

American Century Investment Services, Inc.

Notes to financial statements Year ended December 31, 2016

1. Nature of operations and summary of significant accounting policies

Nature of operations — American Century Investment Services, Inc. ("ACIS" or the "Company") is a registered broker-dealer that primarily markets and distributes shares of the American Century Investments family of mutual funds ("ACI Funds") for American Century Investment Management, Inc. ("ACIM" or the "Adviser"). Both ACIS and ACIM are wholly-owned subsidiaries of American Century Companies, Inc. ("ACC").

The Company is subject to the rules and regulations of the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA").

The Company markets and distributes shares of the ACI Funds and municipal fund securities. The Company also introduces its retail customers to another broker-dealer who carries such accounts on a fully disclosed basis. With respect to these activities, the Company carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a broker-dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers and effectuates all financial transactions between itself and its customers through a "Special Account for the Exclusive Benefit of Customers of ACIS." Accordingly, the Company claims exemption under Rule 15c3-3 of the Securities Exchange Act of 1934, under paragraph (k)(2)(i) and (k)(2)(ii) of the Rule.

Pursuant to an agreement between the Company and its clearing broker, the clearing broker is required to perform a computation for proprietary accounts of introducing broker assets similar to the customer reserve computation. Therefore, proprietary accounts held at the clearing broker are considered allowable assets in the net capital computation.

Cash and cash equivalents — Cash equivalents are highly liquid investments with original maturities of three months or less and consisted of an investment in affiliated money market mutual funds of \$71,126,658 as of December 31, 2016.

Deferred sales commissions — Sales commissions paid to financial intermediaries in connection with the sale of shares of certain classes of funds are capitalized and amortized on a straight-line basis over a specified period, which is typically one year. Amortization of the assets is meant to coincide with the recoverability of these costs through the retention of Rule 12b-1 distribution fees and contingent deferred sales charge assessments ("CDSC"). CDSC's collected by the Company from redeeming shareholders are recorded as a reduction to the deferred sales commission assets.

Management reviews the carrying amount of the deferred sales commission assets for impairment whenever events or changes in circumstances indicate that the assets may not be recoverable over their remaining useful lives. Such an impairment test would consider, among other things, the depreciation of the assets related to the deferred sales commission assets as well as the duration and severity of the depreciation. No impairment tests were performed and no impairment charges were recorded during the year ended December 31, 2016.

Prepaid expenses — Items such as licensing and registration fees are paid in advance and expensed over a specified period, which is typically one year.

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Property and equipment — Property and equipment, including information systems equipment and software, are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years.

Management, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value might not be recoverable. No such impairment charge was recorded for long-lived assets during 2016.

Affiliate payable — The Company has a payable to ACIM for amounts ACIM paid on behalf of the Company per the cash management agreement.

Underwriting and distribution revenues and expenses — Revenues are primarily earned in accordance with the provisions of agreements with the ACI Funds and represent fees earned for marketing and distributing shares of the ACI Funds. Distribution revenues are generally determined as a percentage of client assets and include Rule 12b-1 distribution and service fees, front-end sales charge fees, and CDSCs. Distribution expenses represent amounts owed under agreements entered into by the Company with unaffiliated broker-dealers to sell shares of the ACI Funds. Distribution expenses include distribution and service fee charges, front-end sales charges, and dealer concessions.

Distribution and marketing services — In its capacity as distributor for one or more share classes of ACI Funds, the Company performs services such as marketing, underwriting, and selling shares of ACI Funds and units in a qualified tuition program under Section 529 of the Internal Revenue Code, marketing and business solicitation services relating to institutional investment management and other services designated by ACIM. In consideration for these services and in accordance with the provisions of a distribution services agreement, ACIM pays the Company fees equivalent to 108% of certain expenses. These amounts are netted against the affiliate payable in the Statement of Financial Condition.

Affiliate Service Fees — The Company recognizes expenses charged by ACC and affiliates for services provided to, and assets used by, the Company. These expenses include fees paid for strategic management services, administrative service fees paid for information technology, human resources, office space, and corporate overhead services, and licensing fees paid for the use of trademarks and trade names used in the business of marketing and selling shares of the ACI Funds. These amounts are included in the affiliate payable in the Statement of Financial Condition.

Income taxes — The Company is included in the consolidated tax returns of ACC with other ACC subsidiaries. In accordance with the provisions of a tax sharing agreement, ACC allocates income tax expense or benefit to members of the consolidated group based on each subsidiary's contribution on a standalone basis to consolidated taxable income or loss, using the statutory rate applicable to the consolidated group. The tax sharing agreement also provides for reimbursement to subsidiaries with net operating losses to the extent those losses are used to reduce consolidated taxable income. In 2016, the Company paid \$5,339,261 to settle the income tax liability incurred under this agreement.

The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis. To the extent management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is established. No valuation allowance was recorded as of December 31, 2016.

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Commitments and contingencies — In the ordinary course of business, the Company is periodically involved in litigation and other claims. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Statement of Financial Condition.

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

Subsequent events — In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 855, Subsequent Events, management performed an evaluation of subsequent events through February 22, 2017, the date on which these financial statements were issued. There were no material events that would require disclosure in the Company's financial statements.

