

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Dana-Farber Cancer Institute, Inc. and Subsidiaries  
Years Ended September 30, 2015 and 2014  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Financial Statements and  
Supplementary Information

Years Ended September 30, 2015 and 2014

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## Report of Independent Auditors

The Board of Trustees  
Dana-Farber Cancer Institute, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Dana-Farber Cancer Institute, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dana-Farber Cancer Institute, Inc. and Subsidiaries at September 30, 2015 and 2014, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and consolidating statements of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

January 27, 2016

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Balance Sheets

	<b>September 30</b>			<b>September 30</b>	
	<b>2015</b>	<b>2014</b>		<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>			<i>(In Thousands)</i>	
<b>Assets</b>			<b>Liabilities and net assets</b>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 29,389	\$ 29,910	Accounts payable and accrued expenses	\$ 124,624	\$ 82,820
Patient accounts receivable, less allowances for doubtful accounts of \$11,920 in 2015 and \$9,903 in 2014, respectively	99,513	91,500	Accrued payroll, payroll taxes, and amounts withheld from employee compensation	21,362	19,980
Contributions receivable, current portion	22,910	23,233	Amounts due to third-party payors	60,045	72,867
Assets whose use is limited, current portion	5,146	17,075	Research advances	50,566	41,880
Research receivables	26,845	25,832	Current portion of long-term debt	5,458	5,196
Prepaid expenses and other current assets	46,432	46,391	Total current liabilities	262,055	222,743
Total current assets	230,235	233,941			
<b>Investments</b>	950,994	948,680	Other liabilities:		
Assets whose use is limited by indenture agreement or other, less current portion	12,666	12,586	Long-term debt, less current portion	348,273	354,022
Property, plant, and equipment, net	748,560	694,132	Other	91,946	61,743
Contributions receivable, less current portion	40,469	37,748		440,219	415,765
Other assets	23,809	23,571	Net assets:		
Total assets	\$ 2,006,733	\$ 1,950,658	Unrestricted	612,732	606,863
			Temporarily restricted	516,907	538,070
			Permanently restricted	174,820	167,217
			Total liabilities and net assets	1,304,459	1,312,150
				\$ 2,006,733	\$ 1,950,658

See accompanying notes.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
Operating revenues:		
Patient service revenue, net of contractual allowances and discounts	\$ 780,826	\$ 679,175
Provision for bad debts	7,604	–
Net patient service revenue, less provision for bad debts	773,222	679,175
Research revenues	357,625	322,101
Unrestricted contributions and bequests	69,398	61,183
Other operating revenues	20,941	24,179
Total operating revenues	1,221,186	1,086,638
Operating expenses:		
Direct research expenditures	310,721	280,130
Direct patient care	512,950	441,875
General, administrative, and plant	295,006	275,397
Depreciation and amortization	72,492	61,285
Interest	8,018	6,697
Total operating expenses	1,199,187	1,065,384
Operating income	21,999	21,254
Investment (losses) gains, net	(7,345)	22,028
Interest rate swap agreement:		
Net interest paid	(5,593)	(5,611)
Change in fair value	(11,238)	(5,615)
Other	(248)	–
(Deficit) excess of revenues over expenses	\$ (2,425)	\$ 32,056

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
(Deficit) excess of revenues over expenses	\$ (2,425)	\$ 32,056
Net unrealized losses on endowment	(168)	(2)
Net assets released from restrictions for capital	13,889	13,818
Pension adjustment	(5,427)	(2,774)
Other	–	7,546
Increase in unrestricted net assets	<b>5,869</b>	50,644
Temporarily restricted net assets:		
Contributions revenue, net	<b>87,503</b>	82,831
Provision for uncollectible pledges	(400)	–
Interest and dividend income, net	1,994	1,075
Realized and unrealized gains on investments	(12,615)	54,094
Restricted royalty and license revenue	10,523	21,813
Net assets released from restrictions for capital	(13,889)	(13,818)
Net assets released from restrictions for operations	(93,844)	(74,311)
Transfers to other institutions	(435)	(917)
(Decrease) increase in temporarily restricted net assets	<b>(21,163)</b>	70,767
Permanently restricted net assets:		
Contributions revenue, net	<b>7,603</b>	11,556
Transfers to Harvard University	–	(3,200)
Increase in permanently restricted net assets	<b>7,603</b>	8,356
(Decrease) increase in net assets	<b>(7,691)</b>	129,767
Net assets at beginning of year	<b>1,312,150</b>	1,182,383
Net assets at end of year	<b>\$ 1,304,459</b>	\$ 1,312,150

*See accompanying notes.*

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (7,691)	\$ 129,767
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	72,492	61,285
Net realized and unrealized gains on investments	20,349	(76,136)
Pension adjustment	5,427	2,774
Restricted contributions and investment income, net of restriction releases for operations	(12,299)	(33,150)
Transfers to other institutions	435	4,117
Changes in other assets and liabilities	24,416	3,878
Changes in certain elements of working capital:		
Patient accounts receivable	(8,013)	(6,441)
Research receivables and research advances	7,673	4,551
Prepaid expenses and other assets	(41)	(6,508)
Purchases of investments, net	(22,663)	(125,496)
Accounts payable and accrued expenses, including employee compensation	43,186	15,682
Estimated final settlements due to patient care third-party payors	(12,822)	6,303
Net cash provided by (used in) operating activities	<b>110,449</b>	<b>(19,374)</b>
<b>Investing activities</b>		
Additions to property, plant, and equipment	(127,089)	(109,551)
Changes in assets whose use is limited	11,849	38,119
Net cash used in investing activities	<b>(115,240)</b>	<b>(71,432)</b>
<b>Financing activities</b>		
Payments on long-term debt	(95,905)	(3,240)
Proceeds from issuance of long-term debt	92,500	-
Payments on capital lease obligation	(1,791)	(1,707)
Restricted contributions and investment income, net of restriction releases for operations	12,299	33,150
Change in contributions receivable	(2,398)	11,718
Transfers to other institutions	(435)	(4,117)
Net cash provided by financing activities	<b>4,270</b>	<b>35,804</b>
Decrease in cash and cash equivalents during the year	(521)	(55,002)
Cash and cash equivalents at beginning of year	29,910	84,912
Cash and cash equivalents at end of year	<b>\$ 29,389</b>	<b>\$ 29,910</b>

*See accompanying notes.*



# Dana-Farber Cancer Institute, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Dollar Amounts in Thousands)

September 30, 2015

### **1. Corporate Organization**

Dana-Farber Cancer Institute, Inc. (the Institute) is a comprehensive cancer center dedicated to basic and clinical cancer research and treatment. The Institute primarily serves patients in the New England region. Dana-Farber, Inc. is a controlled affiliate of the Institute, and is responsible for its investment management activities. In August 2003, the Institute formed the Dana-Farber Trust, Inc. for the purpose of acquiring, holding, developing, managing, maintaining, or disposing of real and personal property for the benefit of the Institute and its affiliated organizations. On July 1, 2014, the Institute acquired Commonwealth Hematology-Oncology (CHO) physician practice, the largest community-based cancer care program in New England with eight sites located throughout eastern Massachusetts. The CHO sites now operate as Dana-Farber Cancer Care Network (DFCCN) physician practices.

