

SERVICE CORP INTERNATIONAL
Form 10-K/A
February 21, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 2016

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-6402-1
Service Corporation International
(Exact name of registrant as specified in its charter)
Texas 74-1488375
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)
1929 Allen Parkway 77019
Houston, Texas (Zip code)
(Address of principal executive offices)
Registrant's telephone number, including area code:
713-522-5141

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of Each Exchange on Which Registered
Common Stock (\$1 par value) New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:

None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting company

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-K/A

Indicate by check mark whether the registrant is a shell company (as defined in the Securities Exchange Act of 1934 Rule 12b-2). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming that the registrant's only affiliates are its executive officers and directors) was \$5,043,314,251 based upon a closing market price of \$27.04 on June 30, 2016 of a share of common stock as reported on the New York Stock Exchange.

The number of shares outstanding of the registrant's common stock as of February 13, 2017 was 188,227,807 (net of treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement in connection with its 2017 Annual Meeting of Stockholders (Part III).

SERVICE CORPORATION INTERNATIONAL
INDEX

	Page
<u>PART II</u>	
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>3</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>59</u>
<u>Signatures</u>	<u>60</u>
<u>Exhibit Index</u>	<u>61</u>

Item 8 is being amended herein because the audit report included in the original filing lacked an electronic signature of our independent auditor due to a filing error. The signed audit report and financial statements are included with this amendment.

PART II

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS AND RELATED SCHEDULE

	Page
Financial Statements:	
Report of Independent Registered Public Accounting Firm	<u>4</u>
Consolidated Statement of Operations for the years ended December 31, 2016, 2015, and 2014	<u>5</u>
Consolidated Statement of Comprehensive Income for the years ended December 31, 2016, 2015, and 2014	<u>6</u>
Consolidated Balance Sheet as of December 31, 2016 and 2015	<u>7</u>
Consolidated Statement of Cash Flows for the years ended December 31, 2016, 2015, and 2014	<u>8</u>
Consolidated Statement of Equity for the three years ended December 31, 2016, 2015, and 2014	<u>10</u>
Notes to Consolidated Financial Statements	<u>11</u>
1. Nature of Operations	<u>11</u>
2. Summary of Significant Accounting Policies	<u>11</u>
3. Preneed Funeral Activities	<u>16</u>
4. Preneed Cemetery Activities	<u>22</u>
5. Cemetery Perpetual Care Trusts	<u>28</u>
6. Deferred Preneed Receipts Held in Trust and Care Trusts' Corpus	<u>33</u>
7. Goodwill and Intangible Assets	<u>35</u>
8. Income Taxes	<u>36</u>
9. Debt	<u>40</u>
10. Credit Risk and Fair Value of Financial Instruments	<u>42</u>
11. Commitments and Contingencies	<u>43</u>
12. Equity	<u>45</u>
13. Share-Based Compensation	<u>46</u>
14. Retirement Plans	<u>48</u>
15. Segment Reporting	<u>51</u>
16. Supplementary Information	<u>53</u>
17. Earnings Per Share	<u>55</u>
18. Acquisitions	<u>56</u>
19. Divestiture-Related Activities	<u>57</u>
20. Quarterly Financial Data (Unaudited)	<u>57</u>
Financial Statement Schedule:	
II — Valuation and Qualifying Accounts	<u>58</u>
All other schedules have been omitted because the required information is not applicable or is not present in amounts sufficient to require submission or because the information required is included in the consolidated financial statements or the related notes thereto.	

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Service Corporation International

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Service Corporation International and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 15, 2017

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2016	2015	2014
	(In thousands, except per share amounts)		
Revenue	\$3,031,137	\$2,986,041	\$2,994,011
Costs and expenses	(2,354,703)	(2,311,452)	(2,318,326)
Gross profit	676,434	674,589	675,685
General and administrative expenses	(137,730)	(130,813)	(184,749)
(Losses) gains on divestitures and impairment charges, net	(26,819)	6,522	116,613
Operating income	511,885	550,298	607,549
Interest expense	(162,093)	(172,897)	(177,571)
Losses on early extinguishment of debt, net	(22,503)	(6,918)	(29,158)
Other (expense) income, net	(631)	(132)	1,780
Income from continuing operations before income taxes	326,658	370,351	402,600
Provision for income taxes	(149,353)	(135,027)	(225,980)
Income from continuing operations	177,305	235,324	176,620
Net (loss) income from discontinued operations, net of tax	—	(390)	2,186
Net income	177,305	234,934	178,806
Net income attributable to noncontrolling interests	(267)	(1,162)	(6,337)
Net income attributable to common stockholders	\$177,038	\$233,772	\$172,469
Basic earnings per share:			
Net income attributable to common stockholders	\$0.92	\$1.17	\$0.82
Basic weighted average number of shares	193,086	200,356	210,741
Diluted earnings per share:			
Net income attributable to common stockholders	\$0.90	\$1.14	\$0.81
Diluted weighted average number of shares	196,042	204,450	214,200
Dividends declared per share	\$0.51	\$0.44	\$0.34

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net income	\$177,305	\$234,934	\$178,806
Other comprehensive income:			
Foreign currency translation adjustments	10,331	(53,283)	(32,096)
Reclassification of foreign currency translation adjustments to discontinued operations	—	—	3,114
Total comprehensive income	187,636	181,651	149,824
Total comprehensive income attributable to noncontrolling interests	(270)	(1,129)	(6,382)
Total comprehensive income attributable to common stockholders	\$187,366	\$180,522	\$143,442

(See notes to consolidated financial statements)

6

SERVICE CORPORATION INTERNATIONAL

CONSOLIDATED BALANCE SHEET

	December 31,	
	2016	2015
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 194,986	\$ 134,599
Receivables, net	98,455	90,462
Inventories	26,431	27,835
Other	34,524	47,155
Total current assets	354,396	300,051
Preneed funeral receivables, net and trust investments	1,817,445	1,760,297
Preneed cemetery receivables, net and trust investments	2,487,720	2,318,167
Cemetery property	1,776,935	1,753,015
Property and equipment, net	1,827,587	1,846,722
Goodwill	1,799,081	1,796,340
Deferred charges and other assets	567,520	582,378
Cemetery perpetual care trust investments	1,407,465	1,319,427
Total assets	\$ 12,038,149	\$ 11,676,397
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 439,936	\$ 422,816
Current maturities of long-term debt	89,974	86,823
Income taxes payable	7,960	1,373
Total current liabilities	537,870	511,012
Long-term debt	3,196,616	3,037,605
Deferred preneed funeral revenue	581,280	557,897
Deferred preneed cemetery revenue	1,150,137	1,120,001
Deferred tax liability	454,638	470,584
Other liabilities	510,322	496,947
Deferred preneed receipts held in trust	3,103,796	2,973,386
Care trusts' corpus	1,408,243	1,319,564
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$1 per share par value, 500,000,000 shares authorized, 195,403,644 and 200,859,676 shares issued, respectively, and 189,405,244 and 195,772,876 shares outstanding, respectively	189,405	195,773
Capital in excess of par value	990,203	1,092,106
Accumulated deficit	(103,387)	(109,351)
Accumulated other comprehensive income	16,492	6,164
Total common stockholders' equity	1,092,713	1,184,692
Noncontrolling interests	2,534	4,709
Total equity	1,095,247	1,189,401
Total liabilities and equity	\$ 12,038,149	\$ 11,676,397
(See notes to consolidated financial statements)		

