FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2019 and 2018

(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 statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses 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 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its net assets, cash flows, and functional expense for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(q) to the consolidated financial statements, on July 1, 2018, the Center adopted Accounting Standards Update (ASU) No. 2014-09*, Revenue from Contracts with Customers* (Topic 606), and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

KPMG LLP

October 16, 2019

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Assets:			
Cash and cash equivalents	$	22,329	32,651
Restricted cash		6,104	9,885
Grants and contracts receivable, net		49,127	30,558
Notes and pledges receivable, net		13,680	28,473
Other receivables, net		14,537	11,443
Investments		617,708	539,720
Land, buildings, and equipment, net of accumulated depreciation of $414,148 and $394,632, respectively		380,597	379,815
Beneficial interest in perpetual trusts		29,937	29,841
Beneficial interest in net assets of SCCA		178,158	153,969
Other assets		6,593	5,615
Total assets	$	1,318,770	1,221,970
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	15,860	17,968
Accrued payroll and related costs		30,231	28,918
Deferred revenue		62,488	76,349
Long-term debt		353,623	354,699
Deferred credit on cash flow hedges		32,428	18,505
Total liabilities		494,630	496,439
Net assets:			
Without donor restriction		647,192	538,532
With donor restriction		176,948	186,999
Total net assets		824,140	725,531
Total liabilities and net assets	$	1,318,770	1,221,970

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2019

(In thousands)

	2019		
	Without donor restriction	With donor restriction	Total
Revenue and other support:			
Research grants and contracts	$ 465,852	—	465,852
Contributions	26,004	28,350	54,354
Investment income	41,868	2,027	43,895
IP commercialization income	73,689	—	73,689
Clinical service fee revenue	20,545	—	20,545
Other income	55,624	—	55,624
Net assets released from restrictions	42,945	(42,945)	—
Total revenue	726,527	(12,568)	713,959
Expenses:			
Program services and research	543,003	—	543,003
Management and general	88,174	—	88,174
Fundraising	17,726	—	17,726
Total expenses	648,903	—	648,903
Change in net assets from operations	77,624	(12,568)	65,056
Other changes in net assets:			
Change in net unrealized fair value of investments	45,056	2,421	47,477
Change in net foreign currency translation	(118)	—	(118)
Change in value of split-interest agreements	—	96	96
Change in net unrealized fair value of swap instruments	(13,902)	—	(13,902)
Total other changes in net assets	31,036	2,517	33,553
Total increase in net assets	108,660	(10,051)	98,609
Net assets balance at beginning of year	538,532	186,999	725,531
Net assets balance at end of year	$ 647,192	176,948	824,140

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2018

(In thousands)

		2018		
		Without donor restriction	**With donor restriction**	**Total**
Revenue and other support:				
Research grants and contracts	$	437,469	—	437,469
Contributions		27,142	45,830	72,972
Investment income		177,375	5,112	182,487
IP commercialization income		96,739	—	96,739
Clinical service fee revenue		19,976	—	19,976
Other income		54,621	—	54,621
Net assets released from restrictions		33,532	(33,532)	—
Total revenue		846,854	17,410	864,264
Expenses:				
Program services and research		500,441	—	500,441
Management and general		84,100	—	84,100
Fundraising		16,517	—	16,517
Total expenses		601,058	—	601,058
Change in net assets from operations		245,796	17,410	263,206
Other changes in net assets:				
Change in net unrealized fair value of investments		(37,286)	742	(36,544)
Change in net foreign currency translation		(113)	—	(113)
Change in value of split-interest agreements		—	1,527	1,527
Change in net unrealized fair value of swap instruments		5,544	—	5,544
Total other changes in net assets		(31,855)	2,269	(29,586)
Total increase in net assets		213,941	19,679	233,620
Net assets balance at beginning of year		324,591	167,320	491,911
Net assets balance at end of year	$	538,532	186,999	725,531