Under an agreement to coordinate adult oncology services with Partners HealthCare System, Inc. (Partners), the Brigham & Women's Hospital, Inc. (BWH), and The General Hospital Corporation (the General), the Institute maintains its inpatient beds at BWH, and reimburses BWH for related patient care expenses. Net patient service revenue earned on these beds approximated \$34,708 and \$30,110 in 2015 and 2014, respectively.

In an effort to continually improve the overall quality and delivery of cancer services, the Institute, BWH, the General, and Partners also formed Dana-Farber/Partners CancerCare, Inc. (DF/PCC), a not-for-profit corporation whose mission is to establish guidelines and protocols for adult oncology services. The Institute, BWH, and the General provide DF/PCC with funds to meet its annual operating and capital needs. At present, the Institute's portion of these funds is not material to the consolidated financial statements.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The consolidated financial statements include the accounts of Dana-Farber Cancer Institute, Inc., Dana-Farber Cancer Care Network, Inc., Dana-Farber, Inc., and Dana-Farber Trust, Inc., collectively, the Institute. Intercompany transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) applied on a basis consistent with that of the 2014 audited consolidated financial statements of the Institute.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) *(Dollar Amounts in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

##### **Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

##### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. All of this portion of the portfolio is classified as trading with investment gain or loss (including realized and unrealized gains and losses on investments, interest, and dividends) included in the (deficit) excess of revenues over expenses, unless restricted by donor or law.

Alternative investments consist of investments in limited partnerships and limited liability companies. Except for investments held by the defined benefit pension plan, the Institute accounts for alternative investments (hedge funds, private equity funds, etc.) using the equity method of accounting, and reports its share of the increase or decrease in the fund's value as investment gain or loss. Alternative investments held by the defined benefit pension plan are held at fair value using net asset value as a practical expedient. These estimates are determined based upon information from the funds' General Partners. The General Partners' estimates and assumptions of fair values of nonmarketable investments may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

Unrestricted investment income (including realized and unrealized gains and losses on investments, interest, and dividends from all other investments) is reported as nonoperating gains (losses), except for investment income equal to the Institute's spending policy, which is reported as operating income.

**Assets Whose Use is Limited**

Assets whose use is limited represent proceeds from bonds and operations which are invested and restricted under bond indenture agreements for construction, debt repayment, an investment deposit requirement under a certain bond purchase agreement, and investments placed in trust for payment of self-insured claims.

**Temporarily and Permanently Restricted Net Assets**

Contributions are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of donated assets.

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires (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 consolidated statements of operations and changes in net assets as revenues (for noncapital-related items), or as a direct increase to unrestricted net assets (for capital-related items).

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income earned on permanently restricted net assets is included in the consolidated statements of operations and changes in net assets as unrestricted resources, or as a change in temporarily or permanently restricted net assets in accordance with donor intentions. Realized and unrealized gains and losses on permanently restricted net assets are recorded as changes in temporarily restricted net assets, unless permanently restricted by the donor or by the terms of the endowment, in which case, they are reported as changes in permanently restricted net assets. These investment gains are available for general use by the Institute, subject to guidelines established by the Commonwealth of Massachusetts for spending the appreciation on permanently restricted net assets.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Contributions Receivable**

Unconditional contributions receivable, received in writing in amounts of \$1,000 or more and payable in regular installments, are recorded at net present value as direct additions to temporarily or permanently restricted net assets, net of any allowances for uncollectible amounts.

##### **Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost, less accumulated depreciation. Donated equipment is recorded at fair value, determined as of the date of donation. Depreciation is computed using the straight-line method at rates intended to amortize the costs of the related assets over their estimated useful lives. Amortization of assets recorded under capital leases is included in depreciation. Equipment purchased under the terms of research grants is charged as a direct research expenditure.

##### **Interest Rate Swap Agreements**

The Institute utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Institute is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements. The Institute is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable interest swap receipts do not equal variable interest payment on the bonds, there will be a net loss or net benefit to the Institute.

##### **Operating Revenues and Expenses**

Income from operations includes revenues generated from direct patient care activities, research activities from grantors and donors, unrestricted contributions, royalties, trademark income, and sundry revenues related to the operation of the Institute's facilities, and all related expenses. The Institute has a spending policy allowing approximately 7% of the average market value of certain donor-restricted investments over the past nine quarters to be spent annually to fund operating and capital needs. Investment income equal to the annual spending policy amount on donor-restricted investments whose income is unrestricted is reported in other operating revenue.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) *(Dollar Amounts in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Royalty and License Revenue**

Royalty and license revenue results from the development and commercialization of new technologies. In accordance with the Institute's policy, royalty and license revenues are distributed to the inventor, the laboratory where the research was performed, and the Institute. The portion distributed to the inventor and laboratory is recorded as restricted royalty and license revenue on the consolidated statements of operations and changes in net assets and as temporarily restricted net assets on the consolidated balance sheets until expended. The portion distributed to the Institute is recorded on the consolidated statements of operations as other operating revenues.

##### **Net Patient Service Revenue**

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known, or as years are no longer subject to such audits, reviews, and investigations.

##### **Provision for Bad Debts**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Institute analyzes its historical and expected net collections, considering historical business and economic conditions, trends in health care coverage, and other collection indicators for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Institute analyzes contractually due amounts and records a provision for bad debts if deemed necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and co-payment balances

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

due, for which third-party coverage exists for part of the bill, the Institute records a provision for bad debt in the period when services are rendered on the basis of its past experience. This is necessary when patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The Institute follows established guidelines for placing certain past due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Institute. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended September 30, 2015, in comparison to the prior year. The Institute has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended September 30, 2015. The increase in the provision for bad debts from 2014 to 2015 is due to the growth in patient accounts receivable. The Institute does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

#### **Charity Care**

The Institute provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. Because the Institute does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

#### **(Deficit) Excess of Revenues Over Expenses**

The consolidated statements of operations and changes in net assets include the (deficit) excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the (deficit) excess of revenues over expenses include changes in net assets related to the pension adjustment, net assets released from restrictions for capital, and net unrealized gains or losses on endowment funds.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

## 2. Summary of Significant Accounting Policies (continued)

### Income Taxes

The Internal Revenue Service has ruled that the Institute and its subsidiaries qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income. The Institute is considered a nonprivate foundation established under IRC Section 170(b)(1)(A)(vi), an organization that receives substantial support from grants, governmental units, and the public. Dana-Farber Trust, Inc. and Dana-Farber, Inc. are both considered nonprivate foundations under IRC Section 509(a)(3), as Type I supporting organizations. Dana-Farber, Inc. has a nominal amount of unrelated business income that is not material to the consolidated financial statements. Dana-Farber Cancer Care Network, Inc. has been determined to be a public charity under IRC Section 509(a)(2). The Institute is considered a hospital facility as defined under the Affordable Care Act, because it is subject to hospital licensure requirements in Massachusetts. As a result, the Institute monitors its compliance with the new requirements under Section 501(r) of the Internal Revenue Code for tax-exempt hospitals.

