KPMG

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

FRED HUTCHINSON CANCER RESEARCH CENTER

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Fred Hutchinson Cancer Research Center:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fred Hutchinson Cancer Research Center (the Center), which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fred Hutchinson Cancer Research Center as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 31, 2017

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Assets:			
Cash and cash equivalents	$	12,601	14,281
Restricted cash		21,647	16,420
Grants and contracts receivable, net		31,697	25,470
Notes and pledges receivable, net		26,825	8,752
Other receivables, net		12,185	8,585
Investments		320,514	350,831
Land, buildings, and equipment, net of accumulated depreciation of $368,952 and $348,165, respectively		379,354	378,094
Beneficial interest in perpetual trusts		28,315	27,228
Beneficial interest in assets of SCCA		137,053	121,753
Other assets		2,931	1,886
Total assets	$	973,122	953,300
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	14,125	16,645
Accrued payroll and related costs		23,165	20,871
Deferred revenue		62,998	44,722
Long-term debt		356,875	356,546
Deferred credit on cash flow hedges		24,048	33,558
Total liabilities		481,211	472,342
Net assets:			
Unrestricted		324,591	344,335
Temporarily restricted		87,203	62,979
Permanently restricted		80,117	73,644
Total net assets		491,911	480,958
Total liabilities and net assets	$	973,122	953,300

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2017

(In thousands)

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and other support:				
Research grants and contracts	$ 386,470	—	—	386,470
Contributions	19,514	36,337	5,353	61,204
Investment income and realized gains and losses	29,370	2,581	33	31,984
IP commercialization income	2,063	—	—	2,063
Clinical service fee revenue	22,260	—	—	22,260
Other income	51,075	—	—	51,075
Net assets released from restrictions	17,664	(17,664)	—	—
Total revenues	528,416	21,254	5,386	555,056
Expenses:				
Program services research	443,729	—	—	443,729
Management and general	70,727	—	—	70,727
Fundraising	13,636	—	—	13,636
Total expenses	528,092	—	—	528,092
Change in net assets from operations	324	21,254	5,386	26,964
Other changes in net assets:				
Change in net unrealized fair value of investments	(27,659)	2,970	—	(24,689)
Change in net foreign currency translation	(556)	—	—	(556)
Loss on defeasance of debt	(1,196)	—	—	(1,196)
Change in value of split-interest agreements	(167)	—	1,087	920
Change in net unrealized fair value of swap instruments	9,510	—	—	9,510
Total other changes in net assets	(20,068)	2,970	1,087	(16,011)
Total increase/(decrease) in net assets	(19,744)	24,224	6,473	10,953
Net assets balance at beginning of year	344,335	62,979	73,644	480,958
Net assets balance at end of year	$ 324,591	87,203	80,117	491,911

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2016

(In thousands)

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:					
Research grants and contracts	$	346,036	—	—	346,036
Contributions		20,700	13,136	13,517	47,353
Investment income and realized gains and losses		87,299	(1,481)	737	86,555
IP commercialization income		72,786	—	—	72,786
Clinical service fee revenue		19,404	—	—	19,404
Other income		43,338	—	—	43,338
Net assets released from restrictions		13,882	(13,882)	—	—
Total revenues		603,445	(2,227)	14,254	615,472
Expenses:					
Program services research		405,529	—	—	405,529
Management and general		66,931	—	—	66,931
Fundraising		12,126	—	—	12,126
Total expenses		484,586	—	—	484,586
Change in net assets from operations		118,859	(2,227)	14,254	130,886
Other changes in net assets:					
Change in net unrealized fair value of investments		(118,484)	(477)	(39)	(119,000)
Change in net foreign currency translation		(497)	—	—	(497)
Loss on defeasance of debt		(14,651)	—	—	(14,651)
Change in value of split-interest agreements		(420)	—	(450)	(870)
Change in net unrealized fair value of swap instruments		(4,874)	—	—	(4,874)
Total other changes in net assets		(138,926)	(477)	(489)	(139,892)
Total increase/(decrease) in net assets		(20,067)	(2,704)	13,765	(9,006)
Net assets balance at beginning of year		364,402	65,683	59,879	489,964
Net assets balance at end of year	$	344,335	62,979	73,644	480,958