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 177,305	\$ 234,934	\$ 178,806
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations, net of tax	—	390	(2,186)
Losses on early extinguishment of debt, net	22,503	6,918	29,158
Premiums paid on early extinguishment of debt	(20,524)	(6,549)	(24,804)
Depreciation and amortization	147,233	141,456	140,002
Amortization of intangible assets	30,956	31,459	36,640
Amortization of cemetery property	66,745	62,407	60,439
Amortization of loan costs	5,826	9,434	8,825
Provision for doubtful accounts	10,776	6,083	7,376
Provision for deferred income taxes	7,490	18,048	129,671
Losses (gains) on divestitures and impairment charges, net	26,819	(6,522)	(116,613)
Share-based compensation	14,056	13,843	13,127
Excess tax benefits from share-based awards	(12,685)	(18,123)	(30,123)
Change in assets and liabilities, net of effects from acquisitions and dispositions:			
(Increase) decrease in receivables	(14,198)	464	(18,644)
Decrease (increase) in other assets	17,855	2,457	(11,013)
Increase (decrease) in payables and other liabilities	47,888	20,567	(12,038)
Effect of preneed funeral production and maturities:			
Decrease in preneed funeral receivables, net and trust investments	17,506	24,918	30,357
Increase (decrease) in deferred preneed funeral revenue	9,329	6,199	(23,069)
Decrease in deferred preneed receipts held in trust	(41,607)	(52,946)	(52,869)
Effect of preneed cemetery production and maturities:			
Increase in preneed cemetery receivables, net and trust investments	(90,900)	(73,038)	(43,964)
Increase in deferred preneed cemetery revenue	25,446	60,960	54,049
Increase (decrease) in deferred preneed receipts held in trust	15,776	(11,173)	(34,664)
Other	—	—	(108)
Net cash provided by operating activities from continuing operations	463,595	472,186	318,355
Net cash used in operating activities from discontinued operations	—	—	(1,000)
Net cash provided by operating activities	463,595	472,186	317,355
Cash flows from investing activities:			
Capital expenditures	(193,446)	(150,986)	(144,499)
Acquisitions, net of cash acquired	(69,146)	(41,258)	(15,336)
Proceeds from divestitures and sales of property and equipment	41,310	16,772	424,383
Net withdrawals (deposits) of restricted funds and other	5,150	8,066	(12,225)
Net cash (used in) provided by investing activities from continuing operations	(216,132)	(167,406)	252,323
Net cash provided by investing activities from discontinued operations	—	987	4,963
Net cash (used in) provided by investing activities	(216,132)	(166,419)	257,286
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,060,000	446,250	755,000
Debt issuance costs	(5,232)	(6,025)	(10,500)
Payments of debt	(36,414)	(160,220)	(230,561)

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-K/A

Early extinguishment of debt	(875,110)	(197,377)	(762,764)
Principal payments on capital leases	(33,119)	(28,601)	(29,380)
Proceeds from exercise of stock options	17,662	31,809	32,376
Excess tax benefits from share-based awards	12,685	18,123	30,123
Purchase of Company common stock	(227,928)	(345,261)	(242,874)
Payments of dividends	(98,418)	(87,570)	(71,517)
Purchase of noncontrolling interest	(1,961)	(2,075)	(15,000)
Bank overdrafts and other	(1,095)	(7,531)	7,130
Net cash used in financing activities	(188,930)	(338,478)	(537,967)

8

SERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net change in cash of discontinued operations	—	—	1,361
Effect of foreign currency	1,854	(10,025)	(2,284)
Net increase (decrease) in cash and cash equivalents	60,387	(42,736)	35,751
Cash and cash equivalents at beginning of period	134,599	177,335	141,584
Cash and cash equivalents at end of period	\$194,986	\$134,599	\$177,335

(See notes to consolidated financial statements)

9

Table of ContentsSERVICE CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
(In thousands, except per share amounts)							
Balance at December 31, 2013	\$212,327	\$(10)	\$1,259,348	\$(90,026)	\$ 88,441	\$ 10,148	\$1,480,228
Comprehensive income	—	—	—	172,469	(29,027)	6,382	149,824
Dividends declared on common stock (\$.34 per share)	—	—	(71,517)	—	—	—	(71,517)
Stock option exercises	3,642	—	29,495	—	—	—	33,137
Restricted stock award, net of forfeitures and other	352	—	(352)	—	—	—	—
Employee share-based compensation earned	—	—	13,127	—	—	—	13,127
Purchase of Company common stock	—	(11,537)	(67,796)	(164,302)	—	—	(243,635)
Tax benefits of share-based awards	—	—	30,123	—	—	—	30,123
Purchase of noncontrolling interest	—	—	(7,441)	—	—	(7,559)	(15,000)
Noncontrolling interest payments	—	—	—	—	—	(319)	(319)
Retirement of treasury shares	(10,956)	10,956	—	—	—	—	—
Other	93	—	1,317	—	—	—	1,410
Balance at December 31, 2014	\$205,458	\$(591)	\$1,186,304	\$(81,859)	\$ 59,414	\$ 8,652	\$1,377,378
Comprehensive income	—	—	—	233,772	(53,250)	1,129	181,651
Dividends declared on common stock (\$.44 per share)	—	—	(87,570)	—	—	—	(87,570)
Stock option exercises	3,054	—	28,877	—	—	—	31,931
Restricted stock awards, net of forfeitures	254	(9)	(245)	—	—	—	—
Employee share-based compensation earned	—	—	13,843	—	—	—	13,843
Purchase of Company common stock	—	(12,455)	(71,664)	(261,264)	—	—	(345,383)
Tax benefits related to share-based awards	—	—	18,123	—	—	—	18,123
Purchase of noncontrolling interest	—	—	2,775	—	—	(4,850)	(2,075)
	—	—	—	—	—	(222)	(222)

Noncontrolling interest payments							
Retirement of treasury shares	(7,969)	7,969	—	—	—	—	—
Other	62	—	1,663	—	—	—	1,725
Balance at December 31, 2015	\$ 200,859	\$(5,086)	\$ 1,092,106	\$(109,351)	\$ 6,164	\$ 4,709	\$ 1,189,401
Comprehensive income	—	—	—	177,038	10,328	270	187,636
Dividends declared on common stock (\$.51 per share)	—	—	(98,418)	—	—	—	(98,418)
Stock option exercises	2,108	—	15,554	—	—	—	17,662
Restricted stock awards, net of forfeitures	241	(1)	(240)	—	—	—	—
Employee share-based compensation earned	—	—	14,056	—	—	—	14,056
Purchase of Company common stock	—	(8,812)	(48,042)	(171,074)	—	—	(227,928)
Tax benefits related to share-based awards	—	—	12,685	—	—	—	12,685
Purchase of noncontrolling interest	—	—	364	—	—	(2,325)	(1,961)
Noncontrolling interest payments	—	—	—	—	—	(120)	(120)
Retirement of treasury shares	(7,901)	7,901	—	—	—	—	—
Other	96	—	2,138	—	—	—	2,234
Balance at December 31, 2016	\$ 195,403	\$(5,998)	\$ 990,203	\$(103,387)	\$ 16,492	\$ 2,534	\$ 1,095,247

(See notes to consolidated financial statements)

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

We are North America's largest provider of deathcare products and services, with a network of funeral service locations and cemeteries operating in the United States and Canada. Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other related businesses, which enable us to serve a wide array of customer needs. We sell cemetery property and funeral and cemetery merchandise and services at the time of need and on a preneed basis.

Funeral service locations provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles, arranging and directing services, removal, preparation, embalming, cremations, memorialization, and catering. Funeral merchandise, including burial caskets and related accessories, urns and other cremation receptacles, outer burial containers, flowers, online and video tributes, stationery products, casket and cremation memorialization products, and other ancillary merchandise, is sold at funeral service locations.

Our cemeteries provide cemetery property interment rights, including developed lots, lawn crypts, mausoleum spaces, niches, and other cremation memorialization and interment options. Cemetery merchandise and services, including memorial markers and bases, outer burial containers, flowers and floral placement, other ancillary merchandise, graveside services, merchandise installation, travel protection, and burial openings and closings, are sold at our cemeteries.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include the accounts of Service Corporation International (SCI) and all subsidiaries in which we hold a controlling financial interest. Our financial statements also include the accounts of the funeral merchandise and service trusts, cemetery merchandise and service trusts, and cemetery perpetual care trusts in which we have a variable interest and are the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation.