### New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The adoption of ASU 2014-09 is required during annual reporting periods beginning after December 15, 2017. Early application is permitted during annual reporting periods beginning after December 15, 2016. The Institute is currently evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the related liability, rather than as a deferred charge. The updated guidance is effective retroactively for financial statements covering fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, but the Institute does not anticipate electing early adoption.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

**Subsequent Events**

On December 30, 2015, the Institute entered into a binding agreement to exercise its right to purchase its leased space in the Longwood Center. The purchase price will be approximately \$230 million with an expected closing date in July 2017.

The Institute evaluates the impact of subsequent events, which are events that occur after the consolidated balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2015, the Institute evaluated the impact of subsequent events through January 27, 2016, representing the date at which the consolidated financial statements were issued. No events have occurred that require disclosure in or adjustment to the consolidated financial statements.

**3. Investments**

Investments, which are reported at fair value or using the equity method, consisted of the following at September 30:

	<b>2015</b>	<b>2014</b>
Donor-restricted for research and capital	\$ <b>383,834</b>	\$ 372,824
Donor-restricted endowment corpus	<b>170,669</b>	162,842
Accumulated realized and unrealized appreciation on endowment funds	<b>63,799</b>	83,435
Board-designated for various purposes	<b>332,692</b>	329,579
	<b>\$ 950,994</b>	\$ 948,680
U.S. government money market fund	\$ <b>8,671</b>	\$ 17,536
U.S. government securities	<b>68,398</b>	67,954
U.S. equity securities	<b>64,387</b>	77,127
U.S. equity mutual funds	<b>108,862</b>	111,875
International equity securities	<b>48,520</b>	54,793
International equity mutual funds	<b>126,733</b>	143,620
Alternative investments	<b>525,423</b>	475,775
	<b>\$ 950,994</b>	\$ 948,680



Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**3. Investments (continued)**

Investment return consisted of the following for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Investment income, net	\$ 2,215	\$ 1,059
Realized and unrealized (losses) gains	(20,349)	76,136
	<u>\$ (18,134)</u>	<u>\$ 77,195</u>

Investment return was reported as follows in the consolidated statements of operations and changes in net assets for the years ended September 30:

	<u>2015</u>	<u>2014</u>
(Deficit) excess of revenues over expenses:		
Investment (losses) gains (nonoperating)	\$ (7,345)	\$ 22,028
Changes in unrestricted net assets:		
Net unrealized losses on endowment	(168)	(2)
Changes in temporarily restricted net assets:		
Interest and dividend income, net and realized and unrealized (losses) gains	(10,621)	55,169
	<u>\$ (18,134)</u>	<u>\$ 77,195</u>

**4. Fair Value Measurements**

Fair value is based on 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. In order to increase consistency and comparability in fair value measurements, the Institute has implemented a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

**4. Fair Value Measurements (continued)**

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Institute also considers counterparty credit risk in its assessment of fair value.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

**4. Fair Value Measurements (continued)**

Financial assets and liabilities carried at fair value as of September 30, 2015 are classified in the table below in one of the three categories described on the previous page:

	Level 1	Level 2	Level 3	Fair Value Investments	Equity Method Investments	Total
<b>Cash and cash equivalents</b>						
U.S. government money market fund	\$ -	\$ 29,389	\$ -	\$ 29,389	\$ -	\$ 29,389
<b>Investments</b>						
U.S. government money market fund	\$ -	\$ 8,671	\$ -	\$ 8,671	\$ -	\$ 8,671
U.S. government securities	68,398	-	-	68,398	-	68,398
U.S. equity securities	64,387	-	-	64,387	-	64,387
U.S. equity mutual funds	23,055	85,807	-	108,862	-	108,862
International equity securities	48,520	-	-	48,520	-	48,520
International equity mutual funds	41,098	85,635	-	126,733	-	126,733
Alternative investments	-	-	-	-	525,423	525,423
Total investments	\$ 245,458	\$ 180,113	\$ -	\$ 425,571	\$ 525,423	\$ 950,994
<b>Assets whose use is limited by indenture agreement or other</b>						
U.S. government securities	\$ 8,254	\$ -	\$ -	\$ 8,254	\$ -	\$ 8,254
U.S. government money market funds	-	5,558	-	5,558	-	5,558
Bank deposit account	1,000	-	-	1,000	-	1,000
U.S. corporate bond mutual fund	3,000	-	-	3,000	-	3,000
	\$ 12,254	\$ 5,558	\$ -	\$ 17,812	\$ -	\$ 17,812
<b>Defined benefit plan assets</b>						
U.S. securities money market fund	\$ -	\$ 215	\$ -	\$ 215	\$ -	\$ 215
U.S. government mutual funds	2,975	-	-	2,975	-	2,975
U.S. corporate bond mutual fund	2,919	-	-	2,919	-	2,919
U.S. equity mutual funds	1,730	7,922	-	9,652	-	9,652
International equity mutual funds	477	5,416	-	5,893	-	5,893
Alternative investments	-	-	11,535	11,535	-	11,535
	\$ 8,101	\$ 13,553	\$ 11,535	\$ 33,189	\$ -	\$ 33,189
<b>Liabilities</b>						
Interest rate swap agreements	\$ -	\$ 48,416	\$ -	\$ 48,416	\$ -	\$ 48,416

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollar Amounts in Thousands)

**4. Fair Value Measurements (continued)**

Financial assets and liabilities carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described on page 15:

	Level 1	Level 2	Level 3	Fair Value Investments	Equity Method Investments	Total
<b>Cash and cash equivalents</b>						
U.S. government money market fund	\$ —	\$ 29,910	\$ —	\$ 29,910	\$ —	\$ 29,910
<b>Investments</b>						
U.S. government money market fund	\$ —	\$ 17,536	\$ —	\$ 17,536	\$ —	\$ 17,536
U.S. government securities	67,954	—	—	67,954	—	67,954
U.S. equity securities	77,127	—	—	77,127	—	77,127
U.S. equity mutual funds	23,537	88,338	—	111,875	—	111,875
International equity securities	54,793	—	—	54,793	—	54,793
International equity mutual funds	49,591	94,029	—	143,620	—	143,620
Alternative investments	—	—	—	—	475,775	475,775
Total investments	\$ 273,002	\$ 199,903	\$ —	\$ 472,905	\$ 475,775	\$ 948,680
<b>Assets whose use is limited by indenture agreement or other</b>						
U.S. government securities	\$ 8,174	\$ —	\$ —	\$ 8,174	\$ —	\$ 8,174
U.S. government money market funds	—	17,487	—	17,487	—	17,487
Bank deposit account	1,000	—	—	1,000	—	1,000
U.S. corporate bond mutual fund	3,000	—	—	3,000	—	3,000
	\$ 12,174	\$ 17,487	\$ —	\$ 29,661	\$ —	\$ 29,661
<b>Defined benefit plan assets</b>						
U.S. securities money market fund	\$ —	\$ 693	\$ —	\$ 693	\$ —	\$ 693
U.S. government mutual funds	3,156	—	—	3,156	—	3,156
U.S. corporate bond mutual fund	2,810	—	—	2,810	—	2,810
U.S. equity mutual funds	3,266	7,825	—	11,091	—	11,091
International equity mutual funds	572	5,617	—	6,189	—	6,189
Alternative investments	—	—	11,865	11,865	—	11,865
	\$ 9,804	\$ 14,135	\$ 11,865	\$ 35,804	\$ —	\$ 35,804
<b>Liabilities</b>						
Interest rate swap agreements	\$ —	\$ 37,178	\$ —	\$ 37,178	\$ —	\$ 37,178

The Institute's alternative investments, excluding alternative investments in the defined benefit plan, are reported using the equity method of accounting (see Note 2).

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

**4. Fair Value Measurements (continued)**

The following is a description of the Institute's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on 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, or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Level 3 assets consist of alternative investments held by the defined benefit plan, the valuation for which is described in Note 12. Many of the investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. As the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Institute's interest therein, its classification in Level 2 or 3 is based on the Institute's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Institute in Level 3 of the valuation hierarchy defined above:

Fair value at September 30, 2013	\$ 11,583
Net realized and unrealized gains	901
Investment income, net	—
Purchases of investments	—
Proceeds from sales of investments	(619)
Fair value at September 30, 2014	<u>11,865</u>
Net realized and unrealized gains	(155)
Investment income, net	—
Purchases of investments	—
Proceeds from sales of investments	(175)
Fair value at September 30, 2015	<u><u>\$ 11,535</u></u>

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollar Amounts in Thousands)

**4. Fair Value Measurements (continued)**

There were no significant transfers between Levels 1 and 2 during the years ended September 30, 2015 and 2014, respectively.

The carrying values and fair values of the Institute's financial instruments that are not required to be carried at fair value are as follows at September 30:

	2015		2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 369,764	\$ 353,731	\$ 374,511	\$ 359,218

The fair value of the Institute's long-term debt is based on discounted cash flow analyses, using current borrowing rates for similar types of debt, and is classified by the Institute in Level 2 of the valuation hierarchy.

**5. Property, Plant, and Equipment**

Property, plant, and equipment consisted of the following at September 30:

	2015	2014
Land	\$ 7,640	\$ 7,640
Buildings and improvements	980,984	877,104
Equipment	395,930	285,115
Construction-in-progress	22,551	114,589
	1,407,105	1,284,448
Less allowance for depreciation	658,545	590,316
	\$ 748,560	\$ 694,132

Included within buildings and improvements are assets recorded under capital leases of \$40,056 for both September 30, 2015 and 2014, and accumulated depreciation of \$12,230 and \$10,227 as of September 30, 2015 and 2014, respectively (see Note 7). During the years ended September 30, 2015 and 2014, retirements of fully depreciated equipment assets were undertaken, representing \$4,479 and \$8,322 of equipment cost and associated accumulated depreciation, respectively.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

**6. Contributions**

Unrestricted contributions and restricted contributions used on a current basis for research are recorded as operating revenues. Other restricted contributions are recorded as additions to temporarily restricted or permanently restricted net assets. Contributions received and pledged (at net discounted value) were as follows for the years ended September 30:

	<b>2015</b>		
	<b>Cash</b>	<b>Pledges</b>	<b>Total</b>
Unrestricted contributions and bequests	\$ 69,398	\$ –	\$ 69,398
Research gifts for current use	8,183	–	8,183
Temporarily restricted	55,470	32,033	87,503
Permanently restricted	5,282	2,321	7,603
	<u>\$ 138,333</u>	<u>\$ 34,354</u>	<u>\$ 172,687</u>
	<b>2014</b>		
	<b>Cash</b>	<b>Pledges</b>	<b>Total</b>
Unrestricted contributions and bequests	\$ 61,183	\$ –	\$ 61,183
Research gifts for current use	6,746	–	6,746
Temporarily restricted	56,519	26,312	82,831
Permanently restricted	9,506	2,050	11,556
	<u>\$ 133,954</u>	<u>\$ 28,362</u>	<u>\$ 162,316</u>

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

**6. Contributions (continued)**

Of the total contributions raised during the years ended September 30, 2015 and 2014, the Jimmy Fund raised \$77,361 and \$74,164, respectively, in restricted and unrestricted contributions.

In addition, the Institute was awarded a total of \$37,019 and \$43,149 in foundation grants for the years ended September 30, 2015 and 2014, respectively.

Gifts in kind totaling \$5,471 and \$5,655 were recorded by the Institute as both revenue and expense for the years ended September 30, 2015 and 2014, respectively.

Direct fundraising expenses were \$25,166 and \$23,231 for the years ended September 30, 2015 and 2014, respectively, and were included as a component of general, administrative, and plant expenses on the consolidated statements of operations and changes in net assets.

Contributions receivable as of September 30 were as follows:

	<u>2015</u>	<u>2014</u>
Amounts due in less than one year for use in operations	\$ 22,496	\$ 22,658
Amounts due in less than one year for capital use	6,314	6,075
Amounts due in one to five years	32,098	37,263
Amounts due in more than five years	10,509	1,919
	<u>71,417</u>	<u>67,915</u>
Less discount to net present value	2,138	1,434
Less allowance for uncollectible pledges	5,900	5,500
	<u>\$ 63,379</u>	<u>\$ 60,981</u>



Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollar Amounts in Thousands)

**7. Long-Term Debt and Capital Lease Obligation**

Long-term debt consisted of the following at September 30:

	2015	2014
Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds:		
Series K	\$ 86,490	\$ 89,895
Series L	185,000	185,000
Massachusetts Development Finance Agency (MDFA) Revenue Bonds:		
Series M	50,860	50,860
Capital lease obligation ( <i>Note 8</i> )	30,158	31,949
	<b>352,508</b>	357,704
Unamortized premium	1,223	1,514
	<b>353,731</b>	359,218
Less current portion	5,458	5,196
	<b>\$ 348,273</b>	\$ 354,022