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	10,953	(9,006)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		24,876	24,367
Noncash deferred revenue		(1,200)	(1,106)
Equity in earnings of SCCA		(15,300)	(19,256)
Change in net unrealized losses (gains) in fair value of investments		20,169	46,336
Change in value of split-interest agreements		(920)	870
Change in fair value of swap instruments		(9,510)	4,874
Net realized gains on investments		(13,586)	(62,354)
Noncash contributions		(3,119)	(3,243)
Restricted contribution		(5,353)	(13,517)
Noncash IP commercialization income		—	(71,742)
Loss on defeasance of debt		1,196	14,651
Changes in assets and liabilities:			
Grants and contracts receivable		(6,227)	(6,565)
Notes and pledges receivable		(18,073)	(4,359)
Other receivables		(3,633)	5,387
Prepaid expenses and deposits		(1,073)	(61)
Accounts payable and accrued liabilities		(2,773)	4,826
Accrued payroll and related costs		2,295	3,175
Deferred grant and contract revenue		19,814	(6,766)
Net cash (used in) provided by operating activities		(1,464)	(93,489)
Cash flows from investing activities:			
Additions to land, buildings, equipment, and rental property		(26,403)	(23,686)
Purchase of investments		(185,199)	(211,581)
Sale of investments		208,766	288,516
Change in restricted cash		(5,227)	2,920
Net cash provided by (used in) investing activities		(8,063)	56,169
Cash flows from financing activities:			
Proceeds from new debt		198,061	92,160
Additions to deferred financing costs		(2,110)	(1,016)
Repayment of debt		(196,274)	(100,049)
Contributions restricted for long-term investment		8,471	16,760
Net cash provided by financing activities		8,148	7,855
Change in foreign currency translation		(301)	587
Net (decrease) increase in cash and cash equivalents		(1,680)	(28,878)
Cash and cash equivalents at beginning of year		14,281	43,159
Cash and cash equivalents at end of year	$	12,601	14,281
Supplemental disclosure of cash flow information:			
Interest paid	$	16,391	17,364
Capital expenditures in accounts payable		931	654

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Functional Expenses

Years ended June 30, 2017 and 2016

(In thousands)

		Program services research	Management and general	Fundraising	Total
2017:					
Salaries and wages	$	196,926	29,999	5,696	232,621
Employee benefits		48,921	7,112	1,379	57,412
Subawards		80,014	—	—	80,014
Purchased services		25,048	13,211	1,413	39,672
Supplies		30,792	1,565	151	32,508
Other		18,792	6,991	4,371	30,154
Rent, utilities, and maintenance		9,038	5,398	310	14,746
Interest and amortization		13,991	1,477	78	15,546
Depreciation		21,594	3,586	239	25,419
Total June 30, 2017	$	445,116	69,339	13,637	528,092
2016:					
Salaries and wages	$	179,253	27,885	5,263	212,401
Employee benefits		45,364	6,693	1,313	53,370
Subawards		67,707	—	—	67,707
Purchased services		22,659	14,186	1,017	37,862
Supplies		27,287	2,104	157	29,548
Other		18,243	6,468	3,720	28,431
Rent, utilities, and maintenance		9,262	4,450	336	14,048
Interest and amortization		14,722	1,554	81	16,357
Depreciation		21,032	3,591	239	24,862
Total June 30, 2016	$	405,529	66,931	12,126	484,586

See accompanying notes to consolidated financial statements.

(1) Organization

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

Controlled Affiliates of the Center

Hutchinson Centre Research Institute in Uganda Limited (HCRIU), is a Uganda not-for-profit corporation. It is organized and operated for the purpose of researching, detecting, treating and preventing infection-related cancers in Uganda and throughout the world. The Center is the sole member of HCRIU. The income and property of HCRIU is restricted to be used in meeting its organizational objectives. The net assets of HCRIU of $(5,242) and $(3,542) as of June 30, 2017 and 2016, respectively, are not considered pledged assets under debt covenants.

