

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Dana-Farber Cancer Institute, Inc. and Subsidiaries
Years Ended September 30, 2017 and 2016
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, 2017 and 2016

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
2017 Consolidating Balance Sheet	40
2017 Consolidating Statement of Operations	41
2016 Consolidating Balance Sheet	42
2016 Consolidating Statement of Operations	43



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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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2018

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30		September 30	
	2017	2016	2017	2016
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Assets			Liabilities and net assets	
Current assets:			Current liabilities:	
Cash and cash equivalents	\$ 125,379	\$ 136,127	Accounts payable and accrued expenses	\$ 118,658
Patient accounts receivable, less allowances for doubtful accounts of \$17,313 in 2017 and \$20,131 in 2016, respectively	99,996	113,877	Accrued payroll, payroll taxes, and amounts withheld from employee compensation	24,169
Contributions receivable, current portion	14,969	16,325	Amounts due to third-party payors	42,716
Assets whose use is limited, current portion	9,033	245,318	Research advances	95,979
Research receivables	34,712	22,144	Current portion of long-term debt and capital leases	5,422
Prepaid expenses and other current assets	61,324	54,530	Total current liabilities	286,944
Total current assets	345,413	588,321	Other liabilities:	
Investments	1,174,119	1,034,466	Long-term debt and capital leases, less current portion	608,731
Assets whose use is limited by indenture agreement or other, less current portion	12,762	12,703	Other	172,076
Property, plant, and equipment, net	965,591	923,299	Total liabilities	1,067,751
Contributions receivable, less current portion	29,504	28,824	Net assets:	
Other assets	48,997	48,262	Unrestricted	702,810
Total assets	\$ 2,576,386	\$ 2,635,875	Temporarily restricted	612,839
			Permanently restricted	192,986
			Total net assets	1,508,635
			Total liabilities and net assets	\$ 2,576,386

See accompanying notes.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2017	2016
	<i>(In Thousands)</i>	
Operating revenues:		
Patient service revenue, net of contractual allowances and discounts	\$ 995,241	\$ 938,141
Provision for bad debts	4,432	12,813
Net patient service revenue, less provision for bad debts	990,809	925,328
Research revenues	434,228	386,793
Unrestricted contributions and bequests	75,227	73,276
Other operating revenues	24,671	21,130
Total operating revenues	1,524,935	1,406,527
Operating expenses:		
Direct research expenditures	381,229	337,901
Direct patient care	717,139	624,564
General, administrative, and plant	343,204	310,624
Depreciation and amortization	97,303	88,060
Interest	22,894	15,656
Total operating expenses	1,561,769	1,376,805
Operating (loss) income	(36,834)	29,722
Investment gains, net	46,916	26,280
Interest rate swap agreement:		
Net interest paid	(4,830)	(5,354)
Change in fair value	15,997	(13,836)
Excess of revenues over expenses	21,249	36,812

Continued on next page.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

	Year Ended September 30	
	2017	2016
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues over expenses <i>(from previous page)</i>	21,249	36,812
Net unrealized gains on endowment	–	170
Net assets released from restrictions for capital	9,519	20,948
Pension adjustment	3,757	(2,380)
Other	–	3
Increase in unrestricted net assets	34,525	55,553
Temporarily restricted net assets:		
Contributions revenue, net	116,832	83,365
Interest and dividend income, net	1,671	357
Realized and unrealized gains on investments, net	87,577	53,604
Restricted royalty and license revenue	–	7,166
Net assets released from restrictions for capital	(9,519)	(20,948)
Net assets released from restrictions for operations	(124,039)	(99,709)
Transfers to other institutions	–	(422)
Other	–	(3)
Increase in temporarily restricted net assets	72,522	23,410
Permanently restricted net assets:		
Contributions revenue, net	9,815	10,151
Transfers to other institutions	(1,800)	–
Increase in permanently restricted net assets	8,015	10,151
Increase in net assets	115,062	89,114
Net assets at beginning of year	1,393,573	1,304,459
Net assets at end of year	\$ 1,508,635	\$ 1,393,573

See accompanying notes.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2017	2016
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 115,062	\$ 89,114
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	97,303	88,060
Net realized and unrealized gains on investments	(134,014)	(80,987)
Pension adjustment	(3,757)	2,380
Restricted contributions and investment income, net of restriction releases for operations	(13,731)	(5,836)
Transfers to other institutions	1,800	422
Changes in other assets and liabilities	(20,724)	74,536
Changes in certain elements of working capital:		
Patient accounts receivable	13,881	(14,364)
Research receivables and research advances	21,366	16,180
Prepaid expenses and other assets	(6,794)	(8,098)
Purchases of investments, net	(5,639)	(2,485)
Accounts payable and accrued expenses, including employee compensation	(1,781)	(1,378)
Estimated final settlements due to patient care third-party payors	(328)	(17,001)
Net cash provided by operating activities	62,644	140,543
Investing activities		
Additions to property, plant, and equipment, net	(310,393)	(86,541)
Changes in assets whose use is limited	236,226	(240,209)
Net cash used in investing activities	(74,167)	(326,750)
Financing activities		
Proceeds on line of credit	–	40,000
Payments on line of credit	–	(40,000)
Proceeds from issuance of long-term debt	–	281,786
Payments of bond issuance costs	–	(2,591)
Payments on long-term debt	(3,765)	(3,580)
Payments on capital lease obligation	(8,067)	(6,314)
Restricted contributions and investment income, net of restriction releases for operations	13,731	5,836
Change in contributions receivable	676	18,230
Transfers to other institutions	(1,800)	(422)
Net cash provided by financing activities	775	292,945
(Decrease) increase in cash and cash equivalents	(10,748)	106,738
Cash and cash equivalents at beginning of year	136,127	29,389
Cash and cash equivalents at end of year	\$ 125,379	\$ 136,127
Non-cash financing activities		
Assets acquired pursuant to capital lease <i>(Note 7)</i>	\$ –	\$ 176,780
Termination of capital lease <i>(Note 7)</i>	\$ (169,241)	\$ –