**Bonds Payable**

On May 22, 2008, the Institute issued, through MHEFA, successor by merger to MDFA, \$107,320 Revenue Bonds, Dana-Farber Cancer Institute Issue, Series K (2008). The Series K bonds are tax-exempt bonds. The proceeds of the bonds were used to: (i) pay bridge financing incurred by the Institute to refund the MHEFA Revenue Bonds, Dana-Farber Cancer Institute Issue, Periodic Auction Reset Securities Series H (2004), (ii) pay fees in connection with the termination of certain swap agreements, (iii) fund a required Debt Service Reserve Fund and (iv) pay an amount, together with funds provided by the Institute, to fund the cost of issuance of the Series K bonds. The Series K bonds bear interest at fixed rates ranging from 4.00% to 5.25%, and mature in varying annual amounts from 2008 to 2037. The bonds were issued at an original premium of \$4,170, which is amortized over the related terms.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

#### **7. Long-Term Debt and Capital Lease Obligation (continued)**

On May 22, 2008, the Institute issued, through MHEFA, \$185,000 Variable Rate Revenue Bonds, Dana-Farber Cancer Institute Issue, Series L (2008) (Series L-1 and L-2). The Series L bonds are tax-exempt bonds. The proceeds of the bonds were used to: (i) pay bridge financing incurred by the Institute to refund the MHEFA Revenue Bonds, Dana-Farber Cancer Institute Issue, Periodic Auction Reset Securities Series I (2007), and MHEFA Capital Asset Program Loans Series J, (ii) pay MHEFA Capital Asset Program Loans Pool M, and (iii) pay an amount, together with funds provided by the Institute, to fund the cost of issuance of the Series L bonds.

On June 1, 2012, the Institute served a notice of change in mode and mandatory tender to the holders of its Series L-2 bonds. On July 2, 2012, upon such mandatory tender and conversion, the Series L-2 bonds were reissued in two subseries comprised of \$57,500 Series L-2A bonds and \$35,000 Series L-2B bonds which were purchased by Century Subsidiary Investments, Inc. III and TD Bank, N.A., respectively. On July 1, 2015, the Institute served a notice of change in mode and mandatory tender to the holders of its Series L-1 bonds. On August 3, 2015, upon such mandatory tender and conversion, the Series L-1 bonds were purchased by DNT Asset Trust, a wholly owned subsidiary of JPMorgan Chase Bank, N.A.

The Series L bonds bear interest at an average variable rate (1.09% and 0.72% for the years ended September 30, 2015 and 2014, respectively), and mature in varying annual amounts from 2028 to 2046. The Series L-1 bonds were secured by an irrevocable direct pay letter of credit issued by JPMorgan Chase Bank, N.A. that terminated on August 3, 2015, upon completion of the mandatory tender. The reissued Series L bonds are not required to be secured by an irrevocable direct pay letter of credit when in the bank purchase mode.

On August 7, 2013, the Institute issued, through MDFA, \$50,860 Revenue Bonds, Dana-Farber Cancer Institute Issue, Series M (2013). The Series M bonds are federally taxable bonds. The proceeds of the bonds will be used to: (i) renovate and fit out approximately 154,100 rentable square feet of leased research space in the Longwood Center, which will be used for high-tech research laboratories, (ii) other corporate purposes, and (iii) pay an amount needed to fund the cost of issuance of the Series M Bonds. The Series M bonds bear interest at a fixed rate of 5.35% and mature December 1, 2028. The bonds were issued at par.

The Series K, Series L, and Series M bonds are equally and ratably secured by a lien on the unrestricted gross receipts of the Institute, and a mortgage granted upon the Yawkey Center for Cancer Care, the Richard A. and Susan F. Smith Research Laboratories, the Dana Building, and the Louis B. Mayer Research Laboratories.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollar Amounts in Thousands)

#### 7. Long-Term Debt and Capital Lease Obligation (continued)

Effective September 1, 2015, the Institute entered into a bank credit agreement for a revolving commitment in the amount of \$40,000 for working capital purposes. This credit agreement expires on May 31, 2016, and replaces the previous line of credit originally scheduled to expire on July 31, 2015. No amount was outstanding under the current or previous credit agreements as of September 30, 2015.

The Institute is required to comply with certain covenants under its long-term debt agreements. The Institute was in compliance with these requirements at September 30, 2015.

Scheduled maturities and sinking fund requirements for the next five years are as follows:

2016	\$	3,580
2017		3,765
2018		3,960
2019		4,160
2020		4,375

Interest cost on long-term debt and capital lease obligations totaled \$10,100 and \$10,276 for the years ended September 30, 2015 and 2014, respectively. Of this, \$8,018 and \$6,697 was reported as interest expense, and \$2,082 and \$3,579 was capitalized as part of construction-in-progress for the years ended September 30, 2015 and 2014, respectively. Cash paid for interest amounted to \$10,372 and \$10,167 for the years ended September 30, 2015 and 2014, respectively.

#### Interest Rate Swaps

In connection with the issuance of the 2008 Series L bonds (refunding the 2007 Series I bonds), the Institute amended two interest rate swap agreements of \$75,000 each with Morgan Stanley Capital Services, Inc. Under these agreements, the Institute effectively converted this variable rate debt to a fixed rate basis of 3.84% for the term of the bonds.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

**7. Long-Term Debt and Capital Lease Obligation (continued)**

The Institute reported the fair value of interest rate swap agreements as \$48,416 and \$37,178 in other liabilities on the consolidated balance sheets as of September 30, 2015 and 2014, respectively. The Institute reported the change in the fair value of the interest rate swap agreements as a nonoperating loss of \$11,238 and \$5,615 in the accompanying consolidated statements of operations and changes in net assets for the years ended September 30, 2015 and 2014, respectively.

**Capital Lease Obligation**

The Institute has two capital leases for certain leased spaces in outpatient satellite clinics. The capital lease that expires in 2030 bears interest at an average variable rate of 3.40% and 3.42% for the years ended September 30, 2015 and 2014, respectively. The capital lease that expires in 2028 bears interest at a fixed rate of 4.75%. Interest expense related to the capital leases was \$1,170 and \$1,253 for the years ended September 30, 2015 and 2014, respectively.

