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FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors’ Report Thereon)

FRED HUTCHINSON CANCER RESEARCH CENTER

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Fred Hutchinson Cancer Research Center:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fred Hutchinson Research Cancer Research Center (the Center), which comprise the consolidated statement of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fred Hutchinson Research Cancer Research Center as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 28, 2016

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Assets:			
Cash and cash equivalents	$	14,281	43,159
Restricted cash		16,420	19,340
Grants and contracts receivable, net		25,470	18,905
Notes and pledges receivable, net		8,752	4,393
Other receivables, net		8,585	13,899
Investments		350,831	340,427
Land, buildings, and equipment, net of accumulated depreciation of $348,165 and $326,983, respectively		378,094	379,129
Beneficial interest in perpetual trusts		27,228	27,677
Beneficial interest in assets of SCCA		121,753	102,497
Other assets		1,886	1,806
Total assets	$	953,300	951,232
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	16,645	11,644
Accrued payroll and related costs		20,871	17,696
Deferred revenue		44,722	51,949
Long-term debt		356,546	351,295
Deferred credit on cash flow hedges		33,558	28,684
Total liabilities		472,342	461,268
Net assets:			
Unrestricted		344,335	364,402
Temporarily restricted		62,979	65,683
Permanently restricted		73,644	59,879
Total net assets		480,958	489,964
Total liabilities and net assets	$	953,300	951,232

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2016

(In thousands)

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:					
Research grants and contracts	$	346,036	—	—	346,036
Contributions		20,700	13,136	13,517	47,353
Investment income and realized gains and losses		87,299	(1,481)	737	86,555
IP commercialization income		72,786	—	—	72,786
Clinical service fee revenue		19,404	—	—	19,404
Other income		43,338	—	—	43,338
Net assets released from restrictions		13,882	(13,882)	—	—
Total revenues		603,445	(2,227)	14,254	615,472
Expenses:					
Program services research		367,389	—	—	367,389
Management and general		105,818	—	—	105,818
Fundraising		11,379	—	—	11,379
Total expenses		484,586	—	—	484,586
Change in net assets from operations		118,859	(2,227)	14,254	130,886
Other changes in net assets:					
Change in net unrealized fair value of investments		(118,484)	(477)	(39)	(119,000)
Change in net foreign currency translation		(497)	—	—	(497)
Loss on defeasance of debt		(14,651)	—	—	(14,651)
Change in value of split-interest agreements		(420)	—	(450)	(870)
Change in net unrealized fair value of swap instruments		(4,874)	—	—	(4,874)
Total other changes in net assets		(138,926)	(477)	(489)	(139,892)
Total increase/(decrease) in net assets		(20,067)	(2,704)	13,765	(9,006)
Net assets balance at beginning of year		364,402	65,683	59,879	489,964
Net assets balance at end of year	$	344,335	62,979	73,644	480,958

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2015

(In thousands)

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:				
Research grants and contracts	$ 321,476	—	—	321,476
Contributions	21,836	26,500	2,662	50,998
Investment income and realized gains and losses	53,692	1,006	33	54,731
IP commercialization income	6,887	—	—	6,887
Clinical service fee revenue	16,265	—	—	16,265
Other income	38,150	—	—	38,150
Net assets released from restrictions	10,655	(10,655)	—	—
Total revenues	468,961	16,851	2,695	488,507
Expenses:				
Program services research	337,789	—	—	337,789
Management and general	88,372	—	—	88,372
Fundraising	10,300	—	—	10,300
Total expenses	436,461	—	—	436,461
Change in net assets from operations	32,500	16,851	2,695	52,046
Other changes in net assets:				
Change in net unrealized fair value of investments	158,629	(1,775)	14	156,868
Change in net foreign currency translation	276	—	—	276
Change in value of split-interest agreements	(120)	—	(966)	(1,086)
Change in net unrealized fair value of swap instruments	102	—	—	102
Total other changes in net assets	158,887	(1,775)	(952)	156,160
Total increase in net assets	191,387	15,076	1,743	208,206
Net assets balance at beginning of year	173,015	50,607	58,136	281,758
Net assets balance at end of year	$ 364,402	65,683	59,879	489,964

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(9,006)	208,206
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		24,367	23,977
Noncash deferred revenue		(1,106)	(815)
Equity in earnings of SCCA		(19,256)	(13,530)
Change in net unrealized losses (gains) in fair value of investments		46,336	(156,868)
Change in value of split-interest agreements		870	1,086
Change in fair value of swap instruments		4,874	(102)
Net realized gains on investments		(62,354)	(39,075)
Noncash contributions		(3,243)	(12,935)
Noncash IP commercialization income		(71,742)	—
Loss on defeasance of debt		14,651	—
Permanently restricted contributions		(13,517)	(2,662)
Changes in assets and liabilities:			
Grants and contracts receivable		(6,565)	2,689
Notes and pledges receivable		(4,359)	401
Other receivables		5,387	(1,629)
Prepaid expenses and deposits		(61)	(771)
Accounts payable and accrued liabilities		4,826	(746)
Accrued payroll and related costs		3,175	1,344
Deferred grant and contract revenue		(6,766)	11,395
Net cash (used in) provided by operating activities		(93,489)	19,965
Cash flows from investing activities:			
Additions to land, buildings, equipment, and rental property		(23,686)	(30,532)
Purchase of investments		(211,581)	(85,549)
Sale of investments		288,516	113,540
Change in restricted cash		2,920	(9,793)
Net cash provided by (used in) investing activities		56,169	(12,334)
Cash flows from financing activities:			
Proceeds from new debt		92,160	4,435
Additions to deferred financing costs		(1,016)	(349)
Repayment of debt		(100,049)	(9,609)
Contributions restricted for long-term investment		16,760	15,597
Net cash provided by financing activities		7,855	10,074
Change in foreign currency translation		587	531
Net (decrease) increase in cash and cash equivalents		(28,878)	18,236
Cash and cash equivalents at beginning of year		43,159	24,923
Cash and cash equivalents at end of year	$	14,281	43,159
Supplemental disclosure of cash flow information:			
Interest paid	$	17,364	17,962
Capital expenditures in accounts payable		654	513

