American Cancer Society, Inc.

Management's Discussion and Analysis and Financial Statements

As of and for the Years Ended December 31, 2015 and 2014

Ernst & Young LLP

Building a better
working world

American Cancer Society, Inc.
Contents
December 31, 2015 and 2014

Results from operations – expenses

Total mission program and support services expenses for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Mission program services:		
Patient support	$ 347,525	$ 275,907
Research	150,835	143,961
Prevention	122,942	116,988
Detection/treatment	87,214	94,852
Total mission program services	708,516	$ 631,708
Mission support services:		
Management and general	51,561	48,606
Fund-raising	180,466	177,011
Total mission support services	232,027	225,617
Total mission program and mission support services expenses	$ 940,543	$ 857,325

In 2015 we remained focused on our overall programmatic framework, which contains a core set of mission priority areas. This framework is consistent across the country regardless of location, and also includes some specific offerings that are reflective of individual community needs. Our 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.

Total mission services expenses for the year ended December 31, 2015 were $941 million, increasing $83 million over 2014. We increased our investment in a comprehensive, integrated communication and marketing campaign to engage the general constituent base across mission programming and income platforms. We strategically managed the volume and timing of our direct response messages aimed at communicating overall organizational services, raising awareness and various participation opportunities. With minimal market presence for the past several years, we have made an organizational commitment to continue this investment as part of our regular operations to drive mission impact and revenue generation. Our extramural research program also drove part of the increase as we were able, through our external partnerships, to fund a number of new grants. In addition, our defined benefit plan expenses increased due to assumptions used to estimate the value of the future benefit obligation to plan participants. The increase related to these assumptions was driven by fluctuations in interest rates and an increase in the assumed life expectancy of participants. This expense can fluctuate significantly from year to year as assumptions change and is not equal to the immediate funding requirements. Our funding requirements are driven by federal laws and regulations that govern pension plans, which require a minimum annual funding and ultimately a full funding of the plan over time. We discuss more about our defined benefit plan in the liquidity section. Total mission support services expenses were $232 million for the year ended December 31, 2015, representing 25 percent of total expenses, compared to $226 million for the year ending December 31, 2014, representing 26 percent of total expenses.

Results from operations – expenses, continued

For the year ended December 31, 2015 patient support expenses were $348 million, an increase of $72 million compared to 2014, 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.

Research expenses were $151 million, a $7 million increase over 2014, 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 2015, we continued following the CPS-3 cohort of 304,000 men and women by conducting follow up surveys and also launched two sub-studies involving dietary assessment validation and physical activity and sleep validation. These sub-studies will help to ensure reliability of surveys and quality of information. Our investment in extramural research grants increased compared to 2014 and was made possible through funding resulting from some of our external partnerships. These partnerships have increased our research in the areas of pediatric cancer and immunotherapy among others. Also, our partnership with Stand Up To Cancer®, finishing its second year in 2015, has enabled the funding of a Lung Cancer Dream Team with research groups at seven institutions nationwide.

Prevention expenses were $123 million, a $6 million increase over 2014, and included the launch of the American Cancer Society Center for Tobacco Control aimed at strengthening our domestic and global tobacco control presence, influence and outcomes in addition to our ongoing advocacy efforts to increase certain state tobacco taxes. 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 HPV as a mission priority area in January 2016.

Detection/treatment expenses were $87 million, an $8 million decrease compared to 2014, 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 is a public health program that has garnered the support of almost six hundred diverse organizations, who are launching new initiatives to educate patients and the public on appropriate screening options. The decrease is due to a general shift in focus of mission areas for 2015, which can occur from year to year, and is not indicative of a sustained, planned reduction of work in the area of detection/treatment.

Management and general expenses were $52 million for 2015, and remained relatively constant in comparison to total mission services expenses from 2014, and were comprised of 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 $180 million, an increase of $3 million compared to prior year but decreased relative to total mission services expenses from 2014. Most of the increase is related to a portion of the spend on our comprehensive, integrated communication and marketing campaign. We strategically managed the volume and timing of our messaging and utilized outlets such as television, social media, and print. In addition, the messaging contained specific requests for donations. Strategies to increase event participation and external partnerships also contributed to the increase in spend.

Results from operations – revenue

Total revenue, gains, and other support for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Support from the public	$ 809,894	$ 839,732
Investment income	4,183	28,800
Change in value of split-interest agreements	(10,174)	10,414
Grants and contracts from government agencies	5,874	5,064
Other gains	6,050	1,564
Total revenue, gains, and other support	$ 815,827	$ 885,574

Total revenue for the year ended December 31, 2015 of $816 million decreased by $70 million when compared to 2014. We established a strategic growth plan at the end of 2015 that will focus our attention on efficiency of current properties in addition to establishing new and innovative sources of revenue well into the future. We also continue to manage our total expenses to minimize the impact of the revenue decline.

Support from the public in 2015 was $810 million, down $30 million compared to the prior year primarily due to declining special event revenue. Support from the public is mostly comprised of Relay For Life®, Making Strides Against Breast Cancer®, planned giving, contributed services and other in-kind contributions and general contributions through a variety of programs. The decline in public support is mostly attributable to a steady decline in participation in Relay For Life over the last few years. Our community based staffing structure, having been in place for two years, will continue to be our distinguishing key strategy to not only help grow participation and address the revenue decline, but also to continue reaching our constituents with our mission programs where they live. However, as part of our strategic growth plan, we will address optimization of our Relay For Life and other fundraising event operating models to increase financial performance and position for future growth opportunities.

Non-public support, which primarily includes investment income, change in value of split-interest agreements and grants and contracts from government agencies was $6 million in 2015, a $40 million decrease from 2014. Both investment income and change in value of split-interest agreements were the drivers of the decrease as they are subject to the volatility in both interest rates and the stock and bond markets.