Hutchinson Centre Research Institute of South Africa (HCRISA) is a South Africa not-for-profit corporation. It is organized and operated for the purpose of promoting and conducting clinical, laboratory and other research aimed at the prevention, early detection, diagnosis, and treatment of HIV/AIDS, Tuberculosis and other infectious diseases and cancer in South Africa and throughout the world. The Center is the sole member of HCRISA. The income and property of HCRISA is restricted to be used in meeting its organizational objectives. The net assets of HCRISA of $1,311 and $1,023 as of June 30, 2017 and 2016, respectively, are not considered pledged assets under debt covenants.

Seattle Vaccine Research Fund (SVRF), a Washington State not-for-profit corporation, is exempt from federal taxes under Section 501(c)(3). It is operated for the purpose of providing anti retrovirals to eligible participants of HIV Trials Network. The net assets of SVRF of $446 and $444 as of June 30, 2017 and 2016, respectively, are not considered pledged assets under debt covenants.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Included in cash and cash equivalents are cash equivalents of approximately $3,644 and $11,982 as of June 30, 2017 and 2016, respectively, which are invested in money market funds and highly liquid debt instruments with original maturities of three months or less.

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

(d) Restricted Cash

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

(e) Investments

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

(f) Land, Buildings, and Equipment

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

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

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

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(g) Beneficial Interest in Assets of SCCA

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

(h) Research Grants and Contracts Revenue

The Center recognizes revenue from grants and contracts on research it performs. The sources of these revenues are both federal and nonfederal sponsors. Approximately 82% of the Center's research revenues are funded by federal agencies. The Center expends these funds consistent with the terms of the grants and contracts agreements. Total grants and contracts revenues were $386,470 and $346,036 for the years ended June 30, 2017 and 2016, respectively.

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

Deferred revenue represents grant and contract funds received in advance for research to be performed by the Center in future periods. The Center recognizes these amounts as revenue as the research is performed. The Center also includes certain construction grants as deferred revenue, which are recognized as revenue at the same rate as the corresponding depreciation expense.

The balance in grants and contracts receivable, represents expenditures made in accordance with the terms of provisions of the grants and contracts not yet reimbursed by cash.

(j) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Center are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value at the date the gift is received or when the conditions are met. The gifts are reported as either temporarily or permanently restricted contributions if the donor stipulates either a time or purpose restriction. When a time restriction expires or a purpose restriction is fulfilled, the temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(k) Perpetual Trusts and Charitable Remainder Trusts

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

When the Center is notified of an irrevocable charitable remainder trust for which it is not the trustee, the Center recognizes its beneficial interest in the outside trust as a contribution at fair value, which is

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measured as the present value of the estimated expected future benefits to be received. The contribution is classified as an increase in temporarily restricted net assets based on restrictions placed by the donor upon the Center's beneficial interest in the assets. Periodic adjustments recorded to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized based on information from outside trustees. Any charitable remainder trusts for which the Center is not the trustee are reflected as a receivable from trusts and are included in other receivables in the accompanying consolidated statements of financial position. These amounts as of June 30, 2017 and 2016 were $1,058 and $1,018, respectively.

(l) Foreign Currency Translation and Transaction Gains and Losses

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

HCRISA's general ledger is maintained in South Africa rand, and their financial statements are measured using the currency of the primary economic environment in which the entity operates. Unrealized gains or losses arising from fluctuations in the year-end exchange rates are recorded as net asset adjustments from foreign currency translation, and gains or losses resulting from actual foreign exchange transactions are recorded in revenues and expenses in the consolidated statements of activities. The foreign currency translation amounts to losses of $457 at June 30, 2017 and losses of $434 at June 30, 2016.

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

HCRIU's general ledger is maintained in U.S. dollars, and its financial statements are measured using the currency of the primary economic environment in which the entity operates, which is U.S. dollars. Unrealized gains or losses arising from fluctuations in the year-end exchange rates, and gains or losses resulting from actual foreign exchange transactions are recorded in revenues and expense. The foreign currency translation amounts to losses $99 and $63 at June 30, 2017 and 2016, respectively.