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Functional Expenses

Years ended June 30, 2016 and 2015

(In thousands)

		Program services research	Management and general	Fundraising	Total
2016:					
Salaries and wages	$	162,811	44,466	5,124	212,401
Employee benefits		41,247	10,844	1,279	53,370
Subawards		67,626	81	—	67,707
Purchased services		15,855	21,111	896	37,862
Supplies		25,691	3,729	128	29,548
Other		16,261	8,450	3,720	28,431
Rent, utilities, and maintenance		3,568	10,254	226	14,048
Interest and amortization		14,732	1,625	—	16,357
Depreciation		19,598	5,258	6	24,862
Total June 30, 2016	$	367,389	105,818	11,379	484,586
2015:					
Salaries and wages	$	150,479	38,887	4,270	193,636
Employee benefits		37,614	9,247	1,041	47,902
Subawards		61,645	53	—	61,698
Purchased services		10,791	14,882	772	26,445
Supplies		23,259	2,724	66	26,049
Other		14,836	6,989	3,880	25,705
Rent, utilities, and maintenance		3,794	9,046	271	13,111
Interest and amortization		16,353	1,817	—	18,170
Depreciation		19,018	4,727	—	23,745
Total June 30, 2015	$	337,789	88,372	10,300	436,461

See accompanying notes to consolidated financial statements.

(1) Organization

Fred Hutchinson Cancer Research Center (the Center), a Washington not-for-profit corporation, is organized and operated exclusively for charitable, scientific, and educational purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, including without limitation (i) eliminating cancer as a cause of human suffering and death; (ii) conducting investigations into the nature and causes of cancer and related medical and public health problems; (iii) investigating methods of prevention and treatment of cancer and related diseases; (iv) conducting education in all phases of cancer research; (v) performing research in all aspects of biomedical science that have a relationship to cancer; (vi) disseminating knowledge acquired pursuant to the foregoing activities; and (vii) maintaining facilities for cancer and related biomedical research. The Center is designated by the National Cancer Institute as a comprehensive cancer research center.

Controlled Affiliates of the Center

Hutchinson Centre Research Institute in Uganda Limited (HCRIU), is a Uganda not-for-profit corporation. It is organized and operated for the purpose of researching, detecting, treating and preventing infection-related cancers in Uganda and throughout the world. The Center is the sole member of HCRIU. The income and property of HCRIU is restricted to be used in meeting its organizational objectives. The net assets of HCRIU of $(3,542) and $(2,201) as of June 30, 2016 and 2015, respectively, are not considered pledged assets under debt covenants.

Hutchinson Centre Research Institute of South Africa (HCRISA) is a South Africa not-for-profit corporation. It is organized and operated for the purpose of promoting and conducting clinical, laboratory and other research aimed at the prevention, early detection, diagnosis, and treatment of HIV/AIDS, Tuberculosis and other infectious diseases and cancer in South Africa and throughout the world. The Center is the sole member of HCRISA. The income and property of HCRISA is restricted to be used in meeting its organizational objectives. The net assets of HCRISA of $1,023 and $943 as of June 30, 2016 and 2015, respectively, are not considered pledged assets under debt covenants.

Seattle Vaccine Research Fund (SVRF), a Washington State not-for-profit corporation, is exempt from federal taxes under Section 501(c)(3). It is operated for the purpose of providing anti retrovirals to eligible participants of HIV Trials Network. The net assets of SVRF of $444 and $443 as of June 30, 2016 and 2015, respectively, are not considered pledged assets under debt covenants.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of the Center and its controlled affiliates, collectively referred to as the Center. All significant intercompany balances and transactions between the Center and its controlled affiliates have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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.

(c) Cash and Cash Equivalents

Included in cash and cash equivalents are cash equivalents of approximately $11,982 and $11,436 as of June 30, 2016 and 2015, respectively, which are invested in money market funds and highly liquid debt instruments with original maturities of three months or less.

The Center maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes the Center to potential risk of loss in the event that the financial institution becomes insolvent.

(d) Restricted Cash

Restricted cash includes trustee held funds and posted collateral funds. Trustee held funds are in U.S. government and agency obligations held for the purpose of debt service. Posted collateral funds are held to comply with the terms of swap agreements as further discussed in note 16.

(e) Investments

Investments, including board-designated investments and other restricted investments, carried at fair value include cash and cash equivalents, equity securities, debt securities, and alternative investments.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Improvements and replacements of land, buildings, and equipment are capitalized; maintenance and repairs costs are expensed.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360*, Property, Plant, and Equipment*, long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset may not be recoverable.

The Center receives reimbursement for a portion of its property, plant, and equipment through direct and indirect cost reimbursement primarily from the federal government in connection with federal grants.

(Continued)

(g) Beneficial Interest in Assets of SCCA

The Center accounts for its 33% ownership interest in Seattle Cancer Care Alliance (SCCA) using the equity method of accounting, as further discussed in note 13.

(h) Research Grants and Contracts Revenue

The Center receives grant and contract funds for services it performs. The sources of these funds are both federal and non-federal agencies. Approximately 85% of the Center's revenue is funded by the Federal Government. The Center expends these funds consistent with the terms of the grants and contracts agreements. Total grants and contracts revenue is $346,036 and $321,476 for the years ended June 30, 2016 and 2015, respectively.