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	98,609	233,620
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		28,567	26,246
Equity in earnings of SCCA		(24,189)	(16,916)
Change in net unrealized (gains) losses in fair value of investments		(47,258)	36,664
Change in value of split-interest agreements		(96)	(1,527)
Change in fair value of swap instruments		13,923	(5,544)
Net realized gains on investments		(6,727)	(158,794)
Noncash contributions		(26,652)	(23,489)
Contributions with donor restrictions in perpetuity		(9,126)	(6,107)
Changes in assets and liabilities:			
Grants and contracts receivable		(18,569)	1,139
Notes and pledges receivable		14,793	(1,648)
Other receivables		(3,094)	741
Other assets		(978)	(2,682)
Accounts payable and accrued liabilities		(2,771)	3,106
Accrued payroll and related costs		1,313	5,753
Deferred grant revenue		(13,861)	13,351
Net cash provided by operating activities		3,884	103,913
Cash flows from investing activities:			
Additions to land, buildings, equipment, and rental property		(29,176)	(26,444)
Purchase of investments		(171,558)	(415,995)
Sale of investments		147,555	318,920
Change in restricted cash		3,781	11,762
Net cash used in investing activities		(49,398)	(111,757)
Cash flows from financing activities:			
Additions to deferred financing costs		—	(27)
Repayment of debt		(585)	(1,675)
Contributions restricted for long-term investment		35,777	29,596
Net cash provided by financing activities		35,192	27,894
Net (decrease) increase in cash and cash equivalents		(10,322)	20,050
Cash and cash equivalents at beginning of year		32,651	12,601
Cash and cash equivalents at end of year	$	22,329	32,651
Supplemental disclosures of cash flow information:			
Interest paid	$	13,676	15,299
Capital expenditures in accounts payable		2,332	1,668

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Functional Expenses

Years ended June 30, 2019 and 2018

(In thousands)

		Program services and research	Management and general	Fundraising	Total
2019:					
Salaries and wages	$	231,444	38,854	7,550	277,848
Employee benefits		55,496	9,437	1,776	66,709
Subawards		115,948	—	—	115,948
Purchased services		35,729	18,842	2,124	56,695
Supplies		36,472	3,007	170	39,649
Other		22,275	6,318	5,087	33,680
Rent, utilities, and maintenance		9,136	6,317	678	16,131
Interest and amortization		11,866	1,253	66	13,185
Depreciation		24,637	4,146	275	29,058
Total June 30, 2019	$	543,003	88,174	17,726	648,903
2018:					
Salaries and wages	$	216,403	35,398	6,492	258,293
Employee benefits		52,740	8,444	1,553	62,737
Subawards		106,029	—	—	106,029
Purchased services		30,109	15,815	1,455	47,379
Supplies		31,675	3,288	201	35,164
Other		20,284	8,672	6,096	35,052
Rent, utilities, and maintenance		8,847	6,054	395	15,296
Interest and amortization		12,948	1,368	72	14,388
Depreciation		21,406	5,061	253	26,720
Total June 30, 2018	$	500,441	84,100	16,517	601,058

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 are restricted to be used in meeting its organizational objectives. The net assets of HCRIU of $(8,908) and $(7,117) as of June 30, 2019 and 2018, 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 are restricted to be used in meeting its organizational objectives. The net assets of HCRISA of $5,585 and $3,394 as of June 30, 2019 and 2018, 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 $543 and $447 as of June 30, 2019 and 2018, 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 revenue 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 $14,873 and $23,783 as of June 30, 2019 and 2018, 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 funded capital projects. Posted collateral funds are held to comply with the terms of swap agreements, as further discussed in note 17.

(e) Investments

Investments, including board-designated funds and donor restricted funds, 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) Topic 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.

(g) Beneficial Interest in Net 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 14.

(h) Research Grants and Contracts Revenue

The Center recognizes revenue from grants and contracts on research it performs. The sources of these revenue are both federal and nonfederal sponsors. Approximately 74% of the Center's research revenue are funded by federal agencies. The Center expends these funds consistent with the terms of the grants and contracts agreements. Total grants and contracts revenue was $465,852 and $437,469 for the years ended June 30, 2019 and 2018, respectively.