(m) Temporarily and Permanently Restricted Net Assets

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

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

(n) Statements of Activities

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

(o) IP Commercialization Income

The Center actively works to develop scientific discoveries into new products and services. Revenues are generated from licensing agreements, partnerships, royalty streams and new businesses are reported as IP Commercialization Income.

(p) Federal Income Taxes

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

(q) Recent Accounting Pronouncements

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirements from U.S. GAAP to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for the Center for annual periods in fiscal years beginning after December 15, 2016, and requires retrospective adoption. The Center will implement the provisions of ASU 2015-07 as of July 1, 2017, and management is evaluating the impact on the consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 84, *Leases*, and makes other conforming amendments to US. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-consolidated statements of financial position via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Center for annual

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periods in fiscal years beginning after December 15, 2019, and mandates a modified retrospective transition method. The Center will implement the provisions of ASU 2016-02 as of July 1, 2020, and management is evaluating the impact on the consolidated financial statements.

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

(r) Reclassifications

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

(3) Due from Government Agencies

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

The fixed federal F&A rate for grant and contract supported programs is determined by prospective negotiation with the Department of Health and Human Services (DHHS) based on an estimate of the costs that will be incurred during the period to which the rate applies. Any difference between the costs recovered through the fixed F&A cost rate and actual F&A costs incurred represents an estimated F&A settlement with the federal government, which will be included in future rates. No estimated settlement was recorded as of June 30, 2017 or 2016.

(4) Investments

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

- Level 1 – Valuation inputs are quoted prices in active markets for identical investments. At June 30, 2017 and 2016, Level 1 measurements include primarily cash and cash equivalents, domestic and global equities, equity funds, and bond funds.
- Level 2 – Valuation inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. At June 30, 2017 and 2016, Level 2 measurements included fixed income and debt securities, such as U.S. government obligations, mortgage-backed securities, corporate bonds, municipal obligations, interest rate swaps, and certain hedged equity and real asset funds.
- Level 3 – Valuation inputs are derived from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Center’s estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques. At June 30, 2017 and 2016, Level 3 securities included hedged equity funds, private equity and venture capital funds, privately held equities, beneficial interests in charitable trusts, and beneficial interests in perpetual trusts.

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

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

(a) Fair Value Calculation Methodology

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

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

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

Long-Term Debt – The carrying amount of long-term debt with variable interest rates approximates fair value because interest rates are adjusted either daily or weekly for the variable rate demand bonds. The carrying amount of the fixed rate debt is calculated based upon the net present value of the future cash outflows of the associated fixed rate debt discounted at the interest rates in effect as of June 30, 2017.

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

(Continued)

(In thousands)

(b) Fair Value Hierarchy

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2017 and 2016:

		June 30, 2017	Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$	24,098	24,098	—	—
Global equity securities and mutual funds		189,721	144,755	20,587	24,379
Governments, mortgage and corporate debt funds		50,494	2,583	47,771	140
Real estate funds		5,256	—	—	5,256
Directional hedge funds		36,810	—	5,815	30,995
Private equity and venture capital funds		703	52	—	651
Commodity investments and funds		12,678	7,250	5,313	115
Other equity securities		754	362	—	392
Total investments	$	320,514	179,100	79,486	61,928

		2017			
		June 30, 2017	Level 1	Level 2	Level 3
Other receivables:					
Beneficial interest in charitable remainder trusts	$	1,055	—	—	1,055
Beneficial interest in perpetual trusts		28,315	—	—	28,315
Trustee-held funds		16,547	—	16,547	—
Liabilities:					
Deferred credit on cash flow hedges	$	(24,048)	—	(24,048)	—

(In thousands)

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

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

(In thousands)

The following tables presents the Center's activities for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

		2017	2016
Beginning balance, July 1	$	93,246	68,285
Transfers out of Level 3		(1)	(53)
Net realized and unrealized gains (losses)		8,365	(6,899)
Purchases		5,183	35,741
Sales		(14,651)	(2,101)
Return of capital distribution		(844)	(1,727)
Ending balance, June 30	$	91,298	93,246