Reclassifications to Prior Period Financial Statements and Adjustments

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows. For the year 2016, we recorded in General and administrative expenses an out-of-period expense of \$5.5 million for previously improperly capitalized acquisition costs. Such amounts are immaterial to both current and prior period financial statements.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts of our cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Accounts Receivable and Allowance for Doubtful Accounts

Our trade receivables primarily consist of amounts due for funeral services already performed. We provide various allowances and cancellation reserves for our funeral and cemetery preneed and atneed receivables as well as for our preneed funeral and preneed cemetery deferred revenue. These allowances are based on an analysis of historical trends of collection and cancellation activity. Atneed funeral and cemetery receivables are considered past due after 30 days. Collections are generally managed by the locations or third party agencies acting on behalf of the locations, until a receivable is 180 days delinquent at which time it is fully reserved and sent to a collection agency. These estimates are impacted by a number of factors, including changes in the economy, relocation, and demographic or competitive

changes in our areas of operation.

Inventories and Cemetery Property

Funeral and cemetery merchandise are stated at the lower of average cost or market. Cemetery property is recorded at cost. Inventory costs and cemetery property are relieved using specific identification in performance of a contract.

Amortization expense for cemetery property was \$66.7 million, \$62.4 million, and \$60.4 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Property and Equipment, Net

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense whereas renewals and major replacements that extend the assets useful lives are capitalized. Depreciation is recognized ratably over the estimated useful lives of the various classes of assets. Buildings are depreciated over a period ranging from seven to forty years, equipment is depreciated over a period from three to eight years, and leasehold improvements are depreciated over the shorter of the lease term or ten years. Depreciation and amortization expense related to property and equipment was \$147.2 million, \$141.5 million, and \$140.0 million for the years ended December 31, 2016, 2015, and 2014, respectively. When property is sold or retired, the cost and related accumulated depreciation are removed from the Consolidated Balance Sheet; resulting gains and losses are included in the Consolidated Statement of Operations in the period of sale or disposal.

Leases

We have lease arrangements related to funeral service locations and transportation equipment that were primarily classified as capital leases at December 31, 2016. Lease terms related to funeral service locations generally range from one to 40 years with options to renew at varying terms. Lease terms related to transportation equipment generally range from one to five years with options to renew at varying terms. We calculate operating lease expense ratably over the lease term. We consider reasonably assured renewal options and fixed escalation provisions in our calculation. For more information related to leases, see Note 11.

Goodwill

The excess of purchase price over the fair value of identifiable net assets acquired in business combinations is recorded as goodwill. Goodwill is tested annually during the fourth quarter for impairment by assessing the fair value of each of our reporting units.

Our goodwill impairment test involves estimates and management judgment. In the first step of our goodwill impairment test, we compare the fair value of a reporting unit to its carrying amount, including goodwill. We determine fair value of each reporting unit using both a market and income approach. Our methodology considers discounted cash flows and multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization). The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value is less than the related carrying amount for a reporting unit, we compare the implied fair value of goodwill to the carrying amount of goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

For our most recent annual impairment test performed in the fourth quarter, we used a 6.5% discount rate, growth rates ranging from 1.2% to 5.7% over a five-year period, plus a terminal value determined using the constant growth method in projecting our future cash flows. Fair value was calculated as the sum of the projected discounted cash flows of our reporting units over the next five years plus terminal value at the end of those five years. Our terminal value was calculated using a long-term growth rate of 2.5% and 2.9% for our funeral and cemetery reporting units, respectively.

In addition to our annual review, we assess the impairment of goodwill whenever certain events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. No interim goodwill impairment reviews were required in 2016 or 2015. For more information related to goodwill, see Note 7.

Other Intangible Assets

Our intangible assets include customer relationships, trademarks and tradenames, and other intangible assets primarily resulting from acquisitions. Our trademark and tradenames and certain other intangible assets are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets annually during the fourth quarter.

Our intangible assets impairment tests involve estimates and management judgment. For trademark and tradenames, our test uses the relief from royalty method whereby we determine the fair value of the assets by discounting the cash flows that represent a savings over having to pay a royalty fee for use of the trademark and tradenames. The

discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. For our most recent annual impairment test performed in the fourth quarter, we estimated that the pre-tax savings would range from 1.0% to 4.0% of the revenue associated with the trademark and tradenames, based primarily on our research of intellectual property valuation and licensing databases. We also assumed a terminal growth rate of 2.5% and 2.9% for our funeral and cemetery segments, respectively, and discounted the cash flows at a 6.7% discount rate based on the relative risk of these assets to our overall business.

In addition to our annual review, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results and significant negative industry or economic trends. No interim intangible impairment reviews were required in 2016 or 2015.

Certain of our intangible assets associated with prior acquisitions are relieved using specific identification in performance of a contract. We amortize all other finite-lived intangible assets on a straight-line basis over their estimated useful lives which range from two to forty years. For more information related to intangible assets, see Note 7.

Fair Value Measurements

We measure the available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

• Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

• Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

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

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain available-for-sale securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts have been classified in Level 3 of the hierarchy due to the significant management judgment required as a result of the absence of quoted market prices, inherent lack of liquidity, or the long-term nature of the securities. For additional disclosures for all of our available-for-sale securities, see Notes 3, 4, and 5.

Treasury Stock

We make treasury stock purchases in the open market or through privately negotiated transactions subject to market conditions and normal trading restrictions. We account for the repurchase of our common stock under the par value method. In 2016, we canceled 7.9 million shares of common stock held in our treasury. We canceled 8.0 million and 11.0 million shares of common stock held in our treasury in 2015 and 2014, respectively. These retired treasury shares were changed to authorized but unissued status.

Foreign Currency Translation

All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the reporting period. The resulting translation adjustments are included in Equity as a component of Accumulated other comprehensive income in the Consolidated Statement of Equity and Consolidated Balance Sheet.

The functional currency of SCI and its subsidiaries is the respective local currency. The transactional currency gains and losses that arise from transactions denominated in currencies other than the functional currencies of our operations are recorded in Other (expense) income, net in the Consolidated Statement of Operations. We do not have an investment in foreign operations considered to be in highly inflationary economies.

Funeral Operations

Revenue is recognized when funeral merchandise is delivered or funeral services are performed. We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. Revenue associated with sales of preneed funeral contracts is deferred until funeral merchandise is delivered or the funeral services are performed, generally at the time of need. Travel protection and certain memorialization merchandise sold on a preneed basis is delivered to the customer at the time of sale and is recognized at the time delivery has occurred. While these items are sold as part of preneed funeral

arrangements they are also offered on a stand-alone basis. The total consideration received for these arrangements is allocated to each item based on relative selling price determined using either vendor specific objective evidence of the selling price or third-party evidence of selling price. Vendor specific objective evidence of the selling price is determined based on the price we sell the items for on a stand-alone basis. Third-party evidence

of selling price is based on the price of our largely interchangeable products that are sold in stand-alone sales to similarly situated customers. There is no general right of return for delivered items.

Pursuant to state or provincial law, all or a portion of the proceeds from funeral merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and service trusts until the associated merchandise is delivered or services are performed. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or services are performed. Sales taxes collected are recognized on a net basis in our consolidated financial statements. See Note 3 for more information regarding preneed funeral activities.