Results from operations – revenue, continued

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

Support from the Public Revenue (in millions)

	2015	2014	2013	2012	2011
Relay For Life	$ 287	$ 314	$ 356	$ 378	$ 385
Other community-based events (Making Strides Against Breast Cancer, Daffodil Days, others)	83	82	95	95	92
Distinguished events (gala and golf)	56	56	52	51	50
Direct response strategies (Direct mail, telemarketing)	54	53	54	60	68
Employer-based strategies - independent payroll deduction campaigns	20	22	22	20	19
Major gifts/campaigns	61	43	41	39	35
Planned giving (legacies and bequests)	133	139	144	122	122
United Way/Combined Federal Campaign	7	8	10	15	17
Memorials	19	21	23	26	26
Contributed services and other in-kind contributions	78	71	53	51	51
Other	12	31	35	32	31
Total support from the public	$ 810	$ 840	$ 885	$ 889	$ 896

Within support from the public, special events (Relay For Life, Other community-based and Distinguished events) continue to lead our financial results, representing 53 percent of total support from the public in 2015, a $26 million or 6 percent decline over 2014. Fundraising results for our signature event, Relay For Life, declined $27 million, more than 8 percent, and accounted for approximately 67 percent of total special events revenue. The Relay For Life revenue base is very broad over a very diverse set of events (over 4,800 in 2015) and constituents (more than 1.4 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 addition to a planned decrease in number of events, overall participation at Relay For Life events was down approximately 12% compared to 2014. As mentioned earlier, our strategic growth plan includes plans for increasing financial performance such as combining events within certain geographical proximity, implementing practices of successful events across under-performing events, among other strategies.

Our Making Strides Against Breast Cancer program, raising $61 million in 2015 and increasing more than 4% from 2014, is a special event that raises awareness and funds to fight breast cancer. This revenue accounted for approximately 14 percent of special event revenue during 2015. The increase was driven by an increase in number of events (260 total events in 2015) as well as a heavy focus on post-event fundraising. The event has seen a consistent increase in participation over the last few years, engaging nearly 500,000 participants nationwide.

Results from operations – revenue, continued

Major gifts/campaigns during 2015 were 8 percent of public support and have seen increases over the past few years mainly due to 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 will be a continued focus in our strategic growth plan in the years to come. 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 2015. Direct marketing, both mail and telemarketing, made up about 7 percent of public support in 2015, consistent with 2014. Support from our planned giving program (legacies and bequests) totaled $133 million and, although it can be volatile from year to year, continues to be a material and strong source of revenue. The decrease in planned giving support compared to 2014 was due to a decrease in both value and volume of gifts. Contributed services and other in-kind donations increased mostly from an increase in wigs donated for specific assistance we provide to individuals, which helps patients in treatment improve their self-esteem and quality of life.

Investment income components produced positive results in 2015. However, net interest and dividends and realized/unrealized investment gains decreased $25 million due to stronger market performance during 2014.

Change in value of split-interest agreements was a loss of $10 million, a decrease of $21 million over 2014, also driven by the stronger market performance during 2014. These values are derived from the fair values of beneficial interests in trusts (equivalent to deferred gifts) and 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 mark-to-market 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 losses recognized due to the decline in the underlying market value of the assets in our perpetual trusts. We are not the trustee of these trusts and therefore do not have control of the investment decisions surrounding these assets, but rather report our proportionate share of the fair value.

Liquidity and cash flows

At December 31, 2015, cash, cash equivalents, and all investment pools totaled more than $1 billion. 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 and a well-diversified portfolio of longer-term products, which has provided enhanced asset returns without the addition of substantial risk.

Liquidity and cash flows, continued

Our cash and cash equivalent balances decreased during 2015 as a result of our strategic increase in spending coupled with continued revenue decline. Since interest rates were beginning to increase, we allowed the decrease in cash and cash equivalents to help rebalance our cash and tiered balances within the combined operating pool. However, we continued to maintain limited amounts in Tier I given the continuing lower rates. Our investment performance for the year ending December 31, 2015 was as follows:

	Actual Return	Benchmark	Difference	Targeted Benchmark
Combined operating pool				
Tier I	0.01 %	0.03 %	(0.02) %	90 Day U.S. Treasury bill
Tier II	0.95	0.03	0.92	90 Day U.S. Treasury bill
Tier III	1.11	(0.08)	1.19	2 Year U.S. Treasury note
Other	(0.43)	0.03	(0.46)	90 Day U.S. Treasury bill
Combined investment pool	(0.59)	(0.88)	0.29	Various equity/fixed income
Combined endowment pool	0.28	(0.83)	1.11	Various equity/fixed income

Due to market volatility, our investment strategies produced modest returns during fiscal year 2015. The low interest rate environment more heavily impacted the combined operating pool and combined investment pool as they have heavy fixed income allocations. In addition, rising interest rates during the fourth quarter produced lower valuations at year end. Market volatility among domestic value stocks and global and emerging markets had an adverse impact on the combined investment and combined endowment pools, which have equity allocations. This is a long-term approach and is not meant to time the markets. However, 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.

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 are reassessing these levels periodically as needs change over time.

In November 2015 leadership recommended and the Board of Directors approved, a freeze of our defined benefit pension plan effective June 30, 2016, after which participants in the plan will no longer accrue benefits and no new participants will enter the plan. As a result, the pension benefit obligation at December 31, 2015 decreased by approximately $60 million and an estimated $2.5 million in plan fees over the next ten years has been eliminated. In addition, we enhanced potential benefits to participants in our defined contribution plan. This more contemporary plan design is competitive with retirement programs of organizations similar to ours, incorporates enhanced portability features and allows us to partner with and engage employees more directly in saving for their retirement and managing the related investments. The long term impact of these changes is expected to yield significant savings for the organization and will allow us to predict and manage required cash needs each year.

We continued investing in our Hope Lodge program throughout the country by completing construction of and opening a new Hope Lodge facility in Salt Lake City, Utah and beginning construction of a new facility in Honolulu, Hawaii. 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.