See accompanying notes.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollar Amounts in Thousands)

September 30, 2017

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, Inc. (DFCCN) physician practices.

The Institute maintains its inpatient hospital at Brigham & Women's Hospital, Inc. (BWH), and reimburses BWH for related patient care expenses. Net patient service revenue related to the inpatient hospital was \$47,794 and \$37,528 in 2017 and 2016, respectively.

The Institute, BWH, The General Hospital Corporation (the General) and Partners HealthCare System, Inc. (Partners) have formed Dana-Farber/Partners CancerCare, Inc. (DF/PCC), a not-for-profit corporation. During the years ended September 30, 2017 and 2016, DF/PCC provided the Institute with \$43,277 and \$38,754, respectively, in research funding. Among its roles, DF/PCC is responsible for the management of cancer-related clinical trials at the Institute, BWH and the General. 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.

The Institute obtains electricity, steam, and chilled water from the Medical Area Total Energy Plant ("MATEP"), which is located in the Longwood Medical and Academic Area of Boston and also provides utilities to a number of neighboring hospitals and medical institutions. On August 2, 2017, BCD Hospital Energy Collaborative, LLC ("BCD"), a limited liability company owned by the Institute and other MATEP customers (the "BCD Owners"), entered into a Purchase and Sale Agreement (the "PSA") pursuant to which BCD agreed to acquire 100% of the issued and outstanding interests in Mayflower Energy Holdings LLC ("MEH"), which owns MATEP. The transaction is non-recourse to the BCD Owners beyond their joint and several guarantee of up to \$25 million of BCD's obligation to pay certain liquidated damages under the PSA.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

1. Corporate Organization (continued)

Subsequent to the execution of the PSA, BCD agreed that it would assign its interests under the PSA to an unrelated entity, Longwood Energy Partners LLC (“LEP”), subject to receipt of all relevant regulatory approvals. If regulatory approvals are not timely obtained and the assignment does not occur, BCD has agreed to sell the MEH interests to LEP following BCD’s acquisition of the interests pursuant to the PSA. The Institute has agreed, severally and not jointly, to guarantee all payment and performance obligations of BCD under the transaction agreements with LEP, up to a cap of \$16 million, with each of the other BCD Owners providing the same several guarantee.

All of the transactions relating to MATEP are subject to regulatory approval, and there can be no assurance that any of such transactions will be completed.

The Institute does not have a controlling financial interest in BCD and, thus, the financial position and results of operations of BCD are not reflected in the accompanying consolidated financial statements. The Institute accounts for its interest in BCD under the equity method of accounting and the Institute’s portion of the operation of BCD did not have a significant impact on the consolidated financial statements as of and for the year ended September 30, 2017.

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 balances and 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 2016 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 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 alternative 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 carrying values for alternative investments 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 gains (losses) (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

Operating (loss) 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 7.5% 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. For the year ended September 30, 2017, royalty and license revenue is initially recorded as research advances on the consolidated balance sheets until expended, when it is then recognized as royalty and license revenue. For the year ended September 30, 2016, royalty and license revenue was recognized as temporarily restricted net assets on the consolidated balance sheets until expended. 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 research expense on the consolidated statements of operations and changes in net assets when expended. The portion distributed to the Institute is recorded on the consolidated statements of operations and changes in net assets 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

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 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 has not changed significantly for the year ended September 30, 2017, in comparison to the prior year. The Institute has not experienced significant changes in write-off trends for receivables associated with self-pay patients and has not changed its charity care policy for the year ended September 30, 2017. The decrease in the provision for bad debts from 2016 to 2017 is due to the decline in patient accounts receivable. The Institute does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant bad debt 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.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the 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 (IRC), and are exempt from federal income taxes on related income. The Institute is considered a public charity, qualifying under IRC Section 170(b)(1)(A)(vi), which is an organization that receives substantial support from grants, governmental units, and the public. Dana-Farber Trust, Inc. and Dana-Farber, Inc. are not private foundations, but qualify for public charity status 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. DFCCN 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 IRC for tax-exempt hospitals, although it does not depend on IRC Section 170(b)(1)(A)(iii) for its public charity status, but qualifies as a public charity under IRC Section 170(b)(1)(A)(vi) as a publicly supported organization.