Cemetery Operations

Revenue associated with sales of cemetery merchandise and services is recognized when merchandise is delivered or the service is performed. Revenue associated with sales of preneed cemetery property interment rights is deferred until the property is constructed and a minimum of 10% of the sales price is collected. For non-personalized merchandise (such as vaults) and services, we defer the revenue until the merchandise is delivered or the services are performed. For personalized marker merchandise, with the customer's direction generally obtained at the time of sale, we can choose to order, store, and transfer title to the customer. In situations in which we have no further obligation or involvement related to the merchandise, we recognize revenue and record the cost of sales upon the earlier of vendor storage of these items or delivery in our cemetery. The total consideration received for these arrangements is allocated to each item based on relative selling price determined using vendor specific objective evidence of the selling price. Vendor specific objective evidence of the selling price is determined based on the price we sell the items for on a stand-alone basis. There is no general right of return for delivered items.

Pursuant to state or provincial law, all or a portion of the proceeds from cemetery merchandise or services sold on a preneed basis may be required to be paid into trust funds. We defer investment earnings related to these merchandise and services trusts until the associated merchandise is delivered or services are performed.

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid into perpetual care trust funds. Investment earnings from these trusts are distributed to us regularly, are recognized in current cemetery revenue, and are intended to defray cemetery maintenance costs, which are expensed as incurred. The principal of such perpetual care trust funds generally cannot be withdrawn.

Costs related to the sale of property interment rights include the property and construction costs specifically identified by project. Property and construction costs are charged to expense when the revenue is recognized by specific identification in the performance of a contract. Costs related to sales of merchandise and services are charged to expense when merchandise is delivered or when services are performed. Sales taxes collected are recognized on a net basis in our consolidated financial statements. See Notes 4 and 5 for more information regarding preneed cemetery and perpetual care activities.

Preneed Funeral and Cemetery Receivables

We sell preneed contracts whereby the customer enters into arrangements for future merchandise and services prior to the time of need. As these contracts are entered into prior to the delivery of the related merchandise and services, the preneed funeral and cemetery receivables are offset by a comparable deferred revenue amount. These receivables have an interest component for which interest income is recorded when the interest amount is considered collectible and realizable, which typically coincides with cash payment. We do not accrue interest on financing receivables that are not paid in accordance with the contractual payment date given the nature of our merchandise and services, the nature of our contracts with customers, and the timing of the delivery of our services. We do not consider receivables to be past due until the merchandise or services are required to be delivered at which time the preneed receivable is paid or reclassified as a trade receivable with payment terms of less than 30 days. As the preneed funeral and cemetery receivables are offset by comparable deferred revenue amounts, we have no risk of loss related to these receivables. If a preneed contract is canceled prior to delivery, state or provincial law determines the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, we receive the amount of principal deposited to the trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. We retain excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenue in the Consolidated Statement of Operations. In certain jurisdictions, we may be obligated to fund any shortfall if the amount deposited by the customer exceeds the funds in

trust. Based on our historical experience, we have provided an allowance for cancellation of these receivables, which is recorded as a reduction in receivables with a corresponding offset to deferred revenue.

Income Taxes

We compute income taxes using the liability method. Our ability to realize the benefit of our deferred tax assets requires us to achieve certain future earnings levels. We have established a valuation allowance against a portion of our deferred tax assets

and we could be required to further adjust that valuation allowance in the near term if market conditions change materially and future earnings are, or are projected to be, significantly different than our current estimates. An increase in the valuation allowance would result in additional income tax expense in such period. All deferred tax assets and liabilities, along with any related valuation allowances are classified as non-current on our Consolidated Balance Sheet.

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the FASB issued "Revenue from Contracts with Customers," which replaces most existing revenue recognition guidance. During 2016, the FASB made several amendments to the new standard that clarified guidance on several matters, including principal vs. agent considerations, identifying performance obligations, sales taxes, and licensing.

The new standard, as amended, requires that we recognize revenue in the amount to which we expect to be entitled for delivery of promised goods and services to our customers. The new standard will also result in enhanced revenue related disclosures, including any significant judgments and changes in judgments. Additionally, the new standard requires the deferral of incremental selling costs to the period in which the underlying revenue is recognized.

The new standard will be effective for us beginning January 1, 2018 and we intend to implement the standard with the modified retrospective approach, which recognizes the cumulative effect of application recognized on that date. We have not fully determined the impact on the new standard on our consolidated results of operations, consolidated financial position, and cash flows. However, we believe the standard primarily impacts the manner in which we recognize certain nonrefundable up-front fees and incremental costs to acquire new preneed funeral trust contracts and preneed and atneed cemetery contracts (i.e., selling costs). The nonrefundable fees will be deferred and recognized as revenue when the underlying goods and services are delivered to the customer. The incremental selling costs will be deferred and amortized by specific identification to the delivery of the underlying goods and services.

We will continue to expense costs to acquire new preneed funeral insurance contracts in the period incurred. The insurance contracts are not and will not be reflected in our Consolidated Balance Sheet because they do not represent assets or liabilities as we have no claim to the insurance proceeds until the contract is fulfilled and no obligation under the contract until the benefits are assigned to us after the time of need.

Inventory

In July 2015, the FASB amended "Inventory" to state that an entity using an inventory method other than last-in, first out ("LIFO") or the retail inventory method should measure inventory at the lower of cost or net realizable value. The new guidance clarifies that net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance was effective for us on January 1, 2017 and adoption did not materially impact our consolidated results of operations, consolidated financial position, and cash flows.

Financial Instruments

In January 2016, the FASB amended "Financial Instruments" to provide additional guidance on the recognition and measurement of financial assets and liabilities. The amendment requires investments in equity instruments to be measured at fair value with changes in fair value reflected in net income. The new guidance is effective for us on January 1, 2018, and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

In June 2016, the FASB amended "Financial Instruments" to provide financial statement users with more decision-useful information about the expected credit losses on debt instruments and other commitments to extend credit held by a reporting entity at each reporting date. This amendment replaces the incurred loss impairment methodology in the current standard with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance is effective for us on January 1, 2020, and we are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

Leases

In February 2016, the FASB amended "Leases" to increase transparency and comparability among organizations. Under the new standard, an entity will be required to recognize lease assets and liabilities on its balance sheet and

disclose key information about leasing arrangements. In addition, the new standard offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This new standard will be effective for us on January 1, 2019. We are still evaluating the impact of adoption on our consolidated results of operations, consolidated financial position, and cash flows.

Stock Compensation

In March 2016, the FASB amended "Stock Compensation" to simplify certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and

classification on the statement of cash flows. The new guidance is effective for us on January 1, 2017. If we had adopted this amendment for the year ended December 31, 2016, Net cash provided by operating activities and Net cash used in financing activities would have both increased by \$12.7 million and our Provision for income taxes would have decreased by \$12.7 million.

Cash Flow

In August and November 2016, the FASB amended "Statement of Cash Flows" to clarify guidance on the classification of certain cash receipts and cash payments. Additionally, the guidance requires that the statement of cash flows reflect changes in restricted cash in addition to cash and cash equivalents. Amended guidance includes clarification on debt prepayment and extinguishment costs, contingent consideration in business combinations, proceeds from insurance claims, and premium payments on company-owned life insurance. The new guidance is effective for us on January 1, 2018, and we are still evaluating the impact of adoption on our consolidated statement of cash flows.

Goodwill

In January 2017, the FASB amended "Goodwill" to simplify the subsequent measurement of goodwill. Amended guidance eliminates Step 2 from the goodwill impairment test. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill. The new guidance is effective for us on January 1, 2020, and we are evaluating the impact on our consolidated results of operations, consolidated financial position, and cash flows.

3. Preneed Funeral Activities

Preneed funeral receivables, net and trust investments

Preneed funeral receivables, net and trust investments represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, related to unperformed, price-guaranteed preneed funeral contracts. Our funeral merchandise and service trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed funeral revenue into Deferred preneed receipts held in trust. Amounts are withdrawn from the trusts after the contract obligations are performed. Cash flows from preneed funeral contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

Preneed funeral receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in Deferred preneed funeral revenue until the merchandise is delivered or the service is performed.