Looking forward, continued

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 2015, we conducted an engagement study with our staff and volunteers to obtain feedback on a wide range of topics that affect their work and volunteer lives and, in turn, affect our organizational outcomes. In 2016 we will begin implementing internal changes in the areas indicated, which we consider to be opportunities for improvement to better engage staff and volunteers in the work they do. Our goal 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 2016 will continue investing in our comprehensive, integrated, communication and marketing campaign. A significant component of our strategic growth plan in 2016 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. In late 2015 we hired a new Chief Development Officer, who will play an integral role in leading and executing many aspects of our strategic growth plan. We expect 2016 to include changes to our existing revenue portfolio as well as new opportunities to begin addressing our negative revenue trend.

Regarding expenditures, our strategic growth plan will also guide our mission priorities. We will continue to expand our research programs, 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 also launched a crowdfunding platform to help fund young cancer researchers as part of our extramural research program. Continued investment will be made in our CPS-3 study as we complete collection and review of the 2015 surveys and complete the sub-studies launched in 2015. In 2016 we will begin the consent process for obtaining medical records and tissue collection for participants who report diagnoses for certain limited cancer sites. The results of the study will be useful in providing the scientific evidence to support our cancer prevention and control programs in the future.

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. This work should result in efficiencies, which will drive 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.

Over the next few years, all of the above in combination are expected to close the current operating deficit of expenses over revenue.

Management is pursuing an enterprise risk management program, that includes involvement with and engagement of the Board of Directors. The results of the work will enhance our operational decisions and could affect our financial reporting in the future.

We have played an active role in providing feedback on and are supportive of the financial statement work that the standard-setters have been considering during the past few years. As much as is practical, we have aligned our financial reporting in the direction where we believe the standards will change in order to minimize impact to our financial statement users and to our operations. We continue to monitor progress for impact to our financial reporting practices.

Further discussion of our mission, goals, and progress is provided in our annual *Stewardship Report*, which is available on cancer.org. Any questions should be directed to the Chief Financial Officer at 250 Williams Street, Atlanta, GA 30303.

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Report of Independent Auditors

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, 2015 and 2014, 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. at December 31, 2015 and 2014, 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 8, 2016

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

	Unrestricted	Donor Restricted 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
Other	9,441	1,769	-	11,210
Total support from the public	576,890	233,038	(34)	809,894
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	589,190	236,997	(10,360)	815,827
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	(128,068)	14,013	(10,661)	(124,716)
Net decrease in retirement plan liability	(86,688)	-	-	(86,688)
Change in net assets	(41,380)	14,013	(10,661)	(38,028)
Net assets, beginning of period	658,517	265,228	289,667	1,213,412
Net assets, end of period	$ 617,137	$ 279,241	$ 279,006	$1,175,384

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, 2014
(In Thousands)

		Donor Restricted		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Our mission program and mission support expenses were:				
Mission program services:				
Patient support	$ 275,907	$ -	$ -	$ 275,907
Research	143,961			143,961
Prevention	116,988	-	-	116,988
Detection/treatment	94,852	-	-	94,852
Total mission program services	631,708	-	-	631,708
Mission support services:				
Management and general	48,606	-	-	48,606
Fund-raising	177,011	-	-	177,011
Total mission support services	225,617	-	-	225,617
Total mission program and mission support services expenses	857,325	-	-	857,325
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®	371,468	74,276	-	445,744
Contributions	125,221	52,628	28	177,877
Bequests	93,142	37,131	6,830	137,103
Contributed services, merchandise and other in-kind contributions	22,496	48,067	-	70,563
Other	6,446	1,999	-	8,445
Total support from the public	618,773	214,101	6,858	839,732
Investment income	22,819	5,979	2	28,800
Change in value of split-interest agreements	3,780	4,705	1,929	10,414
Grants and contracts from government agencies	4,303	761	-	5,064
Other gains (losses)	1,841	(277)	-	1,564
Total revenues, gains and other support	651,516	225,269	8,789	885,574
Use of amounts restricted by donors for specified purpose or time	216,695	(217,504)	809	-
Change in net assets prior to impact of retirement plan liability	10,886	7,765	9,598	28,249
Net increase in retirement plan liability	138,002	-	-	138,002
Change in net assets	(127,116)	7,765	9,598	(109,753)
Net assets, beginning of period	785,633	257,463	280,069	1,323,165
Net assets, end of period	$ 658,517	$ 265,228	$ 289,667	$1,213,412

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		
	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	$ 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	$ 347,525	$ 150,835	$ 122,942	$ 87,214	$ 51,561	$ 180,466	$ 940,543

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, 2014
(In Thousands)

	Mission program				Mission support		
	Patient support	Research	Prevention	Detection / treatment	Management and general	Fund-raising	Total
Mission program and mission support expenses							
Salaries	$ 121,042	$ 24,087	$ 54,734	$ 44,920	$ 23,479	$ 89,003	$ 357,265
Employee benefits	31,764	4,767	12,973	10,824	5,380	21,110	86,818
Payroll taxes	9,276	1,703	4,077	3,392	1,679	6,607	26,734
Professional fees	12,324	9,356	8,789	5,189	4,480	11,179	51,317
Grants for mission program services	5,799	92,161	2,974	7,084	177	324	108,519
Educational materials	22,931	1,768	9,151	6,162	2,214	11,247	53,473
Direct assistance, including wigs, and Look Good Feel Better® kits	19,886	-	54	170	-	-	20,110
Travel	6,089	1,097	3,891	2,715	892	5,643	20,327
Postage and shipping	4,354	327	3,846	1,471	1,778	3,449	15,225
Meetings and conferences	3,015	818	2,399	1,421	954	3,046	11,653
Community office locations, including rent, maintenance and utilities	18,877	2,459	5,390	4,471	2,395	8,930	42,522
Technology	3,329	1,110	1,487	1,075	946	3,333	11,280
Telecommunications	4,077	1,755	1,736	1,421	648	2,705	12,342
Depreciation and amortization	6,919	1,295	2,719	2,443	1,328	5,039	19,743
Miscellaneous	6,225	1,258	2,768	2,094	2,256	5,396	19,997
Total mission program and mission support services expenses	$ 275,907	$ 143,961	$ 116,988	$ 94,852	$ 48,606	$ 177,011	$ 857,325