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 Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. The provisions of ASU 2014-09 are effective for the Institute for the year ended September 30, 2019. 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 May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments whose fair values are measured at net

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

2. Summary of Significant Accounting Policies (continued)

asset value using the practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures*, in the fair value hierarchy (see Note 4). The provisions of ASU 2015-07 are effective for the Institute for the year ended September 30, 2018. Early adoption is permitted. The guidance will be applied retrospectively. The Institute adopted this guidance during the year ended September 30, 2017.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using Net Asset Value (NAV), at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the balance sheet or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or for the year ended September 30, 2020 for the Institute. Early adoption is permitted for annual periods beginning after December 15, 2017. Additionally, immediate early application of certain provisions are permitted. The Institute early applied the provision to eliminate the requirement to disclose the fair value of debt during the year ended September 30, 2017.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The core principle of ASU 2016-02 is that lessees will recognize assets and liabilities for most leases as either finance or operating leases. The guidance in ASU 2016-02 supersedes the FASB's current lease guidance in ASC Topic 840, *Leases*, and most industry-specific guidance. The provisions of ASU 2016-02 are effective for the Institute for the year ended September 30, 2020. Early application is permitted for all entities. The Institute is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will change certain financial statement requirements for not-for-profit (NFP) entities in an effort to make the information more meaningful to users and make reporting less complex for NFPs. The provisions

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

2. Summary of Significant Accounting Policies (continued)

of ASU 2016-14 are effective for the Institute for the year ended September 30, 2019. Early application is permitted for all entities. The Institute is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

Subsequent Events

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, 2017, the Institute evaluated the impact of subsequent events through January 26, 2018, representing the date 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:

	<u>2017</u>	<u>2016</u>
Donor-restricted for research and capital	\$ 477,102	\$ 419,703
Donor-restricted endowment corpus	190,915	181,048
Accumulated realized and unrealized appreciation on endowment funds	83,262	67,191
Board-designated for various purposes	422,840	366,524
	<u>\$ 1,174,119</u>	<u>\$ 1,034,466</u>
U.S. government money market fund	\$ 1,630	\$ 3,864
U.S. government securities	81,689	70,172
U.S. equity securities	94,769	63,704
U.S. equity mutual funds	136,531	115,556
International equity securities	81,508	52,303
International equity mutual funds	194,805	161,929
Alternative investments	583,187	566,938
	<u>\$ 1,174,119</u>	<u>\$ 1,034,466</u>

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

3. Investments (continued)

Investment income (loss) consisted of the following for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Investment income (loss), net	\$ 2,150	\$ (576)
Realized and unrealized gains	134,014	80,987
	<u>\$ 136,164</u>	<u>\$ 80,411</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>2017</u>	<u>2016</u>
Excess of revenues over expenses:		
Investment gains (nonoperating)	\$ 46,916	\$ 26,280
Changes in unrestricted net assets:		
Net unrealized gains on endowment	–	170
Changes in temporarily restricted net assets:		
Interest and dividend income, net and realized and unrealized gains, net	89,248	53,961
	<u>\$ 136,164</u>	<u>\$ 80,411</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, 2017, are classified in the table below in one of the three categories as described above:

	Level 1	Level 2	Level 3	Fair Value Investments	Equity Method Investments	Total
Cash and cash equivalents						
U.S. government money market fund	\$ –	\$ 125,379	\$ –	\$ 125,379	\$ –	\$ 125,379
Investments						
U.S. government money market fund	\$ –	\$ 1,630	\$ –	\$ 1,630	\$ –	\$ 1,630
U.S. government securities	81,689	–	–	81,689	–	81,689
U.S. equity securities	94,769	–	–	94,769	–	94,769
U.S. equity mutual funds	19,335	–	–	19,335	–	19,335
International equity securities	81,508	–	–	81,508	–	81,508
International equity mutual funds	50,956	–	–	50,956	–	50,956
Alternative investments	–	–	–	–	583,187	583,187
	<u>\$ 328,257</u>	<u>\$ 1,630</u>	<u>\$ –</u>	<u>\$ 329,887</u>	<u>\$ 583,187</u>	<u>913,074</u>
Investments at net asset value						261,045
Total investments						<u>\$ 1,174,119</u>
Assets whose use is limited by indenture agreement or other						
U.S. government securities	\$ 12,034	\$ –	\$ –	\$ 12,034	\$ –	\$ 12,034
U.S. government money market funds	–	5,761	–	5,761	–	5,761
Bank deposit account	1,000	–	–	1,000	–	1,000
U.S. corporate bond mutual fund	3,000	–	–	3,000	–	3,000
	<u>\$ 16,034</u>	<u>\$ 5,761</u>	<u>\$ –</u>	<u>\$ 21,795</u>	<u>\$ –</u>	<u>\$ 21,795</u>
Defined benefit plan assets						
U.S. government money market fund	\$ –	\$ 331	\$ –	\$ 331	\$ –	\$ 331
U.S. government mutual funds	3,814	–	–	3,814	–	3,814
U.S. corporate bond mutual fund	3,887	–	–	3,887	–	3,887
U.S. equity mutual funds	226	–	–	226	–	226
International equity mutual funds	1,935	–	–	1,935	–	1,935
	<u>\$ 9,862</u>	<u>\$ 331</u>	<u>\$ –</u>	<u>\$ 10,193</u>	<u>\$ –</u>	<u>10,193</u>
Investments at net asset value						26,177
Total Defined Benefit Plan Assets						<u>\$ 36,370</u>
Liabilities						
Interest rate swap agreements	\$ –	\$ 46,255	\$ –	\$ 46,255	\$ –	\$ 46,255