(i) Deferred Revenue and Grants and Contracts Receivable

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 Contributions

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 donor restricted contributions if the donor stipulates either a time or purpose restriction. When a time restriction expires or a purpose restriction is fulfilled, the donor restricted net assets are reclassified as without donor restrictions 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 without donor restrictions 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 donor 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 restricted net assets on the consolidated statement 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 measured as the present value of the estimated expected future benefits to be received. The contribution is classified as an increase in 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, 2019 and 2018 were $1,100 and $1,129, 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. Unrealized gains or losses arising from fluctuations in the year-end exchange rates of non-U.S. dollar assets and liabilities are recorded as net asset adjustments from foreign currency translation, and gains or losses resulting from actual foreign exchange transactions are recorded in revenue and expenses in the consolidated statements of activities.

(m) Net Assets With Donor Restrictions

Donor restricted net assets include amounts restricted for time or purpose, and amounts that are restricted in perpetuity. The Center's net assets restricted in perpetuity consist of various endowment funds and the Center's interest in perpetual trusts. Income earned on funds restricted in perpetuity is used for operations in accordance with the terms of each endowment fund and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

(n) Statement of Activities

The statement of activities describes the results of financial events that are included in presenting the change in the Center's net assets. Contributions received by the Center are recorded either with or without donor restrictions. Investment income may be donor restricted or without donor restriction. Research grants and contracts revenue 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. Revenue is generated from licensing agreements, partnerships, and 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 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09 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 No. 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 No. 2015-14, *Deferral of the Effective Date*). The Center has implemented the provisions of ASU No. 2014-09 as of July 1, 2018, and performed a detailed analysis of its relevant revenue streams (commercialization income, clinical service fee income, and other income). The Center determined that in all cases this would not change the current method in which revenue is recognized for each of the major revenue streams.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 84, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 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 No. 2016-02 is effective for the Center for annual periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method. At the date of adoption, the Center will record a right-of-use asset of approximately $129,900 and corresponding liability of approximately $130,300.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities*. ASU No. 2016-14 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 No. 2016-14 is effective for the Center for annual periods in fiscal years beginning after December 15, 2017 and requires retrospective application. The Center has implemented the provisions of ASU No. 2016-14 as of July 1, 2018.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows* (Topic 230)*: Restricted Cash*, which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Center is evaluating this guidance and the impact that the adoption of this ASU will have on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities* (Topic 958). This ASU contains the following key aspects: (1) guidance on determining whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit*

Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The guidance is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Center is currently evaluating the impact the amendments will have on its financial statements and related disclosures.

(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 government sponsored research activities. Sponsors 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, 2019 or 2018.

(In thousands)

(4) Availability and Liquidity

As of June 30, 2019, Fred Hutch had financial assets total of $931,914. The financial assets available for general expenditures within one year is $646,181.

Financial Assets:		
Cash and cash equivalents	$	22,329
Restricted cash		6,104
Accounts receivables (a)		77,678
Investments		617,708
Beneficial interest in SCCA		178,158
Beneficial interest in perpetual trusts		29,937
Total financial assets, at year-end		931,914
Less: those unavailable for general expenditures within one year:		
Accounts receivables (b)		9,723
Investments (c)		69,411
Beneficial interest in SCCA (d)		178,158
Beneficial interest in perpetual trust (e)		28,441
Total unavailable for general expenditures within one year		285,733
Financial assets available for general expenditures within one year	$	646,181

(a) Accounts receivables includes grants and contracts receivable, net; notes and pledges receivable, net; other receivables, net; and VAT recoverable, net of $334.

(b) Accounts receivable of $9,723 are classified as unavailable within one year. This amount includes pledges for donor restricted endowments of $4,174, pledges to be collected beyond one year of $3,032 and distributions from charitable remainder trusts anticipated to happen beyond one year of $2,517.

(c) Investments totaling $69,411 are considered unavailable within one year. This amount includes required reserves for charitable annuities of $3,756 and donor-restricted endowment funds, net of appropriations for expenditures in 2020 of $65,656.

(d) The Center's beneficial interest in the SCCA of $178,872 is considered unavailable within one year due to its illiquid nature.

(e) The Center's beneficial interest in perpetual trusts held by third-party trustees, net of estimated 2020 distributions, of $28,441 is considered unavailable within one year.

As part of the Center's liquidity management, it makes financial assets available based on forecasts of when general expenditures, liabilities, and other obligations are due. The Center invests cash in excess of current requirements in short-term investments to be available for liquidity needs. The Center also periodically evaluates future cash requirements and can increase the liquidity from investments if needed.