The table below sets forth certain investment-related activities associated with our preneed funeral merchandise and service trusts for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Deposits	\$ 121,668	\$ 121,109	\$ 102,553
Withdrawals	\$ 157,549	\$ 160,135	\$ 131,352
Purchases of available-for-sale securities ⁽¹⁾	\$ 377,813	\$ 453,092	\$ 1,238,257
Sales of available-for-sale securities ⁽¹⁾	\$ 387,959	\$ 458,236	\$ 1,318,512

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

The components of Preneed funeral receivables, net and trust investments in our Consolidated Balance Sheet at December 31 were as follows:

	2016	2015
	(In thousands)	
Trust investments, at market	\$1,152,752	\$1,109,394
Cash and cash equivalents	122,517	134,642
Assets associated with businesses held for sale	—	(39)
Insurance-backed fixed income securities	271,248	271,116
Trust investments	1,546,517	1,515,113
Receivables from customers	312,556	290,689
Unearned finance charge	(12,562)	(11,235)
	1,846,511	1,794,567
Allowance for cancellation	(29,066)	(34,270)
Preneed funeral receivables, net and trust investments	\$1,817,445	\$1,760,297

The activity in Preneed funeral receivables, net and trust investments for the years ended December 31 was as follows:

	2016	2015	2014
		(In thousands)	
Beginning balance — Preneed funeral receivables and trust investments	\$1,760,297	\$1,843,023	\$1,870,243
Net preneed contract sales	296,896	283,927	247,994
Cash receipts from customers, net of refunds	(246,436)	(234,413)	(211,830)
Deposits to trust	121,668	121,109	102,553
Acquisitions (divestitures) of businesses, net	3,560	1,400	(19,203)
Net undistributed investment earnings (losses) ⁽¹⁾	65,954	(38,510)	22,480
Maturities and distributed earnings	(193,604)	(200,635)	(162,059)
Change in cancellation allowance	5,295	2,787	7,644
Effect of foreign currency and other	3,815	(18,391)	(14,799)
Ending balance — Preneed funeral receivables and trust investments	\$1,817,445	\$1,760,297	\$1,843,023

(1) Includes both realized and unrealized investment earnings.

The cost and market values associated with our funeral merchandise and service trust investments recorded at fair value at December 31, 2016 and 2015 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.

December 31, 2016

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
			(In thousands)		
Fixed income securities:					
U.S. Treasury	2	\$75,245	\$317	\$(557)	\$75,005
Canadian government	2	55,752	272	(42)	55,982
Corporate	2	12,702	177	(92)	12,787
Residential mortgage-backed	2	29	1	—	30
Asset-backed	2	58	—	(3)	55
Equity securities:					
Preferred stock	2	1,428	81	(39)	1,470
Common stock:					
United States	1	334,854	49,785	(11,525)	373,114
Canada	1	11,853	2,592	(263)	14,182
Other international	1	25,761	1,824	(3,167)	24,418
Mutual funds:					
Equity	1	313,132	7,780	(26,842)	294,070
Fixed income	1	92,760	1,344	(7,368)	86,736
Other	3	4,079	1,214	(17)	5,276
Trust investments, at fair value		927,653	65,387	(49,915)	943,125
Fixed income commingled funds		168,959	3,177	(1,167)	170,969
Private equity		40,892	2,956	(5,190)	38,658
Trust investments, at net asset value		209,851	6,133	(6,357)	209,627
Trust investments, at market		\$1,137,504	\$71,520	\$(56,272)	\$1,152,752

December 31, 2015

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$64,140	\$89	\$(1,270)	\$62,959
Canadian government	2	56,975	323	(55)	57,243
Corporate	2	18,983	235	(284)	18,934
Residential mortgage-backed	2	1,299	29	(22)	1,306
Asset-backed	2	5	—	—	5
Equity securities:					
Preferred stock	2	1,951	41	(158)	1,834
Common stock:					
United States	1	344,544	30,885	(19,149)	356,280
Canada	1	11,882	2,651	(1,077)	13,456
Other international	1	32,193	2,636	(3,907)	30,922
Mutual funds:					
Equity	1	324,231	1,263	(43,975)	281,519
Fixed income	1	155,893	154	(13,092)	142,955
Other	3	3,687	1,069	—	4,756
Trust investments, at fair value		1,015,783	39,375	(82,989)	972,169
Fixed income commingled funds		102,063	228	(1,103)	101,188
Private equity		38,724	3,780	(6,467)	36,037
Trust investments, at net asset value		140,787	4,008	(7,570)	137,225
Trust investments, at market		\$1,156,570	\$43,383	\$(90,559)	\$1,109,394

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

Where quoted prices are available in an active market, securities are classified as Level 1 investments pursuant to the fair value measurements hierarchy.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, rating, and tax-exempt status. These securities are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These securities are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was \$31.8 million which, if called, would be funded by the assets of the trusts.

The change in our market-based funeral merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Fair value, beginning balance at January 1	\$4,756	\$4,891	\$801
Net unrealized gains (losses) included in Accumulated other comprehensive income ⁽¹⁾	478	(167)	876
Purchases	89	32	3,214
Sales	(47)	—	—
Fair value, ending balance at December 31	\$5,276	\$4,756	\$4,891

All unrealized gains recognized in Accumulated other comprehensive income for our funeral merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Accumulated other comprehensive income to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

Maturity dates of our fixed income securities range from 2017 to 2041. Maturities of fixed income securities at December 31, 2016 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 76,744
Due in one to five years	27,298
Due in five to ten years	31,374
Thereafter	8,443
	\$ 143,859

Earnings from all our funeral merchandise and service trust investments are recognized in funeral revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenue. Recognized earnings (realized and unrealized) related to our funeral merchandise and service trust investments were \$49.9 million, \$52.9 million, and \$62.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other income (expense), net and a decrease to Preneed funeral receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

We have determined that the remaining unrealized losses in our funeral merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our funeral merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following tables.

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-K/A

	December 31, 2016					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$25,996	\$(557)	\$—	\$—	\$25,996	\$(557)
Canadian government	2,847	(30)	191	(12)	3,038	(42)
Corporate	1,710	(15)	3,560	(77)	5,270	(92)
Asset-backed	—	—	55	(3)	55	(3)
Equity securities:						
Preferred stock	125	(17)	98	(22)	223	(39)
Common stock:						
United States	87,059	(8,149)	14,939	(3,376)	101,998	(11,525)
Canada	2,832	(254)	482	(9)	3,314	(263)
Other international	5,390	(1,301)	7,368	(1,866)	12,758	(3,167)
Mutual funds:						
Equity	108,109	(5,080)	127,273	(21,762)	235,382	(26,842)
Fixed income	34,120	(817)	31,654	(6,551)	65,774	(7,368)
Other	26	(2)	1,160	(15)	1,186	(17)
Trust investments, at fair value	268,214	(16,222)	186,780	(33,693)	454,994	(49,915)
Fixed income commingled funds	75,041	(687)	17,656	(480)	92,697	(1,167)
Private equity	693	(481)	22,812	(4,709)	23,505	(5,190)
Trust investments, at net asset value	75,734	(1,168)	40,468	(5,189)	116,202	(6,357)
Total temporarily impaired securities	\$343,948	\$(17,390)	\$227,248	\$(38,882)	\$571,196	\$(56,272)

	December 31, 2015					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$36,113	\$(1,268)	\$141	\$(2)	\$36,254	\$(1,270)
Canadian government	209	(7)	971	(48)	1,180	(55)
Corporate	4,618	(156)	3,880	(128)	8,498	(284)
Residential mortgage-backed	378	(6)	132	(16)	510	(22)
Equity securities:						
Preferred stock	449	(60)	42	(98)	491	(158)
Common stock:						
United States	128,925	(16,448)	14,537	(2,701)	143,462	(19,149)
Canada	1,941	(355)	1,051	(722)	2,992	(1,077)
Other international	9,473	(1,638)	6,154	(2,269)	15,627	(3,907)
Mutual funds:						
Equity	186,016	(23,385)	79,892	(20,590)	265,908	(43,975)
Fixed income	109,154	(5,052)	27,061	(8,040)	136,215	(13,092)