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, 2016, are classified in the table below in one of the three categories as described above:

	Level 1	Level 2	Level 3	Fair Value Investments	Equity Method Investments	Total
Cash and cash equivalents						
U.S. government money market fund	\$ —	\$ 136,127	\$ —	\$ 136,127	\$ —	\$ 136,127
Investments						
U.S. government money market fund	\$ —	\$ 3,864	\$ —	\$ 3,864	\$ —	\$ 3,864
U.S. government securities	70,172	—	—	70,172	—	70,172
U.S. equity securities	63,704	—	—	63,704	—	63,704
U.S. equity mutual funds	16,767	—	—	16,767	—	16,767
International equity securities	52,303	—	—	52,303	—	52,303
International equity mutual funds	44,313	—	—	44,313	—	44,313
Alternative Investments	—	—	—	—	566,938	566,938
	<u>\$ 247,259</u>	<u>\$ 3,864</u>	<u>\$ —</u>	<u>\$ 251,123</u>	<u>\$ 566,938</u>	<u>818,061</u>
Investments at net asset value						216,405
Total investments						<u>\$ 1,034,466</u>
Assets whose use is limited by indenture agreement or other						
U.S. government securities	\$ 248,369	\$ —	\$ —	\$ 248,369	\$ —	\$ 248,369
U.S. government money market funds	—	5,652	—	5,652	—	5,652
Bank deposit account	1,000	—	—	1,000	—	1,000
U.S. corporate bond mutual fund	3,000	—	—	3,000	—	3,000
	<u>\$ 252,368</u>	<u>\$ 5,653</u>	<u>\$ —</u>	<u>\$ 258,021</u>	<u>\$ —</u>	<u>\$ 258,021</u>
Defined benefit plan assets						
U.S. government money market fund	\$ —	\$ 306	\$ —	\$ 306	\$ —	\$ 306
U.S. securities money market fund	—	1,101	—	1,101	—	1,101
U.S. government mutual funds	3,068	—	—	3,068	—	3,068
U.S. corporate bond mutual fund	3,016	—	—	3,016	—	3,016
U.S. equity mutual funds	2,112	—	—	2,112	—	2,112
International equity mutual funds	540	—	—	540	—	540
	<u>\$ 8,736</u>	<u>\$ 1,407</u>	<u>\$ —</u>	<u>\$ 10,143</u>	<u>\$ —</u>	<u>10,143</u>
Investments at net asset value						23,880
Total Defined Benefit Plan Assets						<u>\$ 34,023</u>
Liabilities						
Interest rate swap agreements	\$ —	\$ 62,252	\$ —	\$ 62,252	\$ —	\$ 62,252

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

4. Fair Value Measurements (continued)

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

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.

There were no significant transfers between Levels 1 and 2 during the years ended September 30, 2017 and 2016, respectively.

5. Property, Plant, and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 7,640	\$ 7,640
Buildings and improvements	1,263,644	1,184,010
Equipment	384,893	349,422
Construction-in-progress	42,781	38,318
	<u>1,698,958</u>	<u>1,579,390</u>
Less accumulated depreciation	733,367	656,091
	<u>\$ 965,591</u>	<u>\$ 923,299</u>

Included within buildings and improvements are assets recorded under capital leases of \$36,487 and \$216,835 for September 30, 2017 and 2016, respectively, and accumulated depreciation of \$16,098 and \$20,546 as of September 30, 2017 and 2016, respectively. During 2017, the Institute purchased previously leased space therefore terminating a capital lease (see Note 7). During the years ended September 30, 2017 and 2016, retirements of fully depreciated equipment assets were undertaken, representing \$4,399 and \$89,158 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:

	2017		
	Cash	Pledges	Total
Unrestricted contributions and bequests	\$ 75,227	\$ –	\$ 75,227
Research gifts for current use	8,098	–	8,098
Temporarily restricted	60,328	56,504	116,832
Permanently restricted	2,338	7,477	9,815
	<u>\$ 145,991</u>	<u>\$ 63,981</u>	<u>\$ 209,972</u>
	2016		
	Cash	Pledges	Total
Unrestricted contributions and bequests	\$ 73,276	\$ –	\$ 73,276
Research gifts for current use	7,711	–	7,711
Temporarily restricted	55,035	28,330	83,365
Permanently restricted	4,629	5,522	10,151
	<u>\$ 140,651</u>	<u>\$ 33,852</u>	<u>\$ 174,503</u>

Of the total contributions raised during the years ended September 30, 2017 and 2016, the Jimmy Fund raised \$88,162 and \$87,326, respectively, in restricted and unrestricted contributions.

In addition, the Institute was awarded a total of \$46,391 and \$39,132 in foundation grants for the years ended September 30, 2017 and 2016, respectively.

Gifts in kind totaling \$1,708 and \$4,051 were recorded by the Institute as both revenue and expense for the years ended September 30, 2017 and 2016, respectively.