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

		June 30, 2017	June 30, 2016	Redemption or liquidation	Days notice	Unfunded commitment
Directional hedge funds	$	30,995	37,562	Qtrly – Every 2 yrs.	30–184	N/A
Limited partnerships:						
Venture capital funds		231	491	N/A (1)	N/A	N/A
Global equity securities		24,379	19,977	Monthly	30	N/A
Private equity funds		420	1,146	N/A (1)	N/A	(2)
Real estate funds		380	708	N/A (1)	N/A	(3)
Real estate funds		4,876	4,596	Quarterly	90	N/A
Corporate debt funds		140	129	Daily	One	N/A
Other equity securities		392	393	N/A (1)	N/A	N/A
Other real and personal property		115	—	N/A (1)	N/A	N/A
Total investments	$	61,928	65,002			

(1) Not eligible for redemption

(2) Unfunded Commitment of $235 and $405 as of June 30, 2017 and 2016

(3) Unfunded Commitment of $473 and $523 as of June 30, 2017 and 2016

At June 30, 2017 and 2016, the Center had $1,592 and $2,793, respectively, in investments that are not readily marketable.

The Center has funds invested in 34 limited partnerships and companies with ownership interests ranging from 0.32% to 4.18% at June 30, 2017 and 2016. In 2017, 3 of these partnerships were venture capital funds, 4 are private equity, 22 are hedge funds, 3 are debt funds, and 2 are real estate funds.

(In thousands)

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

(c) Components of Investment Income for the years ended June 30 are as Follows:

		2017	2016
Interest	$	1,785	1,845
Dividends		1,568	2,583
Net realized gains		14,349	63,855
Equity in earnings of SCCA investment		15,300	19,256
		33,002	87,539
Less investment management fees		(1,018)	(984)
	$	31,984	86,555

(5) Endowments

(a) Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for its endowment that will provide resources to programs supported by the endowment. The endowment includes donor-restricted funds as well as board-designated investments. Under this policy, as approved by the investment committee of the Center's board of trustees, the primary objective of the investment of the endowment is to provide a rate of total return, including all gains and losses, realized and unrealized, which exceeds the rate of inflation (as represented by the Consumer Price Index-All Urban Consumers) plus 5% over the long term. The Center defines the long term as five years and more. Consistent returns are to be emphasized over individual year results. The endowment should experience risk (volatility and variability of return) no greater than that of the market. The Center defines the market as the portfolio's asset allocation policy applied to the Russell 3000 Index, the Morgan Stanley Capital Europe, Australia, Far East (EAFE) Index or its equivalent, and the iShares Barclays Aggregate Bond Index.

(b) Strategies Employed for Achieving Objectives

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

(Continued)

(In thousands)

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

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

(d) Funds with Deficiencies

Unless otherwise agreed with the donor, the Center's policy has been to maintain the value of the original corpus of each individual donor-restricted endowment fund. From time to time, the fair value of assets in such endowment funds may fall below this level or such other level as may have been agreed to by the donor or required by law. Losses on donor-restricted endowment funds reduce temporarily restricted net assets to the extent of any previous net appreciation. Any remaining losses reduce unrestricted net assets. As of June 30, 2017 and 2016, the aggregate reduction from unrestricted net assets totaled $0 and $569, respectively.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2017 and 2016:

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	13,656	44,248	57,904
Board-designated endowment funds	144,368	—	—	144,368
Total	$ 144,368	13,656	44,248	202,272

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

(In thousands)

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2017 and 2016:

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	147,571	8,657	40,944	197,172
Investment return:					
Investment income		905	280	—	1,185
Net realized gain		6,606	2,215	—	8,821
Net unrealized gain		11,830	3,254	—	15,084
Total investment return		19,341	5,749	—	25,090
Contributions		—	37	3,304	3,341
Distributions		(22,544)			(22,544)
Board transfers in		—	—	—	—
Board transfers out		—	—	—	—
Appropriation of endowment assets for expenditure		—	(787)	—	(787)
Endowment net assets, end of year	$	144,368	13,656	44,248	202,272

(Continued)

(In thousands)

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

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

(6) Land, Buildings, and Equipment

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

	2017	**2016**
Land	$ 52,389	66,091
Buildings and improvements	515,691	496,340
Equipment	171,945	157,874
Construction in progress	8,281	5,954
	748,306	726,259
Less accumulated depreciation	(368,952)	(348,165)
	$ 379,354	378,094

(In thousands)

Buildings are depreciated on a straight-line basis over 45 years, while improvements and equipment are depreciated over 3 to 30 years, depending on the nature of the asset. Interest expense on borrowed funds during construction is a component of the cost of assets. The amount capitalized represents interest on funds expended for construction. Capitalization of interest ceases when the asset is placed in service. The Center had no capitalized interest in 2017 and 2016.