(i) Deferred Revenue and Grants and Contracts Receivable, net

Deferred revenue represents grant and contract funds received for services to be performed by the Center, which have not yet been expended under terms of the grant and contract agreements and which do not meet the criteria for reporting as contributions. The Center recognizes these amounts as revenue as such funds are expended. The Center also includes certain construction grants from the federal government as deferred revenue, which are recognized as revenue at the same rate as depreciation expense.

The balance in grants and contracts receivable, net, as reflected on the accompanying statement of financial position, represents expenditures made in accordance with the terms of provisions of the grants and contracts not yet reimbursed by cash.

(j) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Center are reported at fair value at the date the promise is received. Conditional promises to give and intentions to give are reported at fair value at the date the gift is received or when the conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets or contain a time restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

(k) Perpetual Trusts and Charitable Remainder Trusts

The Center is the beneficiary of irrevocable perpetual trusts and charitable remainder trusts for which the Center is not the trustee. These funds held in trust by others represent resources neither in the possession nor under the control of the Center and are administered by third party trustees. When the Center is notified of the existence of an irrevocable perpetual trust and can reasonably value its interest, the Center recognizes its beneficial interest in the outside trust at fair value as a contribution. The contribution is classified as an increase in permanently restricted net assets based on restrictions placed by the donor. The changes in the fair value of the irrevocable perpetual trusts are reflected as investment changes restricted by donors, in permanently restricted net assets on the statements of activity.

(Continued)

When the Center is notified of an irrevocable charitable remainder trust for which it is not the trustee, the Center recognizes its beneficial interest in the outside trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received. The contribution is classified as an increase in temporarily restricted net assets based on restriction placed by the donor upon the Center's beneficial interest in the assets. Periodic adjustments recorded to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized based on information from outside trustees. Any charitable remainder trusts for which the Center is not the trustee are reflected as a receivable from trusts and are included in other receivables in the accompanying consolidated statements of financial position. These amounts as of June 30, 2016 and 2015 were $1,018 and $1,406, respectively.

(l) Foreign Currency Translation and Transaction Gains and Losses

The consolidated financial statements include foreign currency amounts attributable to foreign operations. The foreign currency amounts have been translated into U.S. dollars using year-end exchange rates for certain assets and liabilities, historical rates for net assets and average monthly rates for revenues and expenditures.

HCRISA's general ledger is maintained in South Africa rand, and their financial statements are measured using the currency of the primary economic environment in which the entity operates. Unrealized gains or losses arising from fluctuations in the year-end exchange rates are recorded as net asset adjustments from foreign currency translation, and gains or losses resulting from actual foreign exchange transactions are recorded in revenues and expenses in the consolidated statements of activities. The foreign currency translation amounts to losses of $434 at June 30, 2016 and gains of $354 at June 30, 2015.

In accordance with the ASC Topic 230, *Statement of Cash Flows*, cash flows from HCRISA's operations are calculated based on its local reporting currency and translated to U.S. dollars.

HCRIU's general ledger is maintained in U.S. dollars, and its financial statements are measured using the currency of the primary economic environment in which the entity operates, which is U.S. dollars. Unrealized gains or losses arising from fluctuations in the year-end exchange rates, and gains or losses resulting from actual foreign exchange transactions are recorded in revenues and expense. The foreign currency translation losses amount to $63 and $78 at June 30, 2016 and 2015, respectively.

(m) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those that have uses that have been limited by donors to a specific time period or purpose. The Center's temporarily restricted net assets are restricted to scientific research expenses and other program related expenses.

Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity. The Center's permanently restricted net assets consist of various endowment funds and the Center's interest in perpetual trusts. Income earned on permanently restricted funds is used for operations in accordance with the terms of each endowment fund and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

(Continued)

(n) Statements of Activities

The statements of activities describe the results of various financial events that are included in presenting the change in the Center's net assets. Contributions received by the Center may be either unrestricted, temporarily restricted, or permanently restricted. Investment income and realized gains and losses may be restricted based on donor intent or unrestricted. Research grant and contract revenue generated by the Center and related expenses incurred are unrestricted. Changes in asset values resulting from "mark-to-market" adjustments to record unrealized gains and losses are shown as Other Changes in Net Assets. A total increase or decrease in net assets for each net asset grouping is shown to roll forward the beginning of the year balance to the end of the year balance.

(o) IP Commercialization Income

The Center actively develops intellectual property (IP) to pursue a strategy of translating research discoveries into new products and services that generate revenue in the form of licensing agreements, partnerships, royalty streams and new businesses.

(p) Federal Income Taxes

The Center has obtained a determination letter from the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3), except for unrelated business income.

(q) Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The guidance requires that debt issuance costs related to a recognized debt liability be reported on the balance sheet as a direct deduction from the carrying amount of that debt liability. The guidance is effective for fiscal years beginning after December 15, 2015, and is required to be applied retrospectively. Early adoption is permitted. We have adopted ASU 2015-03 and have reclassified $2,065 and $2,076 as of June 30, 2016 and 2015, respectively, of our debt issuance costs related to existing debt liabilities from assets to liabilities on the balance sheet.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirements from U.S. GAAP to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for the Center for annual periods in fiscal years beginning after December 15, 2016, and requires retrospective adoption. The Center will implement the provisions of ASU 2015-07 as of July 1, 2017, and does not expect it to have a material impact on its consolidated financial statements.

(Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for the Center for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The Center will implement the provisions of ASU 2014-09 as of July 1, 2019, and has not yet determined the effect of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 84, *Leases*, and makes other conforming amendments to US. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Center for annual periods in fiscal years beginning after December 15, 2019, and mandates a modified retrospective transition method. The Center will implement the provisions of ASU 2016-02 as of July 1, 2020, and does not expect it to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-04 replaces the current presentation of three classes of net assets with two classes of net assets – net assets with donor restricted and net assets without donor restriction, along with additional qualitative and quantitative disclosures regarding liquidity, and additional reporting and disclosure changes. ASU 2016-14 is effective for the Center for annual periods in fiscal years beginning after December 15, 2017, and requires retrospective application. The Center will implement the provisions of ASU 2016-04 as of July 1, 2018, and has not yet determined the effect of the new standard on its consolidated financial statements.