(Continued)

(5) Investments

Investments are carried at fair value and include cash and cash equivalents, equity securities, debt securities, and alternative investments. FASB ASC Topic 820-10-50, *Fair Value Measurement*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical investments that the Center has the ability to access.
- Level 2 – Inputs to the valuation inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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.

(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 of cash designated for investment approximates fair value due the short-term maturity of those instruments (90 days or less).

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 (NAV) 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, 2019.

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

(In thousands)

(b) Fair Value Hierarchy

In accordance with ASC Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2019 and 2018:

	2019			
	June 30, 2019	Level 1	Level 2	Level 3
Investments measured by fair value level:				
Cash and cash equivalents	$ 3,758	3,758	—	—
Global equity securities and mutual funds	305,979	303,623	2,356	—
Governments, mortgage, and corporate debt funds	211,660	185,796	25,864	—
Commodity investments and funds	2,666	2,666	—	—
Other equity securities	34,706	34,336	—	370
Total investments by fair value level	558,769	$ 530,179	28,220	370
Investments measured using NAV:				
Global equity securities and mutual funds	32,135			
Global real estate funds	50			
Private equity and venture capital funds	722			
Directional hedge securities	19,754			
Commodity investments and funds	6,278			
Total investments measured using NAV	58,939			
Total investments	$ 617,708			

	2019			
	June 30, 2019	Level 1	Level 2	Level 3
Other receivables:				
Beneficial interest in charitable remainder trusts	$ 3,505	—	—	3,505
Beneficial interest in perpetual trusts	29,937	—	—	29,937
Restricted cash	6,104	—	6,104	—
Liabilities:				
Deferred credit on cash flow hedges	(32,428)	—	(32,428)	—

(In thousands)

		2018			
		June 30, 2018	Level 1	Level 2	Level 3
Investments measured by fair value level:					
Cash and cash equivalents	$	49,478	49,478	—	—
Global equity securities and mutual funds		262,346	260,242	2,104	—
Governments, mortgage, and corporate debt funds		150,516	120,973	29,543	—
Other equity securities		4,980	4,595	—	385
Total investments by fair value level		467,320	$ 435,288	31,647	385
Investments measured using NAV:					
Global equity securities and mutual funds		40,440			
Global real estate funds		5,306			
Private equity and venture capital funds		274			
Directional hedge securities		26,380			
Total investments measured using NAV		72,400			
Total investments	$	539,720			

		2018			
		June 30, 2018	Level 1	Level 2	Level 3
Other receivables:					
Beneficial interest in charitable remainder trusts	$	1,129	—	—	1,129
Beneficial interest in perpetual trusts		29,841	—	—	29,841
Restricted cash		9,885	—	9,885	—
Liabilities:					
Deferred credit on cash flow hedges		(18,505)	—	(18,505)	—

There was no material activity in Level 3 investments during the current or prior year. Three charitable remainder trusts were added during the year ended June 30, 2019 resulting in an increase in Level 3 other receivables of $2,376.

(Continued)

(In thousands)

The Center's interests in certain nonreadily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on NAV estimates used as a practical expedient reported to the Center by investment fund managers. The valuation method for investments measured using NAV per share (or its equivalent) is presented in the following table.

		June 30, 2019	June 30, 2018	Redemption or liquidation	Days notice	Unfunded commitment
Global equity securities and mutual funds	$	32,135	40,440	Monthly	30	N/A
Global real estate funds		50	5,306	Quarterly	90	N/A
Private equity and venture capital funds		722	274	N/A	N/A	12,304
Directional hedge securities		19,754	26,380	Qtrly – Every 2 years	30–184	N/A
Commodity investments and funds		6,278	—	Quarterly	90	N/A
Total investments measured using NAV	$	58,939	72,400			

Global equity securities and mutual funds: This investment category includes public equity investments in separately managed accounts, long-only comingled funds, and passive market indices. Fair values have been determined using the NAV per share of the investments. All of the investments in this category can be redeemed within a year in both 2019 and 2018.

Global real estate funds – This category includes real estate, natural resources and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership in the partners' capital. All investments will be redeemed in 2020.

Private equity and venture capital funds – This category includes buyout, venture, and special situation funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds with the exception of one investment. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the majority of the underlying assets of the funds will be liquidated over the next 15 years.