(7) Notes and Pledges Receivable

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

	2017	2016
Amounts due in:		
Less than one year	$ 19,823	5,190
One to five years	7,115	3,650
Less:		
Unamortized discount	(107)	(82)
Allowance for uncollectible pledges	(6)	(6)
Notes and pledges receivable, net	$ 26,825	8,752

As of June 30, 2017 and 2016, the gross notes and pledges receivable balances include donor pledges of $25,457 and $8,140, respectively. The discounts on pledges are computed at the rate commensurate with the risks applicable to the year in which the promise is received. Notes and pledges have been discounted using a rate ranging from 1.2% to 1.7%.

(Continued)

(In thousands)

(8) Long-Term Debt

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

	2017	2016
Series 2009A Revenue Bonds secured by a deed of trust due in 2020 (partially defeased in 2015)	$ —	16,700
Series 2010 Revenue Bonds secured by a deed of trust due in varying amounts through 2020 plus interest at fixed rates	—	25,359
Series 2011A Revenue Bonds secured by a deed of trust due in varying amounts through 2035 plus interest at varying rates	78,555	79,865
Series 2012A Revenue Bonds secured by a deed of trust due in varying amounts through 2041 plus interest at varying rates	—	57,685
Series 2012B Revenue Bonds secured by a deed of trust due in varying amounts through 2041 plus interest at varying rates	—	84,800
Series 2014 Revenue Bonds secured by a deed of trust due in payments of $177 through 2039 and a final payment of $40 in 2040 plus interest at varying rates	—	4,111
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates	78,440	78,510
Series 2015B Revenue Bonds secured by a deed of trust due in payments of $220 through 2040 and a final payment of $90 in 2041 plus interest at varying rates	—	5,383
Series 2017A Revenue Bonds secured by a deed of trust due in varying amounts though 2047 plus interest at fixed rate	19,015	—
Series 2017B Revenue Bonds secured by a deed of trust due in varying amounts through 2042 plus interest at varying rates	92,110	—
Series 2017C Revenue Bonds secured by a deed of trust due in varying amounts through 2042 plus interest at varying rates	85,715	—
	353,835	352,413
Deferred financing costs	(3,502)	(2,065)
Unamortized premium/(discount)	3,642	6,198
	$ 353,975	356,546
Fair value disclosure (note 4)	$ 373,053	384,304

On March 30, 2017, the Center issued through the Washington Health Care Facility Authority (the Authority) $196,840 of tax-exempt revenue bonds Series 2017 A, B, C. The 2017A Bond consists of $19,015 and is a fixed rate bond with a coupon rate of 5.0%. The proceeds were used to reimburse the Center for future capital costs on the Center’s campus. The 2017B Bond consists of $92,110 and is a variable rate bond with interest ranging from 1.76% – 1.86% for the year ended June 30, 2017. The proceeds were used to refund Series 2010, 2012A, 2014 and 2015B Revenue bonds. The 2017C Bond consists of $85,715 and is a variable rate bond with interest ranging from 1.86% – 1.96% for the year ended June 30, 2017. The proceeds were used to refund Series 2012B Revenue bonds. The 2017 Bonds were all issued under a public bond placement and the Center is using an administrator to co-ordinate all interest and principal payments made to bond holders.