(r) Reclassifications

Certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation.

(3) Due from Government Agencies

The Center incurs facilities and administrative (F&A) costs to support its research activities. Research programs are charged for these costs through an F&A cost rate, which is applied to modified total direct research costs. Both direct and F&A costs are recovered by the Center from research programs supported by federal and other grant revenue.

The fixed federal F&A rate for grant and contract supported programs is determined by prospective negotiation with the Department of Health and Human Services (DHHS) based on an estimate of the costs that will be incurred during the period to which the rate applies. Any difference between the costs recovered through the fixed F&A cost rate and actual F&A costs incurred represents an estimated F&A settlement with the federal government, which will be included in future rates. No estimated settlement was recorded as of June 30, 2016 or 2015.

(4) Investments

Investments are carried at fair value and include cash and cash equivalents, equity securities, debt securities and alternative investments. Fair value is defined as the price that the Center would receive upon selling an asset in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FASB ASC 820-10-50, *Fair Value Measurement*, established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based upon market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy is summarized below:

- Level 1 – Valuation inputs are quoted prices in active markets for identical investments. At June 30, 2016 and 2015, Level 1 measurements include primarily cash and cash equivalents, domestic and global equities, equity funds, and bond funds.
- Level 2 – Valuation inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. At June 30, 2016 and 2015, Level 2 measurements included fixed income and debt securities, such as U.S. government obligations, mortgage-backed securities, corporate bonds, municipal obligations, interest rate swaps, and certain hedged equity and real asset funds.
- Level 3 – Valuation inputs are derived from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Center's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques. At June 30, 2016 and 2015, Level 3 securities included hedged equity funds, private equity and venture capital funds, privately held equities, beneficial interests in charitable trusts, and beneficial interests in perpetual trusts.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of alternative investments is reported based on information provided by the respective alternative investment funds' managers. The alternative investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the fund's underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Center's interest therein, its classification in Level 2 or 3 is based on the Center's ability to redeem its interest at or near the statement of financial position date. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(a) Fair Value Calculation Methodology

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents – The carrying amount (cost) approximates fair value because of the short maturity of those instruments.

Investments and Trusts – Investments in equity and debt securities, beneficial interest in charitable remainder trusts and perpetual trusts are measured at fair value based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Alternative investments are measured at fair value based on each fund's net asset value as a practical expedient. Other equity securities, which are shares held in a nonpublic entity, are measured at fair value based on management's valuation model. Management's model utilizes data and assumptions that are not observable to market participants.

Long-Term Debt – The carrying amount of long-term debt with variable interest rates approximates fair value because interest rates are adjusted either daily or weekly for the variable rate demand bonds. The carrying amount of the fixed rate debt is calculated based upon the net present value of the future cash outflows of the associated fixed rate debt discounted at the interest rates in effect as of June 30, 2016.

Cash Flow Hedges – The carrying amounts of the interest rate swaps are at estimated fair values based on the net present value of the associated variable cash flows, adjusted for the Center's and the respective counterparty's nonperformance risk.

(In thousands)

(b) Fair Value Hierarchy

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016 and 2015:

	2016				
		June 30, 2016	**Level 1**	**Level 2**	**Level 3**
Investments:					
Cash and cash equivalents	$	20,438	20,438	—	—
Global equity securities and mutual funds		248,130	209,483	18,670	19,977
Governments, mortgage and corporate debt funds		12,938	448	12,361	129
Real estate funds		5,304	—	—	5,304
Directional hedge funds		48,882	—	11,320	37,562
Private equity and venture capital funds		1,690	53	—	1,637
Commodity investments and funds		12,632	2,491	10,141	—
Other equity securities		817	424	—	393
Total investments	$	350,831	233,337	52,492	65,002

	2016				
		June 30, 2016	**Level 1**	**Level 2**	**Level 3**
Other receivables:					
Beneficial interest in charitable remainder trusts	$	1,016	—	—	1,016
Beneficial interest in perpetual trusts		27,228	—	—	27,228
Trustee-held funds		2,020	149	1,871	—
Liabilities:					
Deferred credit on cash flow hedges	$	(33,558)	—	(33,558)	—

(In thousands)

	2015			
	June 30, 2015	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 12,018	12,018	—	—
Global equity securities and mutual funds	248,064	231,912	12,269	3,883
Governments, mortgage and corporate debt funds	26,654	10,931	15,583	140
Real estate funds	6,221	—	—	6,221
Directional hedge funds	34,389	—	9,245	25,144
Private equity and venture capital funds	3,673	—	—	3,673
Commodity investments and funds	8,169	2,550	5,619	—
Other equity securities	1,228	1,085	—	143
Total investments	$ 340,416	258,496	42,716	39,204

	2015			
	June 30, 2015	Level 1	Level 2	Level 3
Other receivables:				
Beneficial interest in charitable remainder trusts	$ 1,404	—	—	1,404
Beneficial interest in perpetual trusts	27,677	—	—	27,677
Trustee-held funds	10,940	9,083	1,857	—
Liabilities:				
Deferred credit on cash flow hedges	$ (28,684)	—	(28,684)	—

(In thousands)

The following tables presents the Center's activities for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

		2016	2015
Beginning balance, July 1	$	68,285	87,146
Transfers out of Level 3		(53)	(16,732)
Net realized and unrealized gains		(6,899)	3,916
Purchases		35,741	8,041
Sales		(2,101)	(7,735)
Return of capital distribution		(1,727)	(6,351)
Ending balance, June 30	$	93,246	68,285

The following table summarizes the Center's Level 3 investments by major category, as well as related strategy, liquidity, and funding commitment as of June 30:

		June 30, 2016	June 30, 2015	Redemption or liquidation	Days notice	Unfunded commitment
Directional hedge funds	$	37,562	25,144	Qtrly – Every 2 yrs	30–184	N/A
Limited partnerships:						
Venture capital funds		491	592	N/A (1)	N/A	N/A
Global equity securities		19,977	3,883	Monthly	30	N/A
Private equity funds		1,146	3,081	N/A (1)	N/A	(2)
Real estate funds		708	1,974	N/A (1)	N/A	(3)
Real estate funds		4,596	4,247	Quarterly	90	N/A
Corporate debt funds		129	140	Daily	One	N/A
Other equity securities		393	143	N/A (1)	N/A	N/A
Other real and personal property		—	—	N/A (1)	N/A	N/A
Total investments	$	65,002	39,204			

(1) Not eligible for redemption

(2) Unfunded Commitment of $405 as of June 30, 2016 and 2015

(3) Unfunded Commitment of $523 as of June 30, 2016 and 2015

At June 30, 2016 and 2015, the Center had $2,793 and $5,790, respectively, in investments that are not readily marketable. These are investments for which liquidation is at the discretion of the fund manager. These investments represent 1% and 2% of total investments and 1% of net assets at June 30, 2016 and 2015. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because of these risks, the recorded value for these investments may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

(In thousands)

The Center has funds invested in 32 limited partnerships and companies with ownership interests ranging from 0.32% to 4.18% at June 30, 2016 and 2015. In 2016, three of these partnerships were venture capital funds, four are private equity, 20 are hedge funds, three are debt funds, and two are real estate funds.

The Center's restricted investments contain endowment funds with donor restrictions for a variety of purposes. The Center's board-designated investments include funds designated by the board of trustees to function as endowments. The board of trustees may also periodically remove designations on funds previously designated. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(c) Components of investment income for the years ended June 30 are as follows:

		2016	2015
Interest	$	1,845	1,762
Dividends		2,583	1,193
Net realized gains		63,855	39,075
Equity in earnings of SCCA investment		19,256	13,530
		87,539	55,560
Less investment management fees		(984)	(829)
	$	86,555	54,731

(5) Endowments

(a) Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for its endowment that will provide resources to programs supported by the endowment. The endowment includes donor-restricted funds as well as board-designated investments. Under this policy, as approved by the Center's board of trustees, the primary objective of the investment of the endowment is to provide a rate of total return, including all gains and losses, realized and unrealized, which exceeds the rate of inflation (as represented by the Consumer Price Index-All Urban Consumers) plus 5% over the long term. The Center defines the long term as five years and more. Consistent returns are to be emphasized over individual year results, although the possibility of loss in a given year cannot be ignored. The endowment should experience risk (volatility and variability of return) no greater than that of the market. The Center defines the market as the portfolio's asset allocation policy applied to the Russell 3000 Index, the Morgan Stanley Capital Europe, Australia, Far East (EAFE) Index or its equivalent, and the iShares Barclays Aggregate Bond Index.

(In thousands)

(b) Strategies Employed for Achieving Objectives

The Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) to achieve its long-term rate of return objectives. The Center utilizes an efficient frontier approach to establish the appropriate asset allocation balancing long-term return objectives within prudent risk constraints. The Investment Committee of the Center's board of trustees reviews the Center's asset allocation at least once a year.

(c) Spending Policies and How the Investment Objectives Relate to Spending Policies

The Center's spending policy for endowment funds is to appropriate for distribution each year 5% of the endowment fund's average fair value over the prior three years, provided that the fair value of the endowment fund exceeds the corpus. For a portion of the Center's board-designated investments, the Center does not appropriate for distribution any amount of investment return as all of the return earned is held to grow the fund for future obligations and repayment of long-term debt. For the remaining board-designated investments, the Center makes all investment return available for expenditure to support research. In establishing these policies, the Center considered the long-term expected returns on its endowment and board-designated investments.

(d) Funds with Deficiencies

Unless otherwise agreed with the donor, the Center's policy has been to maintain the value of the original corpus of each individual donor-restricted endowment fund. From time to time, the fair value of assets in such endowment funds may fall below this level or such other level as may have been agreed to by the donor or required by law. Losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before a loss occurs and any remaining loss reduces unrestricted net assets. As of June 30, 2016 and 2015, the aggregate reduction from unrestricted net assets totaled $569 and $3, respectively.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2016 and 2015:

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(569)	8,657	40,944	49,032
Board-designated endowment funds		148,140	—	—	148,140
Total	$	147,571	8,657	40,944	197,172

(In thousands)

		2015			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$	(3)	13,253	31,549	44,799
Board-designated endowment funds		97,275	—	—	97,275
Total	$	97,272	13,253	31,549	142,074

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2016 and 2015:

		2016			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$	97,272	13,253	31,549	142,074
Investment return:					
Investment income		1,781	437	—	2,218
Net realized gain		(8,082)	(2,067)	—	(10,149)
Net unrealized loss		(3,907)	(490)	—	(4,397)
Total investment return		(10,208)	(2,120)	—	(12,328)
Contributions		—	686	9,395	10,081
Distributions		—	—	—	—
Board transfers in		65,507	—	—	65,507
Board transfers out		(5,000)	—	—	(5,000)
Appropriation of endowment assets for expenditure		—	(3,162)	—	— (3,162)
Endowment net assets, end of year	$	147,571	8,657	40,944	197,172

(In thousands)

		2015			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$	99,553	16,053	28,607	144,213
Investment return:					
Investment income		603	269	—	872
Net realized gain		769	784	—	1,553
Net unrealized loss		(2,246)	(1,418)	—	(3,664)
Total investment return		(874)	(365)	—	(1,239)
Contributions		—	20	2,942	2,962
Distributions		—	—	—	—
Board transfers in		—	—	—	—
Board transfers out		(1,407)	—	—	(1,407)
Appropriation of endowment assets for expenditure		—	(2,455)	—	(2,455)
Endowment net assets, end of year	$	97,272	13,253	31,549	142,074

Contributions to the endowment are only recognized when cash is received; pledges are recorded outside of the endowment until collected.