Direct fundraising expenses were \$30,168 and \$28,459 for the years ended September 30, 2017 and 2016, respectively, and were included as a component of general, administrative, and plant expenses on the consolidated statements of operations and changes in net assets.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

6. Contributions (continued)

Contributions receivable as of September 30 were as follows:

	2017	2016
Amounts due in less than one year for use in operations	\$ 13,583	\$ 12,763
Amounts due in less than one year for capital use	3,886	6,062
Amounts due in one to five years	20,949	19,997
Amounts due in more than five years	10,050	10,342
	48,468	49,164
Less discount to net present value	1,495	1,515
Less allowance for uncollectible pledges	2,500	2,500
	\$ 44,473	\$ 45,149

7. Long-Term Debt and Capital Lease Obligations

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

	2017	2016
Massachusetts Health and Educational Facilities Authority (MHEFA) revenue bonds:		
Series K	\$ 79,145	\$ 82,910
Series L	185,000	185,000
Massachusetts Development Finance Agency (MDFA) revenue bonds:		
Series M	50,860	50,860
Series N	233,195	233,195
Capital lease obligations (<i>Note 8</i>)	23,315	200,623
	571,515	752,588
Unamortized premium	47,383	49,149
Unamortized cost of issuance	(4,745)	(4,951)
	614,153	796,786
Less current portion	5,422	14,722
	\$ 608,731	\$ 782,064

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

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

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.

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 (1.62% and 1.28% for the years ended September 30, 2017 and 2016, respectively), and mature in varying annual amounts from 2028 to 2046. The Series L-1 and L-2 bonds were secured by an irrevocable direct pay letter of credit issued by JPMorgan Chase Bank, N.A. that terminated on August 3, 2015 and July 2, 2012, respectively, 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.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

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

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 were 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.

On June 23, 2016, the Institute issued, through MDFA, \$233,195 Revenue Bonds, Dana-Farber Cancer Institute Issue, Series N (2016). The Series N bonds are tax-exempt bonds. The proceeds of the bonds are reported in assets whose use is limited, current portion on the consolidated balance sheet as of September 30, 2016, and were used in July 2017 to: (i) finance the acquisition of approximately 203,000 square feet of research space in the Longwood Center (refer to “Longwood Lease” below), (ii) finance the partial fit-out of an additional 50,983 square feet of research space under a separate lease at the Longwood Center, (iii) replace a 20-year old HVAC system, (iv) relocate and reconstruct the Institute’s Cell Manipulation Core Facility, (v) payment of cost of issuance and interest during the purchase and construction periods and (vi) various other capital projects. The Series N bonds bear interest at fixed rates of 5.00%, and mature in varying annual amounts from 2029 to 2046. The bonds were issued at an original premium of \$48,591, which is amortized over the related terms.

The Series K, Series L, Series M, and Series N 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.

Effective September 1, 2015, the Institute entered into a bank credit agreement for a revolving line of credit commitment in the amount of \$40,000 for working capital purposes. In 2017, the credit agreement was amended to extend the expiration date to May 31, 2018. No amounts were outstanding under the current or previous credit agreements as of September 30, 2017 and 2016.

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, 2017 and 2016.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

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

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

2018	\$	3,960
2019		4,160
2020		4,375
2021		4,615
2022		4,865

Interest cost on long-term debt and capital lease obligations totaled \$24,556 and \$16,892 for the years ended September 30, 2017 and 2016, respectively. Of this, \$22,894 and \$15,656 was reported as interest expense, and \$1,662 and \$1,236 was capitalized as part of construction-in-progress for the years ended September 30, 2017 and 2016, respectively. Cash paid for interest amounted to \$25,596 and \$14,413 for the years ended September 30, 2017 and 2016, 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.

The Institute reported the fair value of interest rate swap agreements as \$46,255 and \$62,252 in other liabilities on the consolidated balance sheets as of September 30, 2017 and 2016, respectively. The Institute reported the change in the fair value of the interest rate swap agreements as a nonoperating gain (loss) of \$15,997 and (\$13,836) in the accompanying consolidated statements of operations and changes in net assets for the years ended September 30, 2017 and 2016, respectively.

Capital Lease Obligations

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 3.49% and 3.04% for the years ended September 30, 2017 and 2016, 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 \$993 and \$1,041 for the years ended September 30, 2017 and 2016, respectively.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

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

Longwood Lease

On December 31, 2015, the Institute served notice to an existing lessor that it would exercise its option to purchase 203,000 rentable square feet of biomedical research space located at the Longwood Center through execution of a binding purchase commitment. This space was occupied by the Institute under a lease agreement which expired in 2030 that was classified as an operating lease at lease inception. The notice and binding commitment to purchase required a change in the classification of the Institute's operating lease to a capital lease at December 31, 2015. The capital lease bore interest at a fixed rate of 2.94%. Interest expense related to the capital lease was \$3,735 and \$3,860 for the years ended September 30, 2017 and 2016, respectively. The capital lease asset of approximately \$177,000 and related obligation of approximately \$172,000, representing the present value of minimum lease payments through the remaining lease term which expired in 2030, were reported in property, plant and equipment and long-term debt and capital leases, respectively, on the consolidated balance sheet as of September 30, 2016. In addition, deferred rent of \$7,231 recorded at the time of the notice was charged as an offset to 2016 rental expense.