Edgar Filing: SERVICE CORP INTERNATIONAL - Form 10-K/A

Trust investments, at fair value	477,276	(48,375)	133,861	(34,614)	611,137	(82,989)
Fixed income commingled funds	70,964	(457)	15,243	(646)	86,207	(1,103)
Private equity	—	—	18,714	(6,467)	18,714	(6,467)
Trust investments, at net asset value	70,964	(457)	33,957	(7,113)	104,921	(7,570)
Total temporarily impaired securities	\$548,240	\$(48,832)	\$167,818	\$(41,727)	\$716,058	\$(90,559)

21

Deferred preneed funeral revenue

At December 31, 2016 and 2015, Deferred preneed funeral revenue, net of allowance for cancellation, represents future funeral revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed funeral contracts that are not held in trust accounts. Deferred preneed funeral revenue is recognized in current funeral revenue when merchandise is delivered or the service is performed. Future funeral revenue and net trust investment earnings that are held in trust accounts are included in Deferred preneed receipts held in trust.

The following table summarizes the activity in Deferred preneed funeral revenue for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Beginning balance — Deferred preneed funeral revenue	\$557,897	\$540,164	\$551,948
Net preneed contract sales	251,134	232,628	198,195
Acquisitions (divestitures) of businesses, net	2,170	(2,895)	(21,639)
Net investment earnings (losses) ⁽¹⁾	66,656	(37,208)	24,256
Recognized deferred preneed revenue	(277,248)	(276,359)	(258,534)
Change in cancellation allowance	8,411	11,675	21,272
Change in deferred preneed receipts held in trust	(28,506)	90,351	26,131
Effect of foreign currency and other	766	(459)	(1,465)
Ending balance — Deferred preneed funeral revenue	\$581,280	\$557,897	\$540,164

(1) Includes both realized and unrealized investment earnings.

Insurance-funded preneed contracts

Not included in our Consolidated Balance Sheet are insurance-funded preneed contracts that will be funded by life insurance or annuity contracts issued by third party insurers. Where permitted by state or provincial law, customers may arrange their preneed contract by purchasing a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general sales agent for the insurance company. These general agency commissions (GA revenue) are based on a percentage per contract sold and are recognized as funeral revenue when the insurance purchase transaction between the customer and third-party insurance provider is completed. GA revenue recognized in 2016, 2015, and 2014 was \$135.8 million, \$137.0 million, and \$123.0 million, respectively. Direct selling costs incurred pursuant to the sale of insurance-funded preneed contracts are expensed as incurred. The policy amount of the insurance contract between the customer and the third-party insurance company generally equals the amount of the preneed contract. We do not reflect the unfulfilled insurance-funded preneed contract amounts in our Consolidated Balance Sheet. The proceeds of the life insurance policies or annuity contracts will be reflected in funeral revenue as we perform these funerals.

4. Preneed Cemetery Activities

Preneed cemetery receivables, net and trust investments

Preneed cemetery receivables, net and trust investments represent trust investments, including investment earnings, and customer receivables, net of unearned finance charges, for contracts sold in advance of when the property interment rights, merchandise, or services are needed. Our cemetery merchandise and service trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. When we receive payments from the customer, we deposit the amount required by law into the trust and reclassify the corresponding amount from Deferred preneed cemetery revenue into Deferred preneed receipts held in trust. Amounts are withdrawn from the trusts when the contract obligations are performed. Cash flows from preneed cemetery contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

Preneed cemetery receivables, net and trust investments are reduced by the trust investment earnings (realized and unrealized) that we have been allowed to withdraw in certain states prior to maturity. These earnings are recorded in Deferred preneed cemetery revenue until the merchandise is delivered or the service is performed.

The table below sets forth certain investment-related activities associated with our preneed cemetery merchandise and service trusts for the years ended December 31:

	2016	2015	2014
		(In thousands)	
Deposits	\$ 158,114	\$ 153,252	\$ 129,581
Withdrawals	\$ 144,308	\$ 163,732	\$ 150,064
Purchases of available-for-sale securities ⁽¹⁾	\$ 656,452	\$ 625,648	\$ 1,786,800
Sales of available-for-sale securities ⁽¹⁾	\$ 631,440	\$ 628,484	\$ 1,842,417

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

The components of Preneed cemetery receivables, net and trust investments in the Consolidated Balance Sheet at December 31 were as follows:

	2016	2015
	(In thousands)	
Trust investments, at market	\$ 1,435,083	\$ 1,343,916
Cash and cash equivalents	123,146	118,583
Trust investments	1,558,229	1,462,499
Receivables from customers	1,038,592	958,503
Unearned finance charges	(33,427)	(31,332)
	2,563,394	2,389,670
Allowance for cancellation	(75,674)	(71,503)
Preneed cemetery receivables, net and trust investments	\$ 2,487,720	\$ 2,318,167

The activity in Preneed cemetery receivables, net and trust investments for the years ended December 31 was as follows:

	2016	2015	2014
		(In thousands)	
Beginning balance — Preneed cemetery receivables and trust investments	\$ 2,318,167	\$ 2,306,669	\$ 2,292,348
Net preneed contract sales	862,298	799,497	688,336
Cash receipts from customers, net of refunds	(784,267)	(716,686)	(615,489)
Deposits to trust	158,114	153,252	129,581
(Divestitures) acquisitions of businesses, net	(2,083)	4,404	(10,898)
Net undistributed investment earnings (losses) ⁽¹⁾	79,557	(42,189)	(18,038)
Maturities, deliveries, and associated earnings	(144,308)	(163,732)	(150,064)
Change in cancellation allowance	(1,966)	(2,046)	843
Effect of foreign currency and other	2,208	(21,002)	(9,950)
Ending balance — Preneed cemetery receivables and trust investments	\$ 2,487,720	\$ 2,318,167	\$ 2,306,669

(1) Includes both realized and unrealized investment earnings.

The cost and market values associated with our cemetery merchandise and service trust investments recorded at fair value at December 31, 2016 and 2015 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities held by the trusts.

December 31, 2016

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$70,070	\$567	\$(281)	\$70,356
Canadian government	2	9,109	49	(66)	9,092
Corporate	2	1,596	18	(34)	1,580
Asset-backed	2	170	13	—	183
Equity securities:					
Common stock:					
United States	1	539,445	72,682	(21,680)	590,447
Canada	1	9,027	4,807	(84)	13,750
Other international	1	42,870	3,023	(5,229)	40,664
Mutual funds:					
Equity	1	356,079	7,812	(29,603)	334,288
Fixed income	1	94,383	1,535	(9,854)	86,064
Trust investments, at fair value		1,122,749	90,506	(66,831)	1,146,424
Fixed income commingled funds		245,813	5,347	(1,681)	249,479
Private equity		37,881	4,616	(3,317)	39,180
Trust investments, at net asset value		283,694	9,963	(4,998)	288,659
Trust investments, at market		\$1,406,443	\$100,469	\$(71,829)	\$1,435,083

December 31, 2015

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$69,727	\$25	\$(1,437)	\$68,315
Canadian government	2	9,725	183	(99)	9,809
Corporate	2	5,115	26	(118)	5,023
Residential mortgage-backed	2	129	3	(3)	129
Asset-backed	2	170	15	—	185
Equity securities:					
Common stock:					
United States	1	531,885	44,181	(32,037)	544,029
Canada	1	8,992	3,858	(891)	11,959
Other international	1	50,041	4,207	(5,799)	48,449
Mutual funds:					
Equity	1	356,712	1,620	(49,642)	308,690
Fixed income	1	203,932	92	(18,527)	185,497
Other	3	1,382	122	—	1,504
Trust investments, at fair value		1,237,810	54,332	(108,553)	1,183,589
Fixed income commingled funds		124,103	—	(639)	123,464
Private equity		35,411	5,954	(4,502)	36,863
Trust investments, at net asset value		159,514	5,954	(5,141)	160,327
Trust investments, at market		\$1,397,324	\$60,286	\$(113,694)	\$1,343,916

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

Where quoted prices are available in an active market, securities held by the trusts are classified as Level 1 investments pursuant to the fair value measurements hierarchy.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, ratings, and tax-exempt status.