(6) Land, Buildings, and Equipment

Summaries of land, buildings and equipment at cost as of June 30 are as follows:

		2016	2015
Land	$	66,091	66,091
Buildings and improvements		496,340	488,121
Equipment		157,874	146,021
Construction in progress		5,954	5,879
		726,259	706,112
Less accumulated depreciation		(348,165)	(326,983)
	$	378,094	379,129

(In thousands)

Buildings are depreciated on a straight-line basis over 45 years, while improvements and equipment are depreciated over 3 to 30 years, depending on the nature of the asset. Interest expense on borrowed funds during construction is a component of the cost of assets. The amount capitalized represents interest on funds expended for construction. Capitalization of interest ceases when the asset is placed in service. The Center had no capitalized interest in 2016 and 2015.

(7) Notes and Pledges Receivable

Components of notes and pledges receivable as of June 30 are as follows:

		2016	2015
Amounts due in:			
Less than one year	$	5,190	2,137
One to five years		3,650	4,575
Less:			
Unamortized discount		(82)	(13)
Allowance for uncollectible pledges		(6)	(2,306)
Notes and pledges receivable, net	$	8,752	4,393

As of June 30, 2016 and 2015, the gross notes and pledges receivable balances include pledges with a donor-restricted purpose of $8,140 and $3,806, respectively. The discounts on pledges are computed at the rate commensurate with the risks applicable to the year in which the promise is received. Notes and pledges have been discounted using a rate ranging from 2.5% to 5.0%.

(In thousands)

(8) Long-Term Debt

Summaries of long-term debt as of June 30 are as follows:

		2016	2015
Series 2009A Revenue Bonds secured by a deed of trust due in 2020 (partially defeased in 2015)	$	16,700	100,785
Series 2010 Revenue Bonds secured by a deed of trust due in varying amounts through 2020 plus interest at fixed rates		25,359	26,380
Series 2011A Revenue Bonds secured by a deed of trust due in varying amounts through 2035 plus interest at varying rates		79,865	80,990
Series 2012A Revenue Bonds secured by a deed of trust due in varying amounts through 2041 plus interest at varying rates		57,685	57,685
Series 2012B Revenue Bonds secured by a deed of trust due in varying amounts through 2041 plus interest at varying rates		84,800	84,800
Series 2014 Revenue Bonds secured by a deed of trust due in payments of $177 through 2039 and a final payment of $40 in 2040 plus interest at varying rates		4,111	4,288
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates		78,510	—
Series 2015B Revenue Bonds secured by a deed of trust due in payments of $220 through 2040 and a final payment of $90 in 2041 plus interest at varying rates		5,383	—
		352,413	354,928
Deferred financing costs		(2,065)	(2,076)
Unamortized premium/(discount)		6,198	(1,557)
	$	356,546	351,295
Fair value disclosure (note 4)	$	384,304	380,289

On December 18, 2015, the Center issued through the Washington Health Care Facilities Authority (the Authority) $5,475 of tax-exempt revenue bonds Series 2015B (2015B Bond). The 2015B Bond is a variable rate bond, with interest ranging from 0.82% to 0.97% for the year ended June 30, 2016, used to reimburse the Center for the purchase of property on the Center’s campus. The 2015B Bonds were issued under a private placement with U.S. Bancorp and all interest and principal payments are made directly to the bank. The deed of trust only secures the specific property on the Center’s campus.

On July 8, 2015, the Center issued through the Authority $78,510 of tax-exempt revenue bonds Series 2015 (2015 Bonds). The 2015 Bonds are fixed rate bonds, with interest ranging from 3.00% to 6.00%, used to advance refund and defease a portion of the 2009A Bonds. The portion of the 2009A bonds that were defeased by the 2015 Bonds totaled $80,865 and represented the term bonds maturing on January 1, 2024 and January 1, 2033. These bonds were placed into escrow along with the proceeds of the 2015 bonds and principal and interest payments will be made to bondholders through the call date, July 1, 2019. The remaining 2009A serial bonds maturing through January 1, 2020, totaling $19,920, are still outstanding as a liability for the Center.

On July 24, 2014, the Center issued through the Authority $4,435 of tax-exempt revenue bonds Series 2014 (2014 Bond). The 2014 Bond is a variable rate bond, with interest ranging from 0.81% to 1.22% for the years ended June 30, 2016 and 2015, used to refund the 2007 Bond, which was used to reimburse the Center for the purchase of property on the Center's campus. The 2014 Bonds were issued under a private placement with U.S. Bancorp and all interest and principal payments are made directly to the bank. The deed of trust only secures the specific property on the Center's campus.

On August 30, 2012, the Center issued through the Authority $57,685 of tax-exempt revenue bonds Series 2012A (2012A Bonds) and an $84,800 tax-exempt revenue bond Series 2012B (2012B Bond). The 2012A Bonds are variable rate bonds, with interest ranging from 1.02% to 1.55% for the years ended June 30, 2016 and 2015, used to refund the 2011B bonds. The 2012A Bonds were issued under a private placement with JP Morgan Chase Bank, N.A. The 2012B Bond is a variable rate bond, with interest ranging from 1.30% to 1.65% for the years ended June 30, 2016 and 2015, used to refund the 2011C Bonds. The 2012B Bond was issued under a private placement with Bank of America, N.A. and all interest and principal payments are made directly to the bank.