The Institute purchased the leased space at the Longwood Center on July 6, 2017. A portion of the proceeds from the Series N bonds issued on June 23, 2016, were used to finance the acquisition of the space. Concurrent with the purchase of the space, the then remaining capital lease asset and obligation were reversed and the purchased space was recorded in property, plant and equipment at the acquisition value, of \$235,777.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

8. Leases

The Institute has noncancelable capital and operating leases for certain buildings and equipment. Rent expenses under these operating and other lease contracts approximated \$41,285 in 2017 and \$34,948 in 2016. Minimum future lease commitments under noncancelable leases are as follows:

	Capital Leases	Operating Leases
2018	\$ 2,543	\$ 32,973
2019	2,568	30,324
2020	2,592	27,477
2021	2,608	25,413
2022	2,632	19,743
Thereafter	17,499	112,201
Total minimum lease payments	<u>30,442</u>	<u>\$ 248,131</u>
Less amount representing interest	(7,127)	
Capital lease obligations	<u>\$ 23,315</u>	

9. Temporarily and Permanently Restricted Net Assets

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

	2017	2016
Research	\$ 522,400	\$ 461,810
Capital	7,177	11,316
Realized and unrealized gains on permanently restricted gifts	83,262	67,191
	<u>\$ 612,839</u>	<u>\$ 540,317</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)

During the years ended September 30, 2017 and 2016, net assets of \$123,254 and \$98,911, respectively, were released from donor restrictions to fund research. In addition, \$785 and \$798, 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>2017</u>	<u>2016</u>
Unrestricted as to use of income	\$ 7,596	\$ 7,596
Restricted as to use of income	<u>185,390</u>	<u>177,375</u>
	<u>\$ 192,986</u>	<u>\$ 184,971</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, 2017 and 2016, the Institute transferred \$1,800 and \$422, respectively, to Harvard University and other institutions 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.

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

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)

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, 2017, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 83,262	\$ 192,986	\$ 276,248

For the year ended September 30, 2017, the Institute had the following endowment-related activities:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2016	\$ 67,191	\$ 184,971	\$ 252,162
Investment return:			
Investment income, net	522	–	522
Net realized and unrealized gains on investments	32,078	–	32,078
Total investment return	32,600	–	32,600
Contributions to perpetual endowment	–	9,815	9,815
Amounts appropriated for expenditure/transfer	(16,529)	(1,800)	(18,329)
Total change in endowment funds	16,071	8,015	24,086
Endowment net assets at September 30, 2017	\$ 83,262	\$ 192,986	\$ 276,248

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)

Endowment net asset composition by type of fund as of September 30, 2016, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 67,191	\$ 184,971	\$ 252,162

For the year ended September 30, 2016, the Institute had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2015	\$ (170)	\$ 63,799	\$ 174,820	\$ 238,449
Investment return:				
Investment income, net	—	218	—	218
Net realized and unrealized gains on investments	—	20,025	—	20,025
Total investment return	—	20,243	—	20,243
Contributions to perpetual endowment	—	—	10,151	10,151
Net asset reclassifications – net unrealized gain on endowments	170	(170)	—	—
Amounts appropriated for expenditure/transfer	—	(16,681)	—	(16,681)
Total change in endowment funds	170	3,392	10,151	13,713
Endowment net assets at September 30, 2016	\$ —	\$ 67,191	\$ 184,971	\$ 252,162

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 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, as measured over a full market cycle; and outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.

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 are no deficiencies of this nature as of September 30, 2017 and 2016.

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 pre-determined reimbursement per inpatient discharge and a per encounter amount for outpatient services.

Revenues from the Medicare and Medicaid programs accounted for approximately 28.8% and 5.3%, respectively, of the Institute's net patient service revenue for the year ended September 30, 2017. Revenues from the Medicare and Medicaid programs accounted for approximately 26.3% and 6.5%, respectively, of the Institute's net patient service revenue for the year ended September 30, 2016. 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

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

10. Net Patient Service Revenue (continued)

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.

The Institute recorded changes in estimates related to prior year settlements and denials which decreased net patient service revenue by \$4,650 in 2017 and increased net patient service revenue by \$16,074 in 2016.

Patient revenue for 2017, net of contractual allowances, from third-party payors (insured patients) was approximately \$973 million and from self-pay patients was approximately \$23 million, before the provision for bad debt (\$922 million and \$16 million, respectively, in 2016).

There are various proposals at the Federal and State levels that could, among other things, change payment rates. The ultimate outcome of these proposals and other market changes cannot be presently determined.

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.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

11. Charity Care (continued)

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, 2017 and 2016, the Institute provided \$12,836 and \$12,017, respectively, at standard charges in charity care. The cost of this charity care was \$5,106 and \$4,780. In addition, the Institute had net payments to the Commonwealth of Massachusetts "health safety net" of \$15,801 and \$5,865 for the years ended September 30, 2017 and 2016, respectively. The equivalent percentage of charity care patients to all patients served was approximately 1% in 2017 and 2016. 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.

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, 2017 and 2016, were \$27,700 and \$25,564, 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.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

12. Pension Plans (continued)

Included in unrestricted net assets at September 30, 2017 and 2016, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost credit of zero and \$(320), respectively, and unrecognized actuarial losses of \$21,182 and \$25,259, 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, 2018, are zero and \$645, respectively.