These securities are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These securities are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was \$32.7 million which, if called, would be funded by the assets of the trusts.

The change in our market-based cemetery merchandise and service trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Fair value, beginning balance at January 1	\$1,504	\$203	\$—
Net unrealized (losses) gains included in Accumulated other comprehensive income ⁽¹⁾	—	(27)	7
Net realized losses included in Other (expense) income, net ⁽²⁾	(212)	—	—
Purchases	—	1,328	196
Sales	(1,292)	—	—
Fair value, ending balance at December 31	\$—	\$1,504	\$203

All unrealized gains recognized in Accumulated other comprehensive income for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Accumulated other comprehensive income to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

All losses recognized in Other (expense) income, net for our cemetery merchandise and service trust investments are attributable to our preneed customers and are offset by a corresponding reclassification in Other (expense) income, net to Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

Maturity dates of our fixed income securities range from 2017 to 2041. Maturities of fixed income securities (excluding mutual funds) at December 31, 2016 are estimated as follows:

	Fair Value (In thousands)
Due in one year or less	\$ 7,154
Due in one to five years	26,237
Due in five to ten years	34,244
Thereafter	13,576
	\$ 81,211

Earnings from all our cemetery merchandise and service trust investments are recognized in cemetery revenue when merchandise is delivered or a service is performed. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected customer payments when a customer cancels a preneed contract; these amounts are also recognized in current revenue. Recognized earnings (realized and unrealized) related to our cemetery merchandise and service trust investments were \$44.5 million, \$45.5 million, and \$48.2 million for the years ended December 31, 2016, 2015, and 2014, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other (expense) income, net and a decrease to Preneed cemetery receivables, net and trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Deferred preneed receipts held in trust. See Note 6 for further information related to our Deferred preneed receipts held in trust.

We have determined that the remaining unrealized losses in our cemetery merchandise and service trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery merchandise and service trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following tables:

	December 31, 2016					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$15,413	\$(281)	\$—	\$—	\$15,413	\$(281)
Canadian government	—	—	1,192	(66)	1,192	(66)
Corporate	—	—	736	(34)	736	(34)
Equity securities:						
Common stock:						
United States	149,530	(13,680)	23,010	(8,000)	172,540	(21,680)
Canada	408	(82)	38	(2)	446	(84)
Other international	9,707	(2,330)	11,442	(2,899)	21,149	(5,229)
Mutual funds:						
Equity	125,728	(4,728)	146,332	(24,875)	272,060	(29,603)
Fixed income	26,566	(446)	45,337	(9,408)	71,903	(9,854)
Trust investments, at fair value	327,352	(21,547)	228,087	(45,284)	555,439	(66,831)
Fixed income commingled funds	133,164	(1,681)	—	—	133,164	(1,681)
Private equity	558	(1)	16,769	(3,316)	17,327	(3,317)
Trust investments, at net asset value	133,722	(1,682)	16,769	(3,316)	150,491	(4,998)
Total temporarily impaired securities	\$461,074	\$(23,229)	\$244,856	\$(48,600)	\$705,930	\$(71,829)
	December 31, 2015					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
U.S. Treasury	\$52,509	\$(1,435)	\$21	\$(2)	\$52,530	\$(1,437)
Canadian government	1,190	(34)	841	(65)	2,031	(99)
Corporate	1,764	(22)	2,347	(96)	4,111	(118)
Residential mortgage-backed	42	(1)	18	(2)	60	(3)
Equity securities:						
Common stock:						
United States	198,755	(26,038)	21,355	(5,999)	220,110	(32,037)
Canada	473	(6)	1,430	(885)	1,903	(891)
Other international	15,560	(2,507)	9,412	(3,292)	24,972	(5,799)
Mutual funds:						
Equity	207,253	(25,991)	86,720	(23,651)	293,973	(49,642)
Fixed income	139,684	(6,323)	44,550	(12,204)	184,234	(18,527)
Trust investments, at fair value	617,230	(62,357)	166,694	(46,196)	783,924	(108,553)
Fixed income commingled funds	123,464	(639)	—	—	123,464	(639)
Private equity	—	—	9,526	(4,502)	9,526	(4,502)
Trust investments, at net asset value	123,464	(639)	9,526	(4,502)	132,990	(5,141)
Total temporarily impaired securities	\$740,694	\$(62,996)	\$176,220	\$(50,698)	\$916,914	\$(113,694)

Deferred preneed cemetery revenue

At December 31, 2016 and 2015, Deferred preneed cemetery revenue, net of allowance for cancellation, represents future cemetery revenue, including distributed trust investment earnings associated with unperformed trust-funded preneed cemetery contracts that are not held in trust accounts. Deferred preneed cemetery revenue is recognized in current cemetery revenue when merchandise is delivered or the service is performed. Future cemetery revenue and net trust investment earnings that are held in trust accounts are included in Deferred preneed receipts held in trust.

The following table summarizes the activity in Deferred preneed cemetery revenue for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Beginning balance — Deferred preneed cemetery revenue	\$1,120,001	\$1,062,381	\$1,016,275
Net preneed and atneed deferred sales	596,714	561,899	531,768
(Divestitures) acquisitions of businesses, net	(1,977)	2,357	(25,071)
Net investment earnings (losses) ⁽¹⁾	79,447	(42,806)	(22,378)
Recognized deferred preneed and atneed revenue	(546,071)	(504,064)	(493,739)
Change in cancellation allowance	(3,015)	(8,048)	3,833
Change in deferred preneed receipts held in trust	(96,417)	52,050	55,636
Effect of foreign currency and other	1,455	(3,768)	(3,943)
Ending balance — Deferred preneed cemetery revenue	\$1,150,137	\$1,120,001	\$1,062,381

(1) Includes both realized and unrealized investment earnings (losses).

5. Cemetery Perpetual Care Trusts

We are required by state and provincial law to pay into cemetery perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. Our cemetery perpetual care trusts are variable interest entities. We have determined that we are the primary beneficiary of these trusts, as we absorb a majority of the losses and returns associated with these trusts. We consolidate our cemetery perpetual care trust investments with a corresponding amount recorded as Care trusts' corpus. Cash flows from cemetery perpetual care contracts are presented as operating cash flows in our Consolidated Statement of Cash Flows.

The table below sets forth certain investment-related activities associated with our cemetery perpetual care trusts for the years ended December 31:

	2016	2015	2014
	(In thousands)		
Deposits	\$41,450	\$38,883	\$42,220
Withdrawals	\$48,522	\$40,447	\$46,981
Purchases of available-for-sale securities ⁽¹⁾	\$428,635	\$247,658	\$1,306,314
Sales of available-for-sale securities ⁽¹⁾	\$374,329	\$175,057	\$1,396,669

(1) The higher level of activity in 2014 was the result of changing the legal structure of the trust investments.

The components of Cemetery perpetual care trust investments in our Consolidated Balance Sheet at December 31 were as follows:

	2016	2015
	(In thousands)	
Trust investments, at market	\$1,349,073	\$1,232,592
Cash and cash equivalents	58,392	86,835
Cemetery perpetual care trust investments	\$1,407,465	\$1,319,427

The cost and market values associated with our cemetery perpetual care trust investments recorded at fair value at December 31, 2016 and 2015 are detailed below. Cost reflects the investment (net of redemptions) of control holders in the trusts. Fair value represents the value of the underlying securities or cash held by the trusts.