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, 2015 and 2014
(In Thousands)

Cash flows from operating activities	**2015**	**2014**
Cash received from (paid for):		
Special events	$ 470,871	$ 494,480
Contributions	136,592	153,920
Bequests	120,908	139,197
Other support from the public	11,254	1,522
Government grants	5,637	6,838
Interest and dividends on investments, net	21,565	18,891
Other revenue	8,063	6,759
Program services	29,949	28,940
Interest on debt	(613)	(614)
Employees and suppliers	(744,697)	(686,763)
Direct assistance	(4,084)	(20,106)
Retirement plan contributions	(52,417)	(50,369)
Grants for mission program services	(114,178)	(118,185)
Net cash paid for operating activities	(111,150)	(25,490)
Cash flows from investing activities		
Purchase of fixed assets	(9,899)	(6,438)
Proceeds from disposal of fixed assets	5,950	73
Support from the public restricted for fixed asset acquisition	21,418	16,488
Purchase of investments	(187,027)	(60,745)
Proceeds from maturity or sale of investments	205,576	48,246
Loan for New Markets Tax Credit	-	(6,667)
Net cash received from (paid for) investing activities	36,018	(9,043)
Cash flows from financing activities		
Proceeds from issuance of debt for New Markets Tax Credit	-	9,750
Payments on debt	(2,261)	(3,303)
Proceeds from annuitants	543	658
Payments to annuitants	(6,228)	(3,816)
Support from the public restricted for long-term investment	329	6,858
Net cash (paid for) received from financing activities	(7,617)	10,147
Net change in cash and cash equivalents	(82,749)	(24,386)
Cash and cash equivalents, beginning of year	150,514	174,900
Cash and cash equivalents, end of year	$ 67,765	$ 150,514

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, 2015 and 2014
(In Thousands)

Cash flows from operating activities	**2015**	**2014**
Change in net assets	$ (38,028)	$ (109,753)
Adjustments to reconcile change in net assets to net cash paid for operating activities:		
Depreciation and amortization	19,574	19,783
Net realized and unrealized investment gains	17,382	(9,909)
Change in value of split-interest agreements	10,174	(10,414)
(Gain) loss on disposal of fixed assets	(3,773)	708
Net (decrease) increase in retirement plan liability	(86,688)	138,002
Support from the public restricted for long-term investment	(329)	(6,858)
Support from the public restricted for fixed asset acquisition	(21,418)	(16,488)
Changes in assets and liabilities:		
Receivables, net	(12,112)	676
Prepaid expenses and other assets	4,769	(3,319)
Bequests receivable	(7,477)	5,733
Beneficial interests in trusts	(1,058)	(5,146)
Research and other program grants payable	(3,839)	(9,666)
Accounts payable and other accrued expenses and employee retirement benefits	16,358	(14,589)
Other liabilities	(4,685)	(4,250)
Net cash paid for operating activities	$ (111,150)	$ (25,490)

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

AMERICAN CANCER SOCIETY, INC.
BALANCE SHEETS
DECEMBER 31, 2015 and 2014
(In Thousands)

Assets

	2015	2014
Current assets:		
Cash and cash equivalents	$ 67,765	$ 150,514
Investments	84	4,084
Receivables, net	17,460	15,515
Prepaid expenses	15,701	20,359
Bequests receivable	75,519	68,042
Total current assets	176,529	258,514
Receivables, net	37,059	26,892
Other assets	5,772	5,883
Gift annuity investments	37,072	39,541
Investments	945,101	969,069
Beneficial interests in trusts	305,465	315,823
Fixed assets, net	266,409	278,261
Total assets	$ 1,773,407	$ 1,893,983

Liabilities and net assets

	2015	2014
Current liabilities:		
Accounts payable and other accrued expenses	$ 67,564	$ 57,802
Research and other program grants payable	84,727	89,936
Employee retirement benefits	44,304	45,978
Debt	2,304	2,361
Other liabilities	6,422	10,161
Total current liabilities	205,321	206,238
Research and other program grants payable	110,565	109,195
Employee retirement benefits	195,030	273,448
Other liabilities	14,584	15,530
Debt	50,997	53,201
Gift annuity obligations	21,526	22,959
Total liabilities	598,023	680,571
Commitments and contingencies		
Net assets:		
Unrestricted:		
Available for mission program and support activities	404,029	435,818
Net investment in fixed assets	213,108	222,699
Total unrestricted	617,137	658,517
Temporarily restricted	279,241	265,228
Permanently restricted	279,006	289,667
Total net assets	1,175,384	1,213,412
Total liabilities and net assets	$ 1,773,407	$ 1,893,983

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

(Dollars in thousands)

STEWARDSHIP FOCUSED DISCLOSURES

1. Organizational Overview

Our mission

The American Cancer Society (the "Society"), is the nationwide, community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer through research, education, advocacy, and service.

The following four broad areas guide our outcomes in the fight against cancer:

- Patient support – Programs to assist cancer patients and their families and ease the burden of cancer for them.
- Research – Support to fund and conduct research into the causes of cancer; how it can be prevented, detected early, and treated successfully; how to improve quality of life for people living with cancer; and to advocate for laws and policies that help further cancer research.
- Prevention – Programs that provide the public and health professionals with information and education to prevent cancer occurrence or to reduce risk of developing cancer.
- Detection/treatment – Programs that are directed at finding cancer before it is clinically apparent and that provide information and education about cancer treatments for cure, recurrence, symptom management and pain control.