On December 18, 2015, the Center issued through the Washington Health Care Facilities Authority (the Authority) $5,475 of tax-exempt revenue bonds Series 2015B (2015B Bond). The 2015B Bond is a variable rate bond, with interest ranging from 0.97% to 1.21% for the year ended June 30, 2017, used to reimburse the Center for the purchase of property on the Center's campus. The 2015B Bonds were issued under a private placement with U.S. Bancorp and all interest and principal payments are made directly to the bank. The deed of trust only secures the specific property on the Center's campus. The bond was refunded with proceeds from the Series 2017 Bonds.

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

On July 24, 2014, the Center issued through the Authority $4,435 of tax-exempt revenue bonds Series 2014 (2014 Bond). The 2014 Bond is a variable rate bond, with interest ranging from 1.03% to 1.27% for the years ended June 30, 2017 and 2016, used to refund the 2007 Bond, which was used to reimburse the Center for the purchase of property on the Center's campus. The 2014 Bonds were issued under a private placement with U.S. Bancorp and all interest and principal payments are made directly to the bank. The deed of trust only secures the specific property on the Center's campus. The 2014B bond was refunded with proceeds from the 2017B Bonds.

On August 30, 2012, the Center issued through the Authority $57,685 of tax-exempt revenue bonds Series 2012A (2012A Bonds) and an $84,800 tax-exempt revenue bond Series 2012B (2012B Bond). The 2012A Bonds are variable rate bonds, with interest ranging from 1.56% to 1.79% for the years ended June 30, 2017 and 2016, used to refund the 2011B bonds. The 2012A Bonds were issued under a private placement with JP Morgan Chase Bank, N.A. The 2012A Bonds were refunded with the proceeds from the 2017B Bonds. The 2012B Bond is a variable rate bond, with interest ranging from 1.65% to 1.96% for the years ended June 30, 2017 and 2016, used to refund the 2011C Bonds. The 2012B Bond was issued under a private placement with Bank of America, N.A. and all interest and principal payments are made directly to the bank. The 2012B bond was refunded with proceeds from the 2017C Bonds.

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

(In thousands)

On November 4, 2010, the Center issued through the Authority a $30,000 tax-exempt revenue bond Series 2010 (2010 Bond). The 2010 Bond is a variable rate bond, with interest ranging from 1.47% to 1.72% for the years ended June 30, 2017 and 2016 used to purchase the Yale Building from National Healthcare Research and Education Finance Corporation (NHREFCO) (note 11). The 2010 Bond was issued under a private placement with JP Morgan Chase Bank, N.A. and all interest and principal payments are made directly to the bank. The 2010 bond refunded with proceeds from the 2017B Bonds.

On November 24, 2009, the Center issued through the Authority $114,920 of tax-exempt revenue bonds Series 2009A (2009A Bonds). The 2009A Bonds are fixed rate bonds issued under the Center's credit rating with interest rates ranging from 3.50% to 6.00% and were used to refund the 2001B Bonds and 2002 Bonds. A portion of the 2009A Bonds were defeased by the 2015 Bonds. On February 23, 2017, the Center placed $12,269 into escrow along with the Series 2009A debt service reserve fund to defease the remaining 2009A Bonds.

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

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

2018	$	1,675
2019		585
2020		860
2021		6,245
2022		6,630
Thereafter		337,840
	$	353,835

(9) Retirement Plan

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

(In thousands)

Retirement plan contributions for the years ended June 30, 2017 and 2016 were $15,314 and $14,379, respectively.

(10) Annuities

The Center administers, through a third party, gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. When contributed assets are initially received, the assets are recorded at fair value within the investments balance, and contribution revenue is recorded equal to the value of the contributed assets received less the annuity liability. The present value of the payments due to the beneficiaries totaled $3,175 and $3,388 at June 30, 2017 and 2016, respectively. The annuity liability is revalued annually based upon actuarially computed present values. Present values are based on life expectancy and discount rates range between 4% and 10%. The Center maintains segregated funds that exceed the actuarial value of the annuity liability as required by state law. The gift annuity payable is recorded in accrued liabilities.

(11) Commitments and Contingencies

(a) Operating Leases

Certain equipment and facilities utilized by the Center in its operations are leased. The related future minimum rental payments for these operating leases with noncancelable terms in excess of one year as of June 30, 2017 are as follows:

2018	$	2,315
2019		1,838
2020		1,877
2021		1,561
2022		1,616
Thereafter		2,144
	$	11,351

Rental expense for all operating leases for the years ended June 30, 2017 and 2016 was $3,048 and $3,906, respectively.