December 31, 2016

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
			(In thousands)		
Fixed income securities:					
Canadian government	2	\$14,280	\$88	\$(114)	\$14,254
Corporate	2	4,636	100	(101)	4,635
Residential mortgage-backed	2	304	—	(1)	303
Asset-backed	2	220	3	(28)	195
Equity securities:					
Preferred stock	2	1,479	2	(117)	1,364
Common stock:					
United States	1	233,643	28,679	(2,337)	259,985
Canada	1	4,828	2,631	(108)	7,351
Other international	1	14,607	148	(2,236)	12,519
Mutual funds:					
Equity	1	18,909	4,370	(412)	22,867
Fixed income	1	688,472	3,324	(28,997)	662,799
Other	3	633	1,254	—	1,887
Trust investments, at fair value		982,011	40,599	(34,451)	988,159
Fixed income commingled funds		277,662	—	(9,386)	268,276
Private equity		97,108	2,240	(6,710)	92,638
Trust investments, at net asset value		374,770	2,240	(16,096)	360,914
Trust investments, at market		\$1,356,781	\$42,839	\$(50,547)	\$1,349,073

December 31, 2015

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)					
Fixed income securities:					
U.S. Treasury	2	\$ 650	\$ 20	\$(7)	\$ 663
Canadian government	2	15,412	321	(162)	15,571
Corporate	2	12,490	149	(284)	12,355
Residential mortgage-backed	2	934	13	(9)	938
Asset-backed	2	660	5	(31)	634
Equity securities:					
Preferred stock	2	5,850	55	(159)	5,746
Common stock:					
United States	1	230,854	15,224	(10,898)	235,180
Canada	1	5,460	2,112	(606)	6,966
Other international	1	14,793	160	(2,390)	12,563
Mutual funds:					
Equity	1	21,783	3,138	(1,850)	23,071
Fixed income	1	890,025	530	(63,913)	826,642
Other	3	645	1,257	—	1,902
Trust investments, at fair value		1,199,556	22,984	(80,309)	1,142,231
Fixed income commingled funds		20,616	—	(178)	20,438
Private equity		75,613	2,406	(8,096)	69,923
Trust investments, at net asset value		96,229	2,406	(8,274)	90,361
Trust investments, at market		\$ 1,295,785	\$ 25,390	\$(88,583)	\$ 1,232,592

Valuation policies and procedures are determined by our Trust Services department, which reports to our Chief Financial Officer. Additionally, valuations are reviewed quarterly by the Investment Committee of the Board of Directors.

Where quoted prices are available in an active market, securities held by the trusts are classified as Level 1 investments pursuant to the fair value measurements hierarchy.

Where quoted market prices are not available for the specific security, fair values are estimated by using either quoted prices of securities with similar characteristics or an income approach fair value model with observable inputs that include a combination of interest rates, yield curves, credit risks, prepayment speeds, ratings, and tax-exempt status. These securities are classified as Level 2 investments pursuant to the fair value measurements hierarchy.

The valuation of other investments requires management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. These securities are classified as Level 3 investments pursuant to the fair value measurements hierarchy.

Fixed income commingled funds and private equity investments are measured at net asset value. Fixed income commingled funds are redeemable for net asset value with two weeks' notice. Our private equity investments include several funds that invest in limited partnerships, distressed debt, real estate, and mezzanine financing. These investments can never be redeemed by the funds. Instead, due to the nature of the investments in this category, distributions are received through the liquidation of the underlying assets of the funds. We estimate that the underlying assets will be liquidated over the next 2 to 10 years. As of December 31, 2016, our unfunded commitment for our private equity and other investments was \$31.0 million which, if called, would be funded by the assets of the trusts.

The change in our market-based cemetery perpetual care trust investments with significant unobservable inputs (Level 3) is as follows for the years ended December 31 :

	2016	2015	2014
	(In thousands)		
Fair value, beginning balance at January 1	\$1,902	\$1,556	\$1,599
Net unrealized (losses) gains included in Accumulated other comprehensive income ⁽¹⁾	(15)	346	(26)
Sales	—	—	(17)
Fair value, ending balance at December 31	\$1,887	\$1,902	\$1,556

All unrealized (losses) gains recognized in Accumulated other comprehensive income for our cemetery perpetual (1) care trust investments are offset by a corresponding reclassification in Accumulated other comprehensive income to Care trusts' corpus. See Note 6 for further information related to our Care trusts' corpus.

Maturity dates of our fixed income securities range from 2017 to 2040. Maturities of fixed income securities at December 31, 2016 are estimated as follows:

	Fair Value
	(In thousands)
Due in one year or less	\$ 1,834
Due in one to five years	17,283
Due in five to ten years	69
Thereafter	201
	\$ 19,387

Distributable earnings from these cemetery perpetual care trust investments are recognized in current cemetery revenue to the extent we incur qualifying cemetery maintenance costs. Fees charged by our wholly-owned registered investment advisor are also included in current revenue in the period in which they are earned. Recognized earnings related to these cemetery perpetual care trust investments were \$67.6 million, \$59.6 million, and \$72.4 million for the years ended December 31, 2016, 2015, and 2014, respectively.

We assess our trust investments for other-than-temporary declines in fair value on a quarterly basis. Impairment charges resulting from this assessment are recognized as investment losses in Other (expense) income, net and a decrease to Cemetery perpetual care trust investments. These investment losses, if any, are offset by the corresponding reclassification in Other (expense) income, net, which reduces Care trusts' corpus. See Note 6 for further information related to our Care trusts' corpus.

We have determined that the remaining unrealized losses in our cemetery perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. Our analysis included a review of the portfolio holdings, and discussions with the individual money managers as to the sector exposures, credit ratings, and the severity and duration of the unrealized losses. Our cemetery perpetual care trust investment unrealized losses, their associated fair values, and the duration of unrealized losses for the years ended December 31, 2016 and 2015, are shown in the following table:

	December 31, 2016					
	In Loss Position Less Than 12 Months		In Loss Position Greater Than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
	(In thousands)					
Fixed income securities:						
Canadian government	\$66	\$(1)	\$1,961	\$(113)	\$2,027	\$(114)
Corporate	397	(7)	1,866	(94)	2,263	(101)
Residential mortgage-backed	303	(1)	—	—	303	(1)
Asset-backed	28	(22)	101	(6)	129	(28)
Equity securities:						
Preferred stock	846	(36)	417	(81)	1,263	(117)
Common stock:						
United States	34,844	(1,339)	12,974	(998)	47,818	(2,337)
Canada	78	(47)	558	(61)	636	(108)
Other international	4,177	(508)	5,715	(1,728)	9,892	(2,236)
Mutual funds:						
Equity	877	(17)	2,899	(395)	3,776	(412)
Fixed income	263,231	(4,678)	348,623	(24,319)	611,854	(28,997)
Trust investments, at fair value	304,847	(6,656)	375,114	(27,795)	679,961	(34,451)
Fixed income commingled funds	265,345	(9,346)	2,931	(40)	268,276	(9,386)
Private equity	21,426	(268)	33,519	(6,442)	54,945	(6,710)
Trust investments, at net asset value	286,771	(9,614)	36,450	(6,482)	323,221	(16,096)
Total temporarily impaired securities	\$591,618	\$(16,270)	\$411,564	\$(34,277)	\$1,003,182	\$(50,547)

December 31, 2015					
In Loss Position		In Loss Position		Total	
Less Than 12		Greater Than 12			
Months		Months			
Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Market	Losses	Market	Losses	Market	Losses
Value		Value		Value	

(In thousands)

Fixed income securities:

U.S. Treasury \$