

American Cancer Society, Inc.

Management's Discussion and Analysis and Financial Statements

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

Results from

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 at S,earsu96.1(s)-2()0.6(f)3i20rvey.k.s

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	\$ 841,418	\$ 815,827

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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 al

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 t

Temporarily Permanently

	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	708,516	-	-	708,516
Mission support services:				
Management and general	51,561	-	-	51,561
Fund-raising	180,466	-	-	180,466
Total mission support services	232,027	-	-	232,027
Total mission program and mission support services expenses	940,543	-	-	940,543
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
Other5	\$68,503	(\$974)	(\$26,874)	(\$65,145)
	\$68,503	(\$974)	(\$26,874)	(\$65,145)

	Patient support	Research	Prevention	Detection / treatment	Management and general	Fund-raising	Total
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	4,571	4,571	

	Patient support	Research	Prevention	Detection / treatment	Management and general	Fund-raising	Total
Mission program and mission support expenses							
Salaries	\$ 137,577	\$ 23,685	\$ 54,564				

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**

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:

	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	\$ 30,539	\$ 9,424	\$ 2	\$ 39,965

	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)	\$	investments (17,382)

AMERICAN CANCER SOCIETY, INC.

**AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER**

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 paymentpayment 776102

**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

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

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.

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

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:

	<u>2016</u>	<u>2015</u>
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

**AMERICAN CANCER SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31,**

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

8. Fair value, continued

Fair value measurement, continued

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

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			

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

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:

December 31, 2016	Equities	Commercial Paper	Other	Beneficial interest in trusts	Gift annuity 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>
December 31, 2015	Equities	Commercial Paper	Other	Beneficial interest in trusts	Gift annuity 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:

Investment type	Fair value	Unfunded commitments	Fair value	Unfunded commitments
Index non-lending common / collective trust fund				

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

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

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

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 t

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

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

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	uj -C

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

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)
Benefit obligation at end of year	\$ 803,687	\$ 11,313	\$ 815,000	\$ 43,804

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

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

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:

	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
LimiteE-47.7p*				56,914

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

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.