**8. Leases**

The Institute has noncancelable capital and operating leases for certain buildings and equipment. Rental expenses under these operating and other lease contracts approximated \$47,990 in 2015 and \$35,362 in 2014. Minimum future lease commitments under noncancelable leases are as follows:

	<b>Capital Leases</b>	<b>Operating Leases</b>
2016	\$ 3,277	\$ 39,068
2017	3,145	40,413
2018	2,994	36,435
2019	3,000	33,614
2020	3,002	31,110
Thereafter	25,406	198,236
Total minimum lease payments	40,824	\$ 378,876
Less amount representing interest	(10,666)	
Capital lease obligation	\$ 30,158	

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**9. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are restricted to the following at September 30:

	<u>2015</u>	<u>2014</u>
Research	\$ 435,905	\$ 430,173
Capital	17,203	24,462
Realized and unrealized gains on permanently restricted gifts	63,799	83,435
	<u>\$ 516,907</u>	<u>\$ 538,070</u>

During the years ended September 30, 2015 and 2014, net assets of \$93,079 and \$73,523, respectively, were released from donor restrictions to fund research. In addition, \$765 and \$788, respectively, were released to fund operating needs in accordance with the annual spending policy amount on donor-restricted investments described in Note 2. These amounts are included in research revenues and other operating revenues, respectively.

Permanently restricted net assets consisted of the following at September 30:

	<u>2015</u>	<u>2014</u>
Unrestricted as to use of income	\$ 7,596	\$ 7,596
Restricted as to use of income	167,224	159,621
	<u>\$ 174,820</u>	<u>\$ 167,217</u>

Permanently restricted net assets are reported at the original gift amount, with net realized and unrealized gains reported as additions to temporarily restricted net assets.

For the years ended September 30, 2015 and 2014, the Institute transferred \$435 and \$4,117, respectively, to Harvard and BWH in accordance with the terms of certain gifts.

The Institute's endowments consist of numerous individual funds established for a variety of purposes. These endowments consist solely of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

**9. Temporarily and Permanently Restricted Net Assets (continued)**

The Institute requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund, (b) the purpose of the Institute and the donor-restricted endowment fund, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) the investment policies of the Institute, and (g) other resources of the Institute.

Endowment net asset composition by type of fund as of September 30, 2015 consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 63,799	\$ 174,820	\$ 238,619
Board-designated endowment funds	(170)	—	—	(170)
	<u>\$ (170)</u>	<u>\$ 63,799</u>	<u>\$ 174,820</u>	<u>\$ 238,449</u>

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**9. Temporarily and Permanently Restricted Net Assets (continued)**

For the year ended September 30, 2015, the Institute had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2014	\$ (2)	\$ 83,435	\$ 167,217	\$ 250,650
Investment return:				
Investment income, net	–	777	–	777
Net realized and unrealized gains on investments	–	(4,879)	–	(4,879)
Total investment return	–	(4,102)	–	(4,102)
Contributions to perpetual endowment	–	–	7,603	7,603
Net asset reclassifications – net unrealized gain on endowments	(168)	168	–	–
Amounts appropriated for expenditure/transfer	–	(15,702)	–	(15,702)
Total change in endowment funds	(168)	(19,636)	7,603	(12,201)
Endowment net assets at September 30, 2015	\$ (170)	\$ 63,799	\$ 174,820	\$ 238,449

Endowment net asset composition by type of fund as of September 30, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ –	\$ 83,435	\$ 167,217	\$ 250,652
Board-designated endowment funds	(2)	–	–	(2)
	\$ (2)	\$ 83,435	\$ 167,217	\$ 250,650

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollar Amounts in Thousands)

**9. Temporarily and Permanently Restricted Net Assets (continued)**

For the year ended September 30, 2014, the Institute had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at October 1, 2013	\$ —	\$ 72,259	\$ 158,861	\$ 231,120
Investment return:				
Investment income, net	—	461	—	461
Net realized and unrealized gains on investments	—	22,475	—	22,475
Total investment return	—	22,936	—	22,936
Contributions to perpetual endowment	—	—	11,556	11,556
Net asset reclassifications – net unrealized gain on endowments	(2)	2	—	—
Amounts appropriated for expenditure/transfer	—	(11,762)	(3,200)	(14,962)
Total change in endowment funds	(2)	11,176	8,356	19,530
Endowment net assets at September 30, 2014	<u>\$ (2)</u>	<u>\$ 83,435</u>	<u>\$ 167,217</u>	<u>\$ 250,650</u>

The overall financial objectives of the Institute are to provide a sustainable and increasingly upward trend in the endowment distribution dollars to support the annual operating budget, to preserve and enhance the real (inflation-adjusted) purchasing power of the Institute, and to provide support for capital investment needs as they arise.

The long-term investment objectives of the Institute are to attain an inflation-adjusted or real total return (net of investment management fees) at least equal to the Institute's spending rate, as measured over a full market cycle (or rolling five- to seven-year periods); achieve annualized returns in excess of the strategic policy portfolio blended benchmark, and measured over a full market cycle; and outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.



## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

#### **9. Temporarily and Permanently Restricted Net Assets (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. There were \$168 in deficiencies of this nature as of September 30, 2015 and \$2 deficiencies that were reported in unrestricted net assets as of September 30, 2014. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

#### **10. Net Patient Service Revenue**

The Institute has a reimbursement agreement with Massachusetts Blue Cross, Inc. that provides for product-specific payment rates. The Institute also participates in the Medicare Program. This program provides outpatient reimbursement based on Ambulatory Payment Classifications. Cancer centers were granted a hold harmless exemption that allows for a final settlement based on a percentage of actual outpatient costs incurred. Inpatient reimbursement is limited to the lower of cost or a fixed target rate per discharge. The Institute also has an agreement with the Commonwealth of Massachusetts, under the Medicaid program, which provides a fixed amount of reimbursement per discharge, or encounter for inpatient or outpatient, respectively.

Revenues from the Medicare and Medicaid programs accounted for approximately 26.1% and 4.6%, respectively, of the Institute's net patient service revenue for the year ended September 30, 2015. Revenues from the Medicare and Medicaid programs accounted for approximately 24.8% and 4.9%, respectively, of the Institute's net patient service revenue for the year ended September 30, 2014. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the future. The Institute believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Changes in estimates of prior year settlements increased 2015 operating income by \$16,074 and \$6,923 in 2014, respectively.

## Dana-Farber Cancer Institute, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

#### **11. Charity Care**

##### **Community Benefit**

The Institute provides a wide variety of services to the community in order to ensure access to appropriate care for populations in need. The Institute supports services which target not only the general population, but also particular populations with special health care needs, including the poor, the elderly, children, and minority populations. Supported services include various clinics, health screening programs, health education programs, and support area groups operated in the local area. The Institute works actively with other service providers to ensure the development of an effective community health network. The Institute also participates in activities designed to foster a vital local economic and civic environment.

##### **Uncompensated Care**

The Commonwealth of Massachusetts operates a “health safety net” to reimburse hospitals for the cost of uncompensated care, defined as charity care, and bad debts associated with emergency services. Amounts are paid to the health safety net based on a percentage of private sector charges. Payments from the health safety net are determined on a per visit or discharge basis according to Medicare reimbursement rates adjusted for overall shortfalls in the statewide funding for the health safety net.