Within these mission activities are certain signature programs that are not replicated in any other voluntary health organizations. Our 24 hours a day, 7 days a week, 365 days a year National Cancer Information Center provides consistent, high-quality, unbiased cancer information to constituents, helping them make informed decisions about their health and cancer care. Through our Road To Recovery® program, we provide free transportation to and from cancer treatment. American Cancer Society Hope Lodge facilities provide free, high quality, temporary lodging for patients and their caregivers close to treatment centers, thereby easing the emotional and financial burden of finding affordable lodging. Our award-winning research programs consist of the Extramural Grants department (funding to outside research institutions) as well as the Intramural Research department (research conducted by Society researchers), with programs in epidemiology, surveillance research, health services research, behavioral research, international tobacco control research, and statistics and evaluation.

Our mission program and mission support expenses

Our expenses fall into two categories: first, program services – our mission activities – which are the four areas above, and second, 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, 2015 and 2014, our mission expenses were allocated to these two areas as follows:

	2015		2014	
Mission program expenses	$ 708,516	75 %	$ 631,708	74 %
Mission support expenses	232,027	25	225,617	26
Total	$ 940,543	100 %	$ 857,325	100 %

(Dollars in thousands)

2. Liquidity considerations

Investments

To ensure consistency with our mission objectives, we do not invest in securities of any tobacco companies.

We maintain a pool of short-term investments for the primary purpose of providing liquidity for daily operating needs while preserving principal. The overall short-term investment balance is targeted based on our projected daily and monthly net cash flows and is generally intended to ensure all operating needs are met throughout the year without tapping into our long-term investments. Additionally, the pool utilizes a tiered investment structure of very liquid money market funds and short-term fixed income instruments to provide the highest current total return consistent with providing both liquidity and safety of principal. The amount allocated to the tiers is based on historical and projected operating cash flow needs.

We also maintain a pool of long-term investments with an intermediate and long-term horizon for the primary goal of providing modest asset growth while protecting principal and preserving the real purchasing power of the investments. The pool utilizes a fully diversified approach to asset allocation and targets the following asset classes and related ranges:

Domestic equities	7-11%
Developed non-U.S. equities	7-11%
Emerging markets equities	2-6%
Global real estate investment trusts	1-5%
High quality fixed income	43-53%
Global/non-U.S. fixed income	17-27%
Inflation linked bonds	3-7%
Cash equivalents	0-3%

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

	December 31, 2015		December 31, 2014	
Money market funds and time deposits	$ 2,595	- %	$ 42,016	4 %
Corporate bonds	227,333	23	208,433	21
U.S. government and government agency and obligations	188,661	19	273,378	27
Commercial paper and other short-term investments	215,159	22	129,937	13
Equities	303,134	31	329,106	32
Other	45,375	5	29,824	3
	$ 982,257	100 %	$ 1,012,694	100 %

(Dollars in thousands)

2. Liquidity considerations, continued

Investments, continued

The components of our investment income were as follows:

	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	$ 2,568	$ 1,614	$ 1	$ 4,183

	Year Ended December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends, net	$ 14,668	$ 4,221	$ 2	$ 18,891
Net realized and unrealized investment gains	8,151	1,758	-	9,909
Total investment income	$ 22,819	$ 5,979	$ 2	$ 28,800

Interest and dividend income in the statements of activities and above is presented net of fees paid to our investment advisors. Those fees were $3,281 and $3,873 for the years ended December 31, 2015 and 2014, 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 $15,546 and $16,582 at December 31, 2015 and 2014, 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, 2015 and 2014, approximately 62% and 56% of our revenue from bequests was cash and 38% and 44% 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.

(Dollars in thousands)

2. Liquidity considerations, continued

Use of net assets

Included in unrestricted net assets at December 31, 2015 and 2014 is $213,108 and $222,699, 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, 2015 and 2014 is $178,461 and $162,605, 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 as of December 31, 2015 and 2014 has been limited by our donors for the following purposes:

	Temporarily		Permanently	
	2015	2014	2015	2014
Mission programs:				
Patient Support:				
Hope Lodge facilities	$ 65,461	$ 59,833	$ 14,742	$ 14,618
Other	12,419	13,256	16,282	16,558
Research	53,487	51,716	65,717	67,501
Prevention	1,556	1,717	1,482	1,482
Detection/treatment	12,786	14,889	1,652	1,652
Across mission programs:				
Time restrictions (primarily planned giving including perpetual trusts)	110,606	109,707	128,194	135,887
Specific geographic locations	20,669	11,859	31,578	33,069
Fixed asset acquisitions / building fund	92	102	-	-
Other mission program and mission support services	2,165	2,149	19,359	18,900
Total	$ 279,241	$ 265,228	$ 279,006	$ 289,667

(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, 2015 and 2014 is $199,567 and $203,003, respectively. The present value of our future payments as of December 31, 2015 and 2014 is $195,292 and $199,131, respectively. The discount at December 31, 2015 of $4,275 will be recognized as a reduction to grants for mission program services expense in 2017 through 2020. As of December 31, 2015, our future payments are as follows:

Payable in the next:		
12 months	$	84,727
13 - 24 months		56,548
25 - 36 months		38,438
37 - 48 months		17,262
49 - 60 months		2,592
Discount		(4,275)
Total	$	195,292

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 2025. Our future minimum annual lease payments under leases with terms that are not cancellable are as follows as of December 31, 2015:

Payable in the next:		
12 months	$	22,860
13 - 24 months		18,358
25 - 36 months		14,698
37 - 48 months		11,269
49 - 60 months		9,384
Thereafter		12,214
Total	$	88,783

Rental expense under operating leases was $23,666 and $23,915 for the years ended December 31, 2015 and 2014, respectively.