Directional hedge securities – The categories include public equity investments in separately managed accounts, long and short comingled funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership in the partners' capital or the investment fund. Approximately 11% of the investments in this category can be redeemed within next year and 89% can be redeemed in two years.

Commodity investments and funds – This category includes investments in commodity funds. Fair values have been determined using the NAV per share (or its equivalent) of the investment. Approximately 100% of the value of the investments in the category can be redeemed within 90 days in 2020.

(In thousands)

The Center's investments contain endowment funds with donor restrictions for research and other related purposes. 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 Center's board-designated investments include funds designated by the board of trustees to function as endowments. The board of trustees may also elect to remove designations on funds previously designated.

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

		2019	2018
Interest	$	2,831	2,907
Dividends		10,604	4,736
Net realized gains		6,726	158,793
Equity in earnings of SCCA investment		24,189	16,916
		44,350	183,352
Less investment management fees		(455)	(865)
	$	43,895	182,487

(6) 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 Bloomberg Barclays U.S. 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.

(In thousands)

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

The Center's spending policy for individual 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 funds, 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 endowment funds, 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 net assets with donor restrictions. Any remaining losses reduce net assets without donor restrictions.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2019 and 2018:

		2019			
		Without donor restrictions	With donor restrictions		Total
			Time or purpose restricted	Perpetually restricted	
Donor-restricted endowment funds	$	—	15,423	60,189	75,612
Board-designated endowment funds		411,510	—	—	411,510
Total	$	411,510	15,423	60,189	487,122

		2018			
		Without donor restrictions	With donor restrictions		Total
			Time or purpose restricted	Perpetually restricted	
Donor-restricted endowment funds	$	—	14,881	52,001	66,882
Board-designated endowment funds		325,099	—	—	325,099
Total	$	325,099	14,881	52,001	391,981

(Continued)

(In thousands)

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2019 and 2018:

		2019			
		Without donor restrictions	With donor restrictions: Time or purpose restricted	With donor restrictions: Perpetually restricted	Total
Endowment net assets, beginning of year	$	325,099	14,881	52,001	391,981
Investment return:					
Investment income		7,554	1,323	—	8,877
Net realized gain		1,042	190	—	1,232
Net unrealized gain		12,946	2,194	—	15,140
Total investment return		21,542	3,707	—	25,249
Contributions		—	47	8,188	8,235
Distributions		—	(938)	—	(938)
Board transfers in/out		66,706	—	—	66,706
Appropriation of endowment assets for expenditure		(1,837)	(2,274)	—	(4,111)
Endowment net assets, end of year	$	411,510	15,423	60,189	487,122

(Continued)

(In thousands)

		2018			
		Without donor restrictions	With donor restrictions: Time or purpose restricted	With donor restrictions: Perpetually restricted	Total
Endowment net assets, beginning of year	$	144,368	13,656	44,248	202,272
Investment return:					
Investment income		2,966	800	—	3,766
Net realized gain		17,015	3,732	—	20,747
Net unrealized losses		(9,123)	(693)	—	(9,816)
Total investment return		10,858	3,839	—	14,697
Contributions		—	230	7,753	7,983
Distributions		—	(833)	—	(833)
Board transfers in		216,341	—	—	216,341
Board transfers out		(44,791)	—	—	(44,791)
Appropriation of endowment assets for expenditure		(1,685)	(2,003)	—	(3,688)
Endowment net assets, end of year	$	325,091	14,889	52,001	391,981

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

(7) Land, Buildings, and Equipment

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

		2019	2018
Land	$	52,389	52,389
Buildings and improvements		536,341	524,640
Equipment		198,851	188,311
Construction in progress		7,164	9,107
		794,745	774,447
Less accumulated depreciation		(414,148)	(394,632)
	$	380,597	379,815

(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 2019 or 2018.

(8) Notes and Pledges Receivable

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

		2019	2018
Amounts due in:			
Less than one year	$	7,421	23,318
One to five years		6,300	5,227
Less:			
Unamortized discount		(35)	(66)
Allowance for uncollectible pledges		(6)	(6)
Notes and pledges receivable, net	$	13,680	28,473

As of June 30, 2019 and 2018, the gross notes and pledges receivable balances include donor