On June 30, 2011, the Center issued through the Authority $84,150 of tax-exempt revenue bonds Series 2011A (2011A Bonds).The 2011A Bonds are fixed rate bonds issued under the Center's credit rating with interest rates ranging from 0.50% to 6.00% used to refund a portion of the 2001A Bonds and the 2009B Bonds.

On November 4, 2010, the Center issued through the Authority a $30,000 tax-exempt revenue bond Series 2010 (2010 Bond). The 2010 Bond is a variable rate bond, with interest ranging from 1.29% to 1.48% for the years ended June 30, 2016 and 2015 used to purchase the Yale Building from National Healthcare Research and Education Finance Corporation (NHREFCO) (note 11). The 2010 Bond was issued under a private placement with JP Morgan Chase Bank, N.A. and all interest and principal payments are made directly to the bank.

On November 24, 2009, the Center issued through the Authority $114,920 of tax-exempt revenue bonds Series 2009A (2009A Bonds). The 2009A Bonds are fixed rate bonds issued under the Center's credit rating with interest rates ranging from 3.50% to 6.00% and were used to refund the 2001B Bonds and 2002 Bonds. A portion of the 2009A Bonds were defeased by the 2015 Bonds.

(In thousands)

The bond documents for the 2009A Bonds, 2010 Bonds, 2011A Bonds, 2012A Bonds, 2012B Bonds and the 2015 Bonds have covenants that require the Center to provide to the Authority, pursuant to a deed of trust, a mortgage and security interest in substantially all of the real estate and improvements owned by the Center, a security interest in the funds held by the trustees, and in the gross receivables and equipment owned by the Center. The bond documents for the 2012A Bonds and 2012B Bond require the Center to maintain unrestricted and unencumbered cash, cash equivalents, and marketable debt and equity securities of at least 80 days of cash operating expenses less subaward expenses and net income available for debt service must exceed 150% of the debt service in the same year. The bond documents for the 2009A Bonds require the establishment and maintenance of a debt service reserve fund. Additional covenants include a restriction on the creation of additional liens on the Center's property, a restriction on the issuance of additional debt, and a requirement that net income available for debt service must exceed 125% of the debt service in the same year.

The following schedule shows future long-term maturities by year:

2017	$	6,262
2018		6,622
2019		7,059
2020		7,483
2021		7,945
Thereafter		317,042
	$	352,413

(9) Retirement Plan

The Center has a 403(b) defined-contribution plan for its salaried employees. Employees are generally eligible after one year of service. The Center contributes 7% of each employee's compensation up to the Social Security wage base limit and 12% on compensation above that limit. For certain management employees, the Center contributes 10% of compensation up to the Social Security wage base limit and 15% above the limit.

Retirement plan contributions for the years ended June 30, 2016 and 2015 was $14,379 and $13,677, respectively.

(10) Annuities

The Center administers, through a third party, gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. When contributed assets are initially received, the assets are recorded at fair value within the investments balance, and contribution revenue is recorded equal to the value of the contributed assets received less the annuity liability. The present value of the payments due to the beneficiaries totaled $3,388 and $3,500 at June 30, 2016 and 2015, respectively. The annuity liability is revalued annually based upon actuarially computed present values. Present values are based on life expectancy and discount rates range between 4% and 10%. The Center maintains segregated funds that exceed the actuarial value of the annuity liability as required by state law. The gift annuity payable is recorded in accrued liabilities.

(In thousands)

(11) Commitments and Contingencies

(a) Operating Leases

Certain equipment and facilities utilized by the Center in its operations are leased. The related future minimum rental payments for these operating leases with noncancelable terms in excess of one year as of June 30, 2016 are as follows:

2017	$	2,317
2018		1,643
2019		1,449
2020		1,486
2021		1,533
Thereafter		3,710
	$	12,138

Rental expense for all operating leases for the years ended June 30, 2016 and 2015 was $3,906 and $4,138, respectively.

In conjunction with purchase and renovation of office and lab space in the 1100 Eastlake Building, the Center gave notice on March 31, 2011 of its intent to terminate its lease obligation for the 1616 Eastlake Building. Under the terms of the operating lease, beginning on October 1, 2012, the Center reduced the amount of space leased from approximately 106,000 net rentable square feet to approximately 40,000 net rentable square feet. The lease term for most of the 40,000 net rentable square feet extends through September 30, 2017. On May 11, 2012, the Center entered into a lease amendment to reduce the amount of space leased by approximately 13,000 net rentable square feet to approximately 27,000 net rentable square feet. The Center expects to continue to utilize the office portion of this space and has subleased the lab portion of this space as of June 30, 2016.

(b) Litigation and Compliance with Laws and Regulations

The Center is involved in litigation and regulatory investigations arising in the normal course of its business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Center’s future financial position or results from operations.

The research industry is subject to numerous federal, state, and local laws and regulations. Some of these laws govern licensure, accreditation, and government program participation requirements. Government agencies are actively conducting investigations concerning possible violations of these statutes and regulations by research facilities. Violations of these laws and regulations could result in expulsion from government programs, together with the imposition of significant fines and penalties. Management believes that the Center is in material compliance with all applicable laws and regulations. Compliance with laws and regulations is subject to future government review and interpretation of such laws and regulations as well as regulatory actions unknown or unasserted at this time.

(c) Contingent Liability

The Center received federal grant funding for a portion of the construction of its South Lake Union Campus. Because the Center received federal grant funding for a portion of this facility, the government retains an interest in the net proceeds received if the facility is sold. The Center has not recorded any liability related to this interest as it is contingent upon the sale of the facility, and management has determined the probability of this transaction occurring to be remote.

(12) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2016 and 2015. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2016, which is included in accounts payable.