(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, 2015 and 2014 is as follows:

Type	Issuer	Maturity Date	Interest rate	Balance at 12/31/2015	Balance at 12/31/2014	Collateral
Industrial Revenue Bonds	Oklahoma Industries Authority	2022	0.06%	$ 5,370	$ 5,970	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%	37,757	39,398	New York City Hope Lodge facility, net book value of $32,358 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 $14,292
Notes Payable	Various	Various	2.00% - 5.75%	424	444	Not Applicable
Total				$ 53,301	$ 55,562	

Our future principal payments are as follows:

Payable in the next:	
12 months	$ 2,304
13 - 24 months	2,339
25 - 36 months	2,390
37 - 48 months	2,425
49 - 60 months	2,470
Thereafter	41,373
Total	$ 53,301

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, 2015 and 2014, 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 $7,439 and $5,955 for the years ended December 31, 2015 and 2014, respectively. We sponsor a Supplemental Executive Retirement Plan (the SERP) as well for certain employees whose income exceeds the maximum income that can be considered under the defined benefit pension plan. We have segregated short-term investments sufficient for payment of benefits under this plan.

In addition, we have an unfunded postretirement benefit plan for post-retirement medical, dental, and life insurance coverage for certain employees hired prior to 1995, subject to deductibles, co-payment provisions, and other limitations. We paid $3,048 and $3,312 for these benefits from our general assets during the years ended December 31, 2015 and 2014, respectively.

We expect to contribute approximately $45,185, of which $40,000 is being funded at management’s discretion, to all of our plans over the next 12 months. Effective July 1, 2016, the Plan and the SERP will be frozen and employees will no longer earn benefits for service earned after that date under the Plan. See Note 10 for additional information.

(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, 2015 and 2014 are as follows:

	2015	2014
Media communication and production services	$ 16,632	$ 25,011
Discovery Shops	21,892	21,062
Cosmetic kits and wigs	27,882	12,933
Guestroom program	4,865	4,328
Peer review services (approximately 576 and 645 volunteers donated 20,740 and 25,800 hours, respectively	1,711	1,909
Other in-kind contributions	4,959	5,320
Total contributed services, merchandise, and other in-kind contributions at fair value	$ 77,941	$ 70,563

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.

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.

(Dollars in thousands)

4. Significant accounting policies, continued

Fixed assets

Fixed assets are recorded at costs 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

Advertising costs

Our advertising costs are expensed as incurred and were $57,650 and $35,660 for the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014. The assumptions used to estimate amounts, which are required to be measured at fair value on a recurring basis are included in footnote 8.

Discount rates:

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

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

(Dollars in thousands)

4. Significant accounting policies, continued

Income Taxes

Consistent with our mission, we have received a determination letter from the Internal Revenue Service that indicates we are exempt from income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in section 501(c)(3).

5. Activities with joint costs

For the years ended December 31, 2015 and 2014, 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:

	2015	2014
Patient support	$ 104,806	$ 59,875
Prevention	42,838	37,153
Detection/treatment	12,203	20,276
Management and general	9,006	7,263
Fundraising	69,373	61,646
Total	$ 238,226	$ 186,213

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, 2015 and 2014:

	Exchange Income		Exchange Expenses	
	2015	2014	2015	2014
Special events	$ 49,342	$ 50,008	$ 49,342	$ 50,008
Discovery Shop	23,079	22,215	34,827	33,332
Sales to third parties	8,207	7,905	19	5
Other	5,747	4,748	1,090	94
	$ 86,375	$ 84,876	$ 85,278	$ 83,439

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.

(Dollars in thousands)

7. Fixed assets

Our fixed assets are as follows as of December 31, 2015 and 2014:

	2015	2014
Land	$ 36,804	$ 38,100
Buildings and leasehold improvements	388,084	384,089
Furniture, fixtures, equipment, and other capitalized assets	57,716	66,355
Computer software	58,953	58,221
Construction in progress	2,127	6,503
Less: accumulated depreciation and amortization	(277,275)	(275,007)
Net fixed assets	$ 266,409	$ 278,261

Depreciation expense including expenses on assets used in exchange transactions for the years ended December 31, 2015 and 2014 was $19,533 and $19,722, respectively.

8. Fair value

Fair value of financial instruments

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

The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

8. Fair value, continued

Fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. 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, 2015 and 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

Following is a description of the valuation methods we used for assets and liabilities measured at fair value. There have been no changes in the valuation methods.

Money market funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, on the last business day of each period presented, using the market approach.

Time deposits are recorded based on their carrying value, which approximates fair value.

United States government and government agency obligations are valued on the basis of evaluated prices provided by independent pricing services when such processes are believed to reflect the fair market value of such securities using the income approach.

Corporate bonds, commercial paper, and other short-term investments are valued on the basis of evaluated prices provided by independent pricing services, when such processes are believed to reflect the fair value of such securities, using the income approach.

Equities, including securities listed on national and international exchanges, are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded, on the last business day of each period presented, using the market approach.

Investments in common collective trusts are generally valued using the market approach, on the basis of the relative interest of each participating investor (including each participant), in the fair value of the underlying net assets of each of the respective common collective trusts.

8. Fair value, continued

Fair value measurement, continued

Nonperpetual trusts, 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, 2015 and 2014, 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 5.35% and 6.80%, respectively, and a discount rate of 5.35% and 6.80%, respectively, commensurate with the risks involved. The expected mortality is estimated using the Annuity 2000 tables. Each of these calculations is based on the fair value of the underlying assets of the trust. As trust statements are not received as of year-end for each trust, the fair value of the underlying assets is adjusted based on changes in the relevant market indices from the date of the trustee statement to year-end that correlate to the estimated asset allocation of the underlying assets. As the fair value of these trusts is derived from internal estimates of the present value of our interest in the underlying assets, incorporating market data when available, the amounts ultimately received could differ from the amounts reflected in the historical financial statements.