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

	<u>2017</u>	<u>2016</u>
Projected benefit obligation at beginning of year	\$ 43,074	\$ 40,239
Interest cost	1,361	1,582
Net benefit payments and transfers	(1,173)	(1,929)
Actuarial (gains) losses	(1,949)	3,182
Projected benefit obligation at end of year	<u>41,313</u>	43,074
Fair value of plan assets at beginning of year	34,023	33,189
Actual return on plan assets	3,691	2,961
Net benefit payments and expenses	(1,344)	(2,127)
Fair value of plan assets at end of year	<u>36,370</u>	34,023
Funded status of the plan	<u>\$ (4,943)</u>	<u>\$ (9,051)</u>

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

The measurement date for the Institute's fiscal 2017 consolidated financial statements is September 30, 2017.

The accumulated benefit obligation was \$41,313 and \$43,074 at September 30, 2017 and 2016, respectively.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

12. Pension Plans (continued)

Net Periodic Pension Income

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

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 1,361	\$ 1,582
Service cost	285	230
Expected return on plan assets	(2,411)	(2,402)
Net amortization and deferral	414	211
Net periodic pension income	<u>\$ (351)</u>	<u>\$ (379)</u>

Assumptions

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

	<u>2017</u>	<u>2016</u>
Discount rate (projected benefit obligation)	3.62%	3.35%
Discount rate (net periodic pension cost)	3.35%	4.14%
Expected long-term return on plan assets	7.40%	7.40%
Average increase in compensation levels	N/A	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.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

12. Pension Plans (continued)

Plan Assets

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

	<u>2017</u>	<u>2016</u>
U.S. government money market fund	1%	1%
U.S. securities money market fund	–	3
U.S. government mutual funds	10	9
U.S. corporate bond mutual funds	11	9
U.S. equity mutual funds	28	30
International equity mutual funds	24	19
Alternative investments	26	29
	<u>100%</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.

Assets invested in the defined benefit pension plan are reported 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, 2017. It does not expect to contribute to its pension plan in 2018.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

12. Pension Plans (continued)

Estimated Future Benefit Payments

Benefit payments are expected to approximate the following:

2018	\$	2,444
2019		2,860
2020		2,528
2021		2,626
2022–2027		15,293

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>2017</u>	<u>2016</u>
Medicare	33%	28%
Medicaid	9	11
Blue Cross	17	19
Harvard Pilgrim Health	7	7
Commercial and other	31	33
Patients	3	2
	<u>100%</u>	<u>100%</u>

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

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

14. Medical Malpractice Insurance (continued)

have been estimated by consulting actuaries on a discounted basis using an interest rate of 3.0% at September 30, 2017 and 2016. The discounted liability for unasserted claims at September 30, 2017 and 2016, was \$1,292 and \$1,303, respectively. The Institute has recorded anticipated insurance recoveries and estimated liabilities for asserted medical malpractice claims of \$8,468 and \$7,775 at September 30, 2017 and 2016, respectively.

15. Royalty Monetization

On July 29, 2016, the Institute executed a Royalty Purchase Agreement with the Canada Pension Plan Investment Board (CPPIB), whereby the Institute will distribute all future royalty payments under three license agreements to CPPIB in return for a \$100 million upfront payment (the payment). The payment has been received and recorded as deferred income, a component of other liabilities on the consolidated balance sheet at September 30, 2016, and will be recognized as income by the Institute when royalty payments are received over the remaining five-year patent duration. Income of \$3,298 and zero was recognized during the year ended September 30, 2017 and 2016, respectively. The payment to the inventor and laboratory was distributed in accordance with the Institute's Royalty and License Revenue Policy (see Note 2).

16. Centers for Medicare and Medicaid Services Survey

Between August 1 and August 4, 2016, the Centers for Medicare and Medicaid Services (CMS) conducted a survey at the Institute. In a letter dated August 23, 2016, CMS informed the Institute that based on the results of the survey, the Institute was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey related primarily to the Institute's oversight and control of its inpatient hospital located at BWH, including policies, medical records, credentialing and personnel sharing between the two organizations. CMS informed the Institute that unless such deficiencies were remedied, the Institute's Medicare provider agreement could be terminated. The Institute submitted a Plan of Correction and a Revised Plan of Correction (collectively, the Plan) in response to the CMS survey and feedback and took affirmative steps to comply with all components of the Plan. Following the acceptance of the Plan by CMS and a subsequent survey on June 12, 2017, CMS notified the Institute that the Institute was in full compliance with the Medicare conditions of participation and that the termination date from the Medicare program was rescinded.

Supplementary Information

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2017

	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>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 125,329	\$ 50	\$ –	\$ 125,379
Patient accounts receivable, less allowances for doubtful accounts of \$17,313	98,087	1,909	–	99,996
Contributions receivable, current portion	14,969	–	–	14,969
Assets whose use is limited, current portion	9,033	–	–	9,033
Research receivables	34,712	–	–	34,712
Prepaid expenses and other current assets	87,493	816	(26,985)	61,324
Total current assets	369,623	2,775	(26,985)	345,413
Investments	1,174,119	–	–	1,174,119
Assets whose use is limited by indenture agreement or other, less current portion	12,762	–	–	12,762
Property, plant, and equipment, net	964,187	1,404	–	965,591
Contributions receivable, less current portion	29,504	–	–	29,504
Other assets	48,997	–	–	48,997
Total assets	\$ 2,599,192	\$ 4,179	\$ (26,985)	\$ 2,576,386
Liabilities and net assets (deficiency)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 118,569	\$ 27,074	\$ (26,985)	\$ 118,658
Accrued payroll, payroll taxes, and amounts withheld from employee compensation	24,169	–	–	24,169
Amounts due to third-party payors	42,716	–	–	42,716
Research advances	95,979	–	–	95,979
Current portion of long-term debt and capital leases	5,422	–	–	5,422
Total current liabilities	286,855	27,074	(26,985)	286,944
Other liabilities:				
Long-term debt and capital leases, less current portion	608,731	–	–	608,731
Other	172,076	–	–	172,076
Total liabilities	1,067,662	27,074	(26,985)	1,067,751
Net assets (deficiency):				
Unrestricted	725,850	(23,040)	–	702,810
Temporarily restricted	612,694	145	–	612,839
Permanently restricted	192,986	–	–	192,986
	1,531,530	(22,895)	–	1,508,635
Total liabilities and net assets (deficiency)	\$ 2,599,192	\$ 4,179	\$ (26,985)	\$ 2,576,386