(13) Related-Party Transactions

In June 1998, the SCCA was formed. The SCCA is a joint venture between the University of Washington Academic Medical Center (UWMC), Children’s Hospital and Regional Medical Center (now Seattle Children’s Hospital (Seattle Children’s)), and the Center. As a separately incorporated nonprofit corporation, the SCCA is organized for the purpose of developing and offering a comprehensive program of integrated cancer care services in the Northwest that will enhance the cancer research, teaching, and clinical programs of the Center, UWMC, and Seattle Children’s. The SCCA is one of several Medicare-designated cancer hospitals in the United States. Members of the SCCA share equally in capital contributions and in the results of operations. The SCCA began operations in January 2001. The SCCA coordinates adult inpatient services with the UWMC and pediatric inpatient services with Seattle Children’s, while operating its own ambulatory cancer care service facility. The Center is accounting for its interest in the SCCA under the equity method.

Under the terms of the Members’ Agreement, the Center has certain financial obligations to the SCCA, including funding its share of capital contributions. From 1998 through 2001, the Center contributed a total of $13,562 in cash capital contributions, which have been recorded as beneficial interest in assets of SCCA on the consolidated statements of financial position. The Center’s obligations to the SCCA were fully paid as of June 30, 2001. In addition, in 2001 the Center contributed its existing outpatient cancer care program valued at $12,124, equipment, supplies, and other assets valued at $1,800, and a ground lease valued at $3,600 to the SCCA. The Center records the amortization of these contributed assets in investment income.

(In thousands)

The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2016 and 2015:

		2016	2015
Assets	$	556,565	523,791
Liabilities	$	163,085	187,969
Net assets		393,480	335,822
Total liabilities and net assets	$	556,565	523,791

		2016	2015
Revenues	$	525,214	475,921
Less expenses		(473,690)	(441,517)
Plus nonoperating income/(loss)		3,497	(17,185)
Excess of revenues over expenses		55,021	17,219
Grant contributions restricted for capital acquisition		—	21
Net change in unrealized gains/(losses) on investments		—	(32)
Increase in unrestricted net assets	$	55,021	17,208

The Center has entered into service agreements to provide support services to the SCCA. The service agreements are for administrative services, facilities usage, and patient care housing. The Center recognized $20,224 and $16,956 of other income for the years ended June 30, 2016 and 2015, respectively, as a result of these agreements.

The Center recognized other income (see below) for the years ended June 30, 2016 and 2015, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(14) Other Income

Other income includes income from noncore sources including service agreements, related party transactions (see note 13), professional services, core resources, rent, parking and similar activities. The Center had $43,338 and $38,150 of Other Income for the years ended June 30, 2016 and 2015, respectively.

(15) Clinical Service Fee Revenue

The Center has entered into inpatient service agreements with UWMC, Seattle Children's, and the SCCA for which the Center receives various payments related to research and development support, data collection and analysis, physician assistant services, consulting services, and license rights to use the Center's name in connection with the inpatient cancer services program. Fees for services during the years ended June 30, 2016 and 2015 from UWMC total $12,351 and $10,415, respectively, from Seattle Children's total $484 and $642 respectively, and from the SCCA total $6,569 and $5,208, respectively. Of these amounts, $4,014 and $5,713 are included in other receivables as of June 30, 2016 and 2015, respectively.

(16) Accounting for Derivative Instruments and Hedging Activities

Accounting principles require that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the statement of financial position as either an asset or liability measured at its fair value. These principles require that changes in the derivative instrument's fair value be recognized currently.

(a) Interest Rate Swaps

In October 2008, the Center entered into two interest rate swaps to replace the swaps that were terminated. One of the swaps was associated with the Series 2000 Bonds (Series 2000 Replacement Swap) and one is associated with the Series 2001A Bonds (Series 2001A Replacement Swap). The notional amount, timing of principal payments, and timing of interest payments for each of the Replacement Swaps are similar to the terms of the bonds with which they are associated. In the case of the Series 2000 Replacement Swap, the interest rate paid by the Center was fixed at 5.19% while the counterparty pays the Center an indexed rate plus 0.20%. In the case of the Series 2001A Replacement Swap, the interest rate paid by the Center was fixed at 4.97% while the counterparty pays the Center an indexed rate plus 0.20%. Upon entering into the Replacement Swaps, the Center received a payment of $7,150 for the Series 2000 Replacement Swap and $7,690 for the Series 2001A Replacement Swap from the counterparty. These payments were recorded as deferred credits on cash flow hedges on the statement of financial position. The fair value is the estimated amount the bank would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the Series 2000 Replacement Swap included in liabilities was $12,644 at June 30, 2016 and $11,756 at June 30, 2015. The fair value of the Series 2001A Replacement Swap included in liabilities was $20,914 at June 30, 2016 and $16,928 at June 30, 2015. The fair value of the swap instruments will change in future time periods as interest rates change and as the time period remaining for the hedged transaction shortens. Provided that the Center holds the swaps to maturity, the value of the derivative will be zero.

(b) Amendment to Series 2001A Replacement Swap

In May 2011, the Center amended the Series 2001A Replacement Swap to change the rate paid by the counterparty from a tax-exempt indexed rate plus 0.20% to 67% of three month LIBOR plus 0.64%. All other terms of the Series 2011A Replacement Swap, including notional amount, timing, and amount of principal payments remain unchanged.

(c) Collateral Posted with Swap Counterparty

The replacement swap agreements contain terms that require the Center to post collateral with the counterparty if certain conditions are met, including the mark-to-market amount to terminate the Series 2000 Replacement Swap and the Series 2001A Replacement swap exceeds $20,000. Collateral of $14,400 and $8,400 was posted as of June 30, 2016 and 2015, respectively.

(d) Juno covered call options

On June 6, 2016, the Center sold 1,330 contracts for options for Juno stock for $2,000. The options have strike dates from August 2016 to January 2017 with strike prices ranging from $50 to $60.

(17) Subsequent Events

The Center evaluated subsequent events from June 30, 2016 to October 28, 2016 the date on which these financial statements were issued.