Perpetual trusts, 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, 2015 and 2014, the assumptions used in the valuation of the annuity liability include mortality in accordance with the Annuity 2000 Table and a discount rate of 2.70% and 2.50% for all annuities, compounded annually, net of expenses. These rates are commensurate with the risks associated with the ultimate payment of the obligation. We have elected fair value accounting for our gift annuity obligations.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Dollars in thousands)

8. Fair value, continued

The following 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, 2015 and 2014. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Financial assets and liabilities measured at fair value as of December 31, 2015			
Assets	**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	-	138,450	-	138,450
Other	42,701	878	1,160	44,739
Total investments	$200,807	$742,884	$ 1,410	$945,101
Beneficial interests in trusts	$ -	$ -	$305,465	$305,465
Liabilities				
Gift annuity obligations	$ -	$ -	$ 21,526	$ 21,526

(Dollars in thousands)

8. Fair value, continued

Assets	Level 1	Level 2	Level 3	Total
	Financial assets and liabilities measured at fair value as of December 31, 2014			
Investments, current				
Money market funds and time deposits	$ 4,084	$ -	$ -	$ 4,084
Gift annuity investments, at fair value				
Money market funds and time deposits	$ -	$ 1,099	$ -	$ 1,099
Corporate bonds	-	4,147	-	4,147
U.S. government and government agency obligations	4,861	3,756	-	8,617
Commercial paper and other short-term investments				
Mortgage backed	21	328	-	349
Equities				
Preferred stocks	-	136	-	136
Domestic	18,807	16	13	18,836
International	2,608	-	-	2,608
Mutual funds	3,089	-	-	3,089
Other	-	-	660	660
Total gift annuity investments, at fair value	$ 29,386	$ 9,482	$ 673	$ 39,541
Investments				
Money market funds and time deposits	$ 1,982	$ 34,851	$ -	$ 36,833
Corporate bonds	-	204,286	-	204,286
U.S. government and government agency obligations	62	264,699	-	264,761
Commercial paper and other short-term investments				
Mortgage backed	-	45,813	-	45,813
Asset backed	-	63,127	-	63,127
Short-term investments	88	20,560	-	20,648
Equities				
Preferred stocks	16	-	-	16
Domestic	92,743	-	245	92,988
International	74,296	-	-	74,296
Common collective trusts	-	137,137	-	137,137
Other	27,461	823	880	29,164
Total investments	$196,648	$771,296	$ 1,125	$969,069
Beneficial interests in trusts	$ -	$ -	$315,823	$315,823
Liabilities				
Gift annuity obligations	$ -	$ -	$ 22,959	$ 22,959

(Dollars in thousands)

8. Fair value, continued

The table below provides a summary of changes in the fair value of our Level 3 financial assets and liabilities measured on a recurring basis for the years ended December 31, 2015 and 2014:

December 31, 2015	Equities	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	$ 250	$ 1,796	$ 305,465	$ 21,526

December 31, 2014	Equities	Other	Beneficial interest in trusts	Gift annuity obligation
Balance, beginning of year	$ 256	$ 1,681	$ 304,182	$ 26,725
Unrealized gains	-	-	1,931	-
Other	2	(141)	9,710	(3,766)
Balance, end of year	$ 258	$ 1,540	$ 315,823	$ 22,959

The unrealized (losses) gains are included in change in value of split interest agreements in the accompanying statements of activities. The unrealized (losses) gains related to assets still held at December 31, 2015 and 2014 were $(9,611) and $2,105, 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, 2015 and 2014:

	December 31, 2015		December 31, 2014	
Investment type	Fair value	Unfunded commitments	Fair value	Unfunded commitments
Index non-lending common / collective trust fund	$ 20,993	$ -	$ 23,944	$ -
Inflation-index securities common / collective trust fund	117,457	-	113,193	-
Money market fund	-	-	34,851	-
Total	$ 138,450	$ -	$ 171,988	$ -

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 money market fund is mainly composed of domestic and foreign money market securities, U.S. government securities, certificates of deposit, repurchase agreements, and commercial paper. The fair values of the investments within the fund are based on the current market prices or quotations readily available on the day of valuation. The per-unit net asset value of the fund is determined at the end of each month. Requests for redemption may be made on each business day based upon the net asset value per unit determined at the close of each day the New York Stock Exchange opens for regular trading and must be made at least 10 days prior to month-end. The fund's investment objective seeks to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable $1.00 per share net asset value.

9. Endowment

Interpretation of relevant law

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 $279,006 and $289,667 at December 31, 2015 and 2014 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.

(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, 2014	$ (17)	$ 27,158	$ 88,761	$ 115,902
Investment income	-	1,189	-	1,189
Net appreciation (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

Endowment net asset composition by type and changes in endowments	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at December 31, 2013	$ (8)	$ 29,999	$ 87,338	$ 117,329
Investment income	-	1,491	-	1,491
Net appreciation (realized and unrealized)	-	1,535	-	1,535
Contributions	-	-	1,647	1,647
Reclassification of restrictions	(9)	233	(224)	-
Appropriation of endowment assets for expenditure	-	(6,100)	-	(6,100)
Donor restricted endowment net assets at December 31, 2014	$ (17)	$ 27,158	$ 88,761	$ 115,902

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 $36 and $17 as of December 31, 2015 and 2014, 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.

(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 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
	2015	2014	
Equity securities	52 %	49 %	46-68%
Debt securities	47	47	31-47%
Cash and cash equivalents	1	4	1-7%
	100 %	100 %	

10. Employee retirement benefit plans

We maintain a noncontributory defined benefit pension plan that covers nearly all of our employees. The current strategic mix for the Plan's assets is a blended exposure to equity and debt market risk. The Plan employs an active management strategy that has historically generated returns in excess of established benchmarks and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility. The Plan's assets at December 31, consist of:

	Percent of Fair Value		Target Range
	2015	2014	
Equity securities	59 %	63 %	55-69%
Debt securities	40	36	25-45%
Cash and cash equivalents	1	1	1-5%
	100 %	100 %	

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 employees whose income exceeds the maximum income that can be considered under the Plan.

Effective July 1, 2016, the Plan and SERP will be frozen and employees will no longer earn benefits for service performed after that date under the Plan. 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.

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.

