
| Benefits paid | (37,948) | (2,200) | (40,148) | (3,048) |
| Liability gain due to curtailment | (59,732) | (2,474) | (62,206) | - |
| Retiree drug subsidy reimbursement | - | - | - | 189 |
| Benefit obligation at end of year | \$ 706,007 | \$ 7,051 | \$ 713,058 | \$ 40,955 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$ 518,188 | \$ - | \$ 518,188 | \$ - |
| Actual expenses paid | (3,993) | - | (3,993) | - |
| Actual return on plan assets | (1,568) | - | (1,568) | - |
| Employer contributions | 40,000 | 2,200 | 42,200 | 3,048 |
| Benefits paid | (37,948) | (2,200) | (40,148) | (3,048) |
| Fair value of plan assets at end of year | \$ 514,679 | \$ - | \$ 514,679 | \$ - |
| Funded status and amounts recognized in our balance sheet in employee retirement benefits | | | | |
| | \$(191,328) | \$ (7,051) | \$(198,379) | \$ (40,955) |
| Weighted average actuarial assumptions | | | | |
| Discount rate: | | | | |
| Net periodic pension cost | 4.50% | 4.50% | 4.50% | 4.50% |
| Benefit obligation | 4.50% | 4.50% | 4.50% | 4.50% |
| 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 | \$ 124 | \$ 1,333 | \$ 1,457 | \$ (1,788) |
| Change in prior service credit | (120) | (883) | (1,003) | (16,395) |
| Unrecognized prior service costs (credit) at end of year | \$ 4 | \$ 450 | \$ 454 | \$ (18,183) |
| Unrecognized actuarial losses (gains) at beginning of year | \$ 255,436 | \$ (944) | \$ 254,492 | \$ 11,076 |
| Change in actuarial gains | (67,108) | (316) | (67,424) | (1,848) |
| Unrecognized actuarial losses (gains) at end of year | \$ 188,328 | \$ (1,260) | \$ 187,068 | \$ 9,228 |

AMERICAN CANCER SOCIETY, INC.
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10. Employee retirement benefit plans, continued

| December 31, 2015 | Retirement Benefits | Supplemental Retirement Benefits | Total Retirement Benefits | Postretirement Retirement Benefits |
|---|--------------------------------|---|--|---|
| Amounts not yet recognized in net periodic pension costs, continued | | | | |
| Unrecognized transition obligation at beginning of year | \$ - | \$ - | \$ - | \$ 18 |
| Change in transition obligation | - | - | - | (18) |
| Unrecognized transition obligation at end of year | \$ - | \$ - | \$ - | \$ - |
| Amounts recognized as a reduction (increase) to unrestricted net assets | | | | |
| Amounts recognized as a reduction to unrestricted net assets at beginning of year | \$ 255,560 | \$ 389 | \$ 255,949 | \$ 9,305 |
| Change in prior services credit | (120) | (883) | (1,003) | (16,395) |
| Change in actuarial gains | (67,108) | (316) | (67,424) | (1,848) |
| Change in transition obligation | - | - | - | (18) |
| Amounts recognized as a reduction to unrestricted net assets at end of year | \$ 188,332 | \$ (810) | \$ 187,522 | \$ (8,956) |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 29,196 | \$ 407 | \$ 29,603 | \$ 381 |
| Interest cost | 31,834 | 417 | 32,251 | 2,419 |
| Expected return on plan assets | (38,467) | - | (38,467) | - |
| Administrative expenses | 3,640 | - | 3,640 | - |
| Amortization of: | | | | |
| Unrecognized prior service cost (credit) | 91 | 117 | 208 | (279) |
| Unrecognized actuarial losses (gains) | 22,272 | (247) | 22,025 | 721 |
| Unrecognized transition obligation | - | - | - | 18 |
| Settlement/curtailment expense/(income) | 30 | (893) | (863) | - |
| Net periodic benefit cost | \$ 48,596 | \$ (199) | \$ 48,397 | \$ 3,260 |
| Accumulated benefit obligation | \$ 700,624 | \$ 7,032 | \$ 707,656 | \$ 40,955 |

We expect to contribute \$14,526 to the Plan and SERP over the next 12 months. We expect to contribute approximately \$2,860 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 \$7 and \$3,222, respectively. The prior service cost 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 \$3,809 and \$727, 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.

A description of the valuation methods we used for assets measured at fair value is available in Note 8.

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10. Employee retirement benefit plans, continued

The fair value of the Plan's assets at December 31, 2016 and 2015 by asset category is as follows:

| Financial assets measured at fair value on a recurring basis as of December 31, 2016 | | | | |
|---|-------------------|-------------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 4,808 | \$ - | \$ - | \$ 4,808 |
| Corporate bonds | - | 149,472 | - | 149,472 |
| U.S. government and government agency obligations | - | 21,025 | - | 21,025 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | - | 17,652 | - | 17,652 |
| Asset backed | - | 2,626 | - | 2,626 |
| Short-term investments | - | 9,132 | - | 9,132 |
| Equity | | | | |
| Preferred stock | 1,209 | - | - | 1,209 |
| Domestic | 157,323 | - | - | 157,323 |
| International | 98,448 | - | - | 98,448 |
| Common collective trusts measured at net asset value * | | | | 56,914 |
| Government money fund | 688 | - | - | 688 |
| Limited partnership measured at net asset value * | | | | 15,003 |
| Other | 24,287 | - | 142 | 24,429 |
| Total investment assets, at fair value | <u>\$ 286,763</u> | <u>\$ 199,907</u> | <u>\$ 142</u> | <u>\$ 558,729</u> |
| Financial assets measured at fair value on a recurring basis as of December 31, 2015 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 5,081 | \$ - | \$ - | \$ 5,081 |
| Money market funds | (497) | - | - | (497) |
| Corporate bonds | - | 130,225 | - | 130,225 |
| U.S. government and government agency obligations | - | 20,721 | - | 20,721 |
| Commercial paper and other short-term investments | | | | |
| Mortgage backed | - | 21,105 | - | 21,105 |
| Asset backed | - | 3,284 | - | 3,284 |
| Short-term investments | - | 5,419 | - | 5,419 |
| Equity | | | | |
| Preferred stock | 996 | - | - | 996 |
| Domestic | 154,056 | - | - | 154,056 |
| International | 70,569 | 467 | - | 71,036 |
| Common collective trusts measured at net asset value * | | | | 59,444 |
| Government money fund | 8,140 | - | - | 8,140 |
| Limited partnership | - | - | 114 | 114 |
| Other | 35,413 | - | 142 | 35,555 |
| Total investment assets, at fair value | <u>\$ 273,758</u> | <u>\$ 181,221</u> | <u>\$ 256</u> | <u>\$ 514,679</u> |

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10. Employee retirement benefit plans, continued

* In accordance with *Fair Value Measurement (Topic 820)*, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

The table below provides a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|---------------|---------------|
| Balance, beginning of period | \$ 256 | \$ 263 |
| Sales | <u>(114)</u> | <u>(7)</u> |
| Balance, end of period | <u>\$ 142</u> | <u>\$ 256</u> |

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 April 7, 2017, the date the financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the financial statements.

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