New accounting pronouncements — The following table provides a brief description of accounting standards recently issued but not yet adopted:

Standard	Description	Effective	Effect on the Financial Statements or Other Significant Matters
Accounting Standards Update ("ASU") 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i> ; issued May 28, 2014	ASU 2014-09 introduces a new principles-based framework to improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. Under the updated guidance, revenue should be recognized when (or as) the entity satisfies identified performance obligations in contracts with customers.	Annual reporting periods beginning after December 15, 2017	The Company is still assessing the impact of this ASU on future financial statements.
ASU 2016-09, <i>Improvements to Employer Share-Based Payment Accounting</i> ; issued March 30, 2016	ASU 2016-09 is intended to simplify how share-based payments are accounted for and presented in the financial statements. Among other changes, the new guidance requires all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement and allows an entity to either estimate the number of awards that are expected to vest or account for forfeitures when they occur.	Annual reporting periods beginning after December 15, 2016	Upon adoption of this standard on January 1, 2017, the Company will account for forfeitures when they occur. The Company is still assessing the impact of this ASU on future financial statements.

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2. Property and equipment

Property and equipment balance as of December 31, 2016 includes:

	2016
Property and equipment	
Information systems equipment and software	\$ 544,096
Less accumulated depreciation	(449,833)
Total property and equipment, net	<u>\$ 94,263</u>

3. Employee benefit plans

Retirement plan — Substantially all employees are covered under the American Century Retirement Plan offered by ACC or its other wholly-owned subsidiaries. As of December 31, 2016, accrued plan related expenses were \$3,411,593 and are included in accrued salaries and benefits in the Statement of Financial Condition.

4. Restricted stock plan

The Company participates in ACC's restricted stock plan, which provides for grants of ACC common stock to certain employees. Grants are made at the discretion of ACC's management and are subject to the completion of a service period prior to vesting, generally three to five years. The fair value of the shares granted is the price as determined by an independent valuation firm engaged by the trustees of the American Century Retirement Plan. During the service period, shares are subject to forfeiture and participants shall not sell, transfer, assign, pledge or otherwise dispose of any shares awarded to the participant, with the exception that participants may transfer stock to a single permitted transferee. The grant date fair value of the awards is recognized as compensation cost over the service period using the straight-line method.

The summary of changes in restricted stock for the year ended December 31, 2016, is as follows:

	Shares	Weighted-average grant-date fair value
Nonvested at January 1, 2016	693,273	\$20.47
Granted	499,594	16.24
Vested	(168,228)	19.35
Forfeited	(17,749)	20.48
Transferred out	(17,205)	20.86
Nonvested at December 31, 2016	<u>989,685</u>	\$18.52

The fair value of shares vested during 2016 was \$2,990,326.

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5. Net capital requirements

The Company is subject to the uniform net capital rule (Rule 15c3-1) under the Securities Exchange Act of 1934. Rule 15c3-1 requires the Company to maintain minimum net capital equal to the greater of \$250,000 or 6% of aggregate indebtedness. The Company had net capital, as defined, of \$17,004,952 which was \$13,479,284 in excess of its required net capital of \$3,525,668 and a ratio of aggregate indebtedness to net capital of 3.11 to 1.00 as of December 31, 2016.

6. Guarantees

The Company indemnified its clearing broker for customers introduced by the Company who are unable to satisfy the terms of their contracts. The probability is remote that the Company will incur material losses under this agreement. Accordingly, no liability was recorded in the Statement of Financial Condition for this guarantee.

7. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date. The fair value of a financial instrument should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including the Company's credit risk.

Valuation inputs used in fair value calculations are classified into a hierarchy. The hierarchy prioritizes the inputs into three levels. These levels are based on the extent inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels determined by the lowest level input. The levels are:

Level 1 — inputs are based upon unadjusted quoted prices for identical instruments traded in active markets accessible by the Company at the measurement date.

Level 2 — inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — inputs are unobservable and reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The Company's financial instruments consist only of cash equivalents traded in active markets, for which the fair value is based on quoted market prices for money market funds. Accordingly, these are classified as Level 1, and the fair value at December 31, 2016 approximates carrying value, as reflected in the Statement of Financial Condition.

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8. Income taxes

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Statement of Financial Condition. These temporary differences result in taxable or deductible amounts in future years. Deferred tax assets (liabilities) as of December 31, 2016, were as follows:

Accrued sabbatical	\$ 459,823
Accrued vacation	524,877
Other compensation accruals	505,800
Unrecognized tax benefits	<u>93,981</u>
Total deferred tax assets	<u>1,584,481</u>
Prepaid expenses	\$ (448,768)
Depreciation	(14,826)
Deferred sales commissions	<u>(742,547)</u>
Total deferred tax liabilities	<u>(1,206,141)</u>
Net deferred income taxes	<u>\$ 378,340</u>

The Company had total gross unrecognized tax benefits of \$251,706 as of December 31, 2016, which are included in income taxes payable in the Statement of Financial Condition.

Gross accrued interest and penalties were \$15,880 as of December 31, 2016, and are included in income taxes payable in the Statement of Financial Condition.

The Company files various tax returns with federal, state, and local taxing authorities that are subject to audit. Tax years 2013 through 2016 remain open to examination for U.S. federal income. Tax years 2012 through 2016 generally remain open to examination by significant state and local tax jurisdictions. During the next twelve months, it is reasonably possible that the expiration of the statute of limitations for certain jurisdictions could reduce unrecognized tax benefits by up to \$3,753. While this amount may change, the Company does not expect that any such change will result in a material impact on the results of operations or the financial position of the Company.