(Dollars in thousands)

10. Employee retirement benefit plans, continued

Information related to our Plan, SERP, and postretirement benefit plan at December 31, 2015 and 2014 and the related changes during the years then ended are as follows:

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

(Dollars in thousands)

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
Estimated future benefits payable in the next:				
12 months	$ 39,119	$ 1,818	$ 40,937	$ 3,367
13 - 24 months	39,614	1,484	41,098	2,821
25 - 36 months	38,962	1,018	39,980	2,763
37 - 48 months	40,836	210	41,046	2,731
49 - 60 months	40,337	1,689	42,026	2,689
Thereafter	199,345	987	200,332	12,827

(Dollars in thousands)

10. Employee retirement benefit plans, continued

December 31, 2014	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Change in benefit obligation				
Benefit obligation at beginning of year	$ 650,760	$ 11,422	$ 662,182	$ 53,606
Service cost	27,836	489	28,325	410
Interest cost	31,549	524	32,073	2,588
Amendments	-	-	-	-
Actuarial loss (gain)	127,773	(550)	127,223	5,330
Benefits paid	(69,768)	(1,236)	(71,004)	(3,312)
Retiree drug subsidy reimbursement	-	-	-	193
Benefit obligation at end of year	$ 768,150	$ 10,649	$ 778,799	$ 58,815
Change in plan assets				
Fair value of plan assets at beginning of year	$ 523,347	$ -	$ 523,347	$ -
Actual expenses paid	(1,979)	-	(1,979)	-
Actual return on plan assets	26,588	-	26,588	-
Employer contributions	40,000	1,236	41,236	3,312
Benefits paid	(69,768)	(1,236)	(71,004)	(3,312)
Fair value of plan assets at end of year	$ 518,188	$ -	$ 518,188	$ -
Funded status and amounts recognized in our balance sheet in employee retirement benefits	$ (249,962)	$ (10,649)	$ (260,611)	$ (58,815)
Weighted average actuarial assumptions				
Discount rate:				
Net periodic pension cost	4.25%	4.25%	4.25%	4.25%
Benefit obligation	4.25%	4.25%	4.25%	4.25%
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	$ 373	$ 1,587	$ 1,960	$ (2,068)
Change in prior service (credit) cost	(249)	(254)	(503)	280
Unrecognized prior service costs (credit) at end of year	$ 124	$ 1,333	$ 1,457	$ (1,788)
Unrecognized actuarial losses (gains) at beginning of year	$ 122,391	$ (878)	$ 121,513	$ 5,811
Change in actuarial losses (gains)	133,045	(66)	132,979	5,265
Unrecognized actuarial losses (gains) at end of year	$ 255,436	$ (944)	$ 254,492	$ 11,076

(Dollars in thousands)

10. Employee retirement benefit plans, continued

December 31, 2014	Retirement Benefits	Supplemental Retirement Benefits	Total Retirement Benefits	Postretirement Nonpension Benefits
Amounts not yet recognized in net periodic pension costs, continued				
Unrecognized transition obligation at beginning of year	$ -	$ -	$ -	$ 37
Change in transition obligation	-	-	-	(19)
Unrecognized transition obligation at end of year	$ -	$ -	$ -	$ 18
Amounts recognized as a reduction to unrestricted net assets				
Amounts recognized as a reduction to unrestricted net assets at beginning of year	$ 122,764	$ 709	$ 123,473	$ 3,779
Change in prior services (credit) cost	(249)	(254)	(503)	280
Change in actuarial losses (gains)	133,045	(66)	132,979	5,265
Change in transition obligation	-	-	-	(19)
Amounts recognized as a reduction to unrestricted net assets at end of year	$ 255,560	$ 389	$ 255,949	$ 9,305
Components of net periodic benefit cost:				
Service cost	$ 27,836	$ 489	$ 28,325	$ 410
Interest cost	31,549	524	32,073	2,588
Expected return on plan assets	(38,881)	-	(38,881)	-
Administrative expenses	1,820	-	1,820	-
Amortization of:				
Unrecognized prior service cost (credit)	249	203	452	(279)
Unrecognized actuarial losses (gains)	7,182	(226)	6,956	64
Unrecognized transition obligation	-	-	-	18
Other	-	(208)	(208)	-
Net periodic benefit cost	$ 29,755	$ 782	$ 30,537	$ 2,801
Accumulated benefit obligation	$ 702,710	$ 8,389	$ 711,099	$ 58,815

We expect to contribute $41,818 to the Plan and SERP over the next 12 months. We expect to contribute $3,367 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 $92 and $14,240, respectively. The prior service credit and actuarial losses included in unrestricted net assets related to our postretirement benefit plan that we expect to recognize in net periodic benefit cost over the next 12 months, are $3,809 and $726, 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.

(Dollars in thousands)

10. Employee retirement benefit plans, continued

The fair value of the Plan's assets at December 31, 2015 and 2014 by asset category is as follows:

	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	-	59,444	-	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	$ 273,758	$ 240,665	$ 256	$ 514,679

	Financial assets measured at fair value on a recurring basis as of December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 178	$ -	$ -	$ 178
Money market funds	-	6,374	-	6,374
Corporate bonds	-	79,398	-	79,398
U.S. government and government agency obligations	-	62,608	-	62,608
Commercial paper and other short-term investments				
Mortgage backed	-	14,263	-	14,263
Short-term investments	22	271	-	293
Equity				
Preferred stock	750	-	-	750
Domestic	174,442	-	-	174,442
International	80,865	-	-	80,865
Common collective trusts	-	67,500	-	67,500
Government money fund	5,857	-	-	5,857
Limited partnership	-	-	263	263
Other	25,397	-	-	25,397
Total investment assets, at fair value	$ 287,511	$ 230,414	$ 263	$ 518,188

(Dollars in thousands)

10. Employee retirement benefit plans, continued

The table below provides a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2015 and 2014:

	2015	2014
Balance, beginning of period	$ 263	$ 339
Sales	(7)	(76)
Balance, end of period	$ 256	$ 263

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 8, 2016, the date the financial statements were available to be issued. During this period, there were no subsequent events that required recognition or disclosure in the financial statements.

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