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2017

	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	\$ 960,793	\$ 34,448	\$ –	\$ 995,241
Provision for bad debts	4,032	400	–	4,432
Net patient service revenue, less provision for bad debts	956,761	34,048	–	990,809
Research revenues	434,216	12	–	434,228
Unrestricted contributions and bequests	75,227	–	–	75,227
Other operating revenues	24,671	–	–	24,671
Total operating revenues	1,490,875	34,060	–	1,524,935
Operating expenses:				
Direct research expenditures	381,217	12	–	381,229
Direct patient care	678,095	39,044	–	717,139
General, administrative, and plant	340,237	2,967	–	343,204
Depreciation and amortization	96,629	674	–	97,303
Interest	22,894	–	–	22,894
Total operating expenses	1,519,072	42,697	–	1,561,769
Operating loss	(28,197)	(8,637)	–	(36,834)
Investment gains, net	46,916	–	–	46,916
Interest rate swap agreement:				
Net interest paid	(4,830)	–	–	(4,830)
Change in fair value	15,997	–	–	15,997
Excess (deficit) of revenues over expenses	\$ 29,886	\$ (8,637)	\$ –	\$ 21,249

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2016

	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>				
Assets				
Current assets:				
Cash and cash equivalents	\$ 135,970	\$ 157	\$ –	\$ 136,127
Patient accounts receivable, less allowances for doubtful accounts of \$20,131	110,205	3,672	–	113,877
Contributions receivable, current portion	16,325	–	–	16,325
Assets whose use is limited, current portion	245,318	–	–	245,318
Research receivables	22,144	–	–	22,144
Prepaid expenses and other current assets	74,514	897	(20,881)	54,530
Total current assets	604,476	4,726	(20,881)	588,321
Investments	1,034,466	–	–	1,034,466
Assets whose use is limited by indenture agreement or other, less current portion	12,703	–	–	12,703
Property, plant, and equipment, net	921,354	1,945	–	923,299
Contributions receivable, less current portion	28,824	–	–	28,824
Other assets	48,262	–	–	48,262
Total assets	\$ 2,650,085	\$ 6,671	\$ (20,881)	\$ 2,635,875
Liabilities and net assets (deficiency)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 122,761	\$ 20,928	\$ (20,881)	\$ 122,808
Accrued payroll, payroll taxes, and amounts withheld from employee compensation	21,800	–	–	21,800
Amounts due to third-party payors	43,044	–	–	43,044
Research advances	62,045	–	–	62,045
Current portion of long-term debt and capital leases	14,722	–	–	14,722
Total current liabilities	264,372	20,928	(20,881)	264,419
Other liabilities:				
Long-term debt and capital leases, less current portion	782,064	–	–	782,064
Other	195,819	–	–	195,819
Total liabilities	1,242,255	–	–	1,242,302
Net assets (deficiency):				
Unrestricted	682,684	(14,399)	–	668,285
Temporarily restricted	540,175	142	–	540,317
Permanently restricted	184,971	–	–	184,971
	1,407,830	(14,257)	–	1,393,573
Total liabilities and net assets (deficiency)	\$ 2,650,085	\$ 6,671	\$ (20,881)	\$ 2,635,875

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2016

	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	\$ 897,272	\$ 40,869	\$ –	\$ 938,141
Provision for bad debts	12,513	300	–	12,813
Net patient service revenue, less provision for bad debts	884,759	40,569	–	925,328
Research revenues	386,788	5	–	386,793
Unrestricted contributions and bequests	73,276	–	–	73,276
Other operating revenues	21,130	–	–	21,130
Total operating revenues	1,365,953	40,574	–	1,406,527
Operating expenses:				
Direct research expenditures	337,896	5	–	337,901
Direct patient care	581,328	43,236	–	624,564
General, administrative, and plant	307,267	3,357	–	310,624
Depreciation and amortization	87,569	491	–	88,060
Interest	15,656	–	–	15,656
Total operating expenses	1,329,716	47,089	–	1,376,805
Operating income (loss)	36,237	(6,515)	–	29,722
Investment gains, net	26,280	–	–	26,280
Interest rate swap agreement:				
Net interest paid	(5,354)	–	–	(5,354)
Change in fair value	(13,836)	–	–	(13,836)
Excess (deficit) of revenues over expenses	\$ 43,327	\$ (6,515)	\$ –	\$ 36,812

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