(b) Litigation and Compliance with Laws and Regulations

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

The research industry is subject to numerous federal, state, and local laws and regulations. Some of these laws govern licensure, accreditation, and government program participation requirements. Government agencies are actively conducting investigations concerning possible violations of these statutes and regulations by research facilities. Violations of these laws and regulations could result in expulsion from government programs, together with the imposition of significant fines and penalties.

(Continued)

Management believes that the Center is in material compliance with all applicable laws and regulations. Compliance with laws and regulations is subject to future government review and interpretation of such laws and regulations as well as regulatory actions unknown or unasserted at this time.

(c) Contingent Liability

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

(12) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2017 and 2016. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2017, which is included in accounts payable and accrued liabilities.

(13) Related-Party Transactions

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

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

(In thousands)

The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2017 and 2016:

		2017	2016
Assets	$	593,130	556,565
Liabilities	$	153,861	163,085
Net assets		439,269	393,480
Total liabilities and net assets	$	593,130	556,565

		2017	2016
Revenues	$	548,164	525,214
Less expenses		(526,843)	(473,690)
Plus nonoperating income		23,434	3,497
Increase in unrestricted net assets	$	44,755	55,021

The Center has entered into service agreements to provide support services to the SCCA. The service agreements are for administrative services, facilities usage, and patient care housing. The Center recognized $24,420 and $20,224 of other income for the years ended June 30, 2017 and 2016, respectively, as a result of these agreements.

The Center recognized clinical service fee revenue (see note 15) for the years ended June 30, 2017 and 2016, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(14) Other Income

Other income includes income from noncore sources including service agreements, related party transactions (see note 13), professional services, core resources, rent, parking and similar activities. The Center had $51,075 and $43,338 of Other Income for the years ended June 30, 2017 and 2016, respectively.

(15) Clinical Service Fee Revenue

The Center has entered into inpatient service agreements with UWMC, Seattle Children's, and the SCCA for which the Center receives various payments related to research and development support, data collection and analysis, physician assistant services, consulting services, and license rights to use the Center's name in connection with the inpatient cancer services program. Fees for services during the years ended June 30, 2017 and 2016 from UWMC total $14,271 and $12,351, respectively, from Seattle Children's total $819 and $484 respectively, and from the SCCA total $7,170 and $6,569, respectively. Of these amounts, $4,368 and $4,014 are included in other receivables as of June 30, 2017 and 2016, respectively.

(16) Accounting for Derivative Instruments and Hedging Activities

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

(a) Interest Rate Swaps

The Center has entered into two interest rate swap agreements to mitigate the risks associated with variable rate bond issues. The first swap has a notional amount of $65,600. The interest rate paid by the Center is fixed at 5.19% while the counterparty pays the Center an indexed rate plus 0.20%. The second swap has notional value of $43,700. The interest rate paid by the Center is fixed at 4.97% while the counterparty pays the Center 67% of an indexed rate plus 0.64%.

The fair value is the estimated amount the bank would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the swaps, recorded as deferred credits on cash flow hedges, was $24,048 and $33,558 at June 30, 2017 and 2016, respectively.

(b) Collateral Posted with Swap Counterparty

The swap agreements contain terms that require the Center to post collateral with the counterparty if certain conditions are met, including the mark-to-market amount to terminate the swaps exceeds $20,000. Collateral of $5,100 and $14,400 was posted as of June 30, 2017 and 2016, respectively.

(c) Covered Call Options

On June 6, 2016, the Center sold 1,330 contracts for options on a portion of its Juno stock holdings yielding proceeds of $2,265. The options had strike dates from August 2016 to January 2017. The options were not exercised by the holders and expired during the year. The Center recognized revenue on the options of $764 and $1,501 for the years ended June 30, 2017 and 2016, respectively.

(17) Subsequent Events

The Center evaluated subsequent events from June 30, 2017 to October 31, 2017 the date on which these financial statements were issued.