##### **Charity Care**

The Institute provides care without charge or at amounts less than established rates to patients who meet certain criteria under the Institute’s charity care policies. Because the Institute does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During the years ended September 30, 2015 and 2014, the Institute provided \$10,351 and \$16,492, respectively, at standard charges in charity care. The cost of this charity care was \$4,172 and \$6,520. In addition, the Institute had net payments to the Commonwealth of Massachusetts “health safety net” of \$2,894 for the year ended September 30, 2015, and net receipts of \$1,451 for the year ended September 30, 2014. The equivalent percentage of charity care patients to all patients served was approximately 1% in 2015 and 2014. Such amounts and percentages are determined using charges foregone based on established rates. The cost of charity care is estimated using the cost-to-charge ratio for the Institute.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**12. Pension Plans**

**Defined Contribution Plan**

Substantially all employees are covered by a defined contribution plan to which the Institute contributes a fixed percentage of employees' salaries. The amounts contributed for the years ended September 30, 2015 and 2014 approximated \$23,443 and \$22,017, respectively.

**Defined Benefit Pension Plan**

*Obligations and Funded Status*

The Institute has a defined benefit pension plan, which was frozen for years of service credited through June 30, 1992. The Board of Trustees of the Institute adopted a resolution to freeze the salary component of the defined benefit pension plan effective March 31, 2010. On September 30, 2010, as a result of this resolution, the plan liabilities were remeasured. The elimination of future salary increases was calculated as a prior service credit related to these employees of \$3,295 and is being amortized over the future working lifetime of the current active population.

Included in unrestricted net assets at September 30, 2015 and 2014 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost credit of \$(741) and \$(1,162), respectively, and unrecognized actuarial losses of \$23,300 and \$18,296, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2016 are \$(421) and \$621, respectively.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

**12. Pension Plans (continued)**

The following tabulation summarizes information about the funded status of the plan at September 30:

	<b>2015</b>	<b>2014</b>
Projected benefit obligation at beginning of year	\$ <b>37,912</b>	\$ 34,856
Interest cost	<b>1,553</b>	1,578
Net benefit payments and transfers	<b>(1,263)</b>	(2,441)
Actuarial losses	<b>2,037</b>	3,919
Projected benefit obligation at end of year	<b>40,239</b>	37,912
Fair value of plan assets at beginning of year	<b>35,804</b>	34,894
Actual return on plan assets	<b>(1,178)</b>	3,500
Net benefit payments and expenses	<b>(1,437)</b>	(2,590)
Fair value of plan assets at end of year	<b>33,189</b>	35,804
Funded status of the plan	<b>\$ (7,050)</b>	\$ (2,108)

The funded status of the plan is recorded within other liabilities on the consolidated balance sheets.

The measurement date for the Institute's fiscal 2015 financial statements is September 30, 2015.

The accumulated benefit obligation was \$40,239 and \$37,912 at September 30, 2015 and 2014, respectively.

**Net Periodic Pension Income**

Net periodic pension income consists of the following for the years ended September 30:

	<b>2015</b>	<b>2014</b>
Interest cost	\$ <b>1,553</b>	\$ 1,578
Service cost	<b>150</b>	25
Expected return on plan assets	<b>(2,378)</b>	(2,348)
Net amortization and deferral	<b>190</b>	117
Net periodic pension income	<b>\$ (485)</b>	\$ (628)

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**12. Pension Plans (continued)**

**Assumptions**

Assumptions used to measure the projected benefit obligation and net periodic pension cost include the following at September 30:

	<u>2015</u>	<u>2014</u>
Discount rate (projected benefit obligation)	<b>4.14%</b>	4.20%
Discount rate (net periodic pension cost)	<b>4.20</b>	4.70
Expected long-term return on plan assets	<b>7.40</b>	7.40
Average increase in compensation levels	<b>N/A</b>	N/A

The expected rate of return on plan assets was determined based on the expected return of each asset class using a model that estimates returns over at least a 20-year period without regard to current market valuations.

**Plan Assets**

The Institute's pension plan asset allocations at September 30, by asset category, are as follows:

	<u>2015</u>	<u>2014</u>
U.S. securities money market fund	<b>1%</b>	2%
U.S. government mutual funds	<b>9</b>	9
U.S. corporate bond mutual funds	<b>9</b>	8
U.S. equity mutual funds	<b>29</b>	31
International equity mutual funds	<b>18</b>	17
Alternative investments	<b>34</b>	33
	<u><b>100%</b></u>	<u>100%</u>

Pension plan assets are managed by outside managers with a long-term outlook. Long-term investment results are measured over rolling periods of three to five years. The investment objective for plan assets is to achieve a total annual return, net of fees, that meaningfully exceeds the returns possible in the index markets by investing passively in index funds.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollar Amounts in Thousands)*

**12. Pension Plans (continued)**

Assets invested in the defined benefit pension plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 2, are stated at fair value using net asset value as a practical expedient.

**Contributions**

The Institute did not make a contribution to its pension plan during the year ended September 30, 2015. It does not expect to contribute to its pension plan in 2016.

**Estimated Future Benefit Payments**

Benefit payments are expected to approximate the following:

2016	\$	2,351
2017		2,791
2018		2,318
2019		2,844
2020–2025		14,982

**13. Concentrations of Credit Risk**

The Institute grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows at September 30:

	<u>2015</u>	<u>2014</u>
Medicare	27%	30%
Medicaid	10	6
Blue Cross	21	21
Harvard Pilgrim Health	7	6
Commercial and other	33	36
Patients	2	1
	<u>100%</u>	<u>100%</u>

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts in Thousands)*

**14. Medical Malpractice Insurance**

The Institute insures its medical malpractice risks under a claims-made policy issued by a multiprovider captive insurance company, of which the Institute is a 10.0% owner. Premiums are accrued based on the captive insurance company's experience to date. The Institute provides reserves (in addition to those maintained by its affiliated insurance company) for claims incurred but not reported to the insurance company at the consolidated balance sheet date. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 3.0% and 3.0% at September 30, 2015 and 2014, respectively. The discounted liability for unasserted claims at September 30, 2015 and 2014 was \$1,362 and \$1,277, respectively. The Institute has recorded anticipated insurance recoveries and estimated liabilities for asserted medical malpractice claims of \$7,357 and \$6,837 at September 30, 2015 and 2014, respectively.

## Supplementary Information



Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2015

	Dana-Farber Cancer Institute, Inc.	Dana-Farber Cancer Care Network, Inc.	Eliminations and Reclassifications	Dana-Farber Cancer Institute, Inc. and Subsidiaries
	<i>(In Thousands)</i>			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 28,739	\$ 650	\$ –	\$ 29,389
Patient accounts receivable, less allowances for doubtful accounts of \$11,920	94,701	4,812	–	99,513
Contributions receivable, current portion	22,910	–	–	22,910
Assets whose use is limited, current portion	5,146	–	–	5,146
Research receivables	26,845	–	–	26,845
Prepaid expenses and other current assets	61,887	475	(15,930)	46,432
Total current assets	240,228	5,937	(15,930)	230,235
Investments	950,994	–	–	950,994
Assets whose use is limited by indenture agreement or other, less current portion	12,666	–	–	12,666
Property, plant, and equipment, net	746,166	2,394	–	748,560
Contributions receivable, less current portion	40,469	–	–	40,469
Other assets	23,809	–	–	23,809
Total assets	\$ 2,014,332	\$ 8,331	\$ (15,930)	\$ 2,006,733
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 124,339	\$ 16,215	\$ (15,930)	\$ 124,624
Accrued payroll, payroll taxes, and amounts withheld from employee compensation	21,362	–	–	21,362
Amounts due to third-party payors	60,045	–	–	60,045
Research advances	50,566	–	–	50,566
Current portion of long-term debt	5,458	–	–	5,458
Total current liabilities	261,770	16,215	(15,930)	262,055
Other liabilities:				
Long-term debt, less current portion	348,273	–	–	348,273
Other	91,946	–	–	91,946
	440,219	–	–	440,219
Net assets:				
Unrestricted	620,619	(7,887)	–	612,732
Temporarily restricted	516,904	3	–	516,907
Permanently restricted	174,820	–	–	174,820
	1,312,343	(7,884)	–	1,304,459
Total liabilities and net assets	\$ 2,014,332	\$ 8,331	\$ (15,930)	\$ 2,006,733

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2015

	Dana-Farber Cancer Institute, Inc.	Dana-Farber Cancer Care Network, Inc.	Eliminations and Reclassifications	Dana-Farber Cancer Institute, Inc. and Subsidiaries
	<i>(In Thousands)</i>			
Operating revenues:				
Patient service revenue, net of contractual allowances and discounts	\$ 746,517	\$ 34,309	\$ –	\$ 780,826
Provision for bad debts	7,455	149	–	7,604
Net patient service revenue, less provision for bad debts	739,062	34,160	–	773,222
Research revenues	357,625	–	–	357,625
Unrestricted contributions and bequests	69,398	–	–	69,398
Other operating revenues	20,941	–	–	20,941
Total operating revenues	1,187,026	34,160	–	1,221,186
Operating expenses:				
Direct research expenditures	310,721	–	–	310,721
Direct patient care	476,517	36,433	–	512,950
General, administrative, and plant	290,603	4,403	–	295,006
Depreciation and amortization	72,081	411	–	72,492
Interest	8,018	–	–	8,018
Total operating expenses	1,157,940	41,247	–	1,199,187
Operating income (loss)	29,086	(7,087)	–	21,999
Investment losses, net	(7,345)	–	–	(7,345)
Interest rate swap agreement:				
Net interest paid	(5,593)	–	–	(5,593)
Change in fair value	(11,238)	–	–	(11,238)
Other	(248)	–	–	(248)
(Deficit) excess of revenues over expenses	\$ 4,662	\$ (7,087)	\$ –	\$ (2,425)

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2014

	Dana-Farber Cancer Institute, Inc.	Dana-Farber Cancer Care Network, Inc.	Eliminations and Reclassifications	Dana-Farber Cancer Institute, Inc. and Subsidiaries
	<i>(In Thousands)</i>			
<b>Assets</b>				
Current assets:	\$ 27,673	\$ 2,237	\$ –	\$ 29,910
Cash and cash equivalents				
Patient accounts receivable, less allowances for doubtful accounts of \$9,903	86,985	4,515	–	91,500
Contributions receivable, current portion	23,233	–	–	23,233
Assets whose use is limited, current portion	17,075	–	–	17,075
Research receivables	25,832	–	–	25,832
Prepaid expenses and other current assets	54,215	374	(8,198)	46,391
Total current assets	235,013	7,126	(8,198)	233,941
Investments	948,680	–	–	948,680
Assets whose use is limited by indenture agreement or other, less current portion	12,586	–	–	12,586
Property, plant, and equipment, net	692,589	1,543	–	694,132
Contributions receivable, less current portion	37,748	–	–	37,748
Other assets	23,571	–	–	23,571
Total assets	\$ 1,950,187	\$ 8,669	\$ (8,198)	\$ 1,950,658
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 81,548	\$ 9,470	\$ (8,198)	\$ 82,820
Accrued payroll, payroll taxes, and amounts withheld from employee compensation	19,980	–	–	19,980
Amounts due to third-party payors	72,867	–	–	72,867
Research advances	41,880	–	–	41,880
Current portion of long-term debt	5,196	–	–	5,196
Total current liabilities	221,471	9,470	(8,198)	222,743
Other liabilities:				
Long-term debt, less current portion	354,022	–	–	354,022
Other	61,743	–	–	61,743
	415,765	–	–	415,765
Net assets:				
Unrestricted	607,664	(801)	–	606,863
Temporarily restricted	538,070	–	–	538,070
Permanently restricted	167,217	–	–	167,217
	1,312,951	(801)	–	1,312,150
Total liabilities and net assets	\$ 1,950,187	\$ 8,669	\$ (8,198)	\$ 1,950,658

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2014

	<b>Dana-Farber Cancer Institute, Inc.</b>	<b>Dana-Farber Cancer Care Network, Inc.</b>	<b>Eliminations and Reclassifications</b>	<b>Dana-Farber Cancer Institute, Inc. and Subsidiaries</b>
	<i>(In Thousands)</i>			
Operating revenues:				
Patient service revenue, net of contractual allowances and discounts	\$ 672,400	\$ 6,775	\$ –	\$ 679,175
Provision for bad debts	–	–	–	–
Net patient service revenue, less provision for bad debts	672,400	6,775	–	679,175
Research revenues	322,101	–	–	322,101
Unrestricted contributions and bequests	61,183	–	–	61,183
Other operating revenues	24,179	–	–	24,179
Total operating revenues	1,079,863	6,775	–	1,086,638
Operating expenses:				
Direct research expenditures	280,130	–	–	280,130
Direct patient care	434,103	7,772	–	441,875
General, administrative, and plant	274,051	1,346	–	275,397
Depreciation and amortization	61,113	172	–	61,285
Interest	6,697	–	–	6,697
Total operating expenses	1,056,094	9,290	–	1,065,384
Operating income (loss)	23,769	(2,515)	–	21,254
Investment gains, net	22,028	–	–	22,028
Interest rate swap agreement:				
Net interest paid	(5,611)	–	–	(5,611)
Change in fair value	(5,615)	–	–	(5,615)
Excess (deficit) of revenues over expenses	\$ 34,571	\$ (2,515)	\$ –	\$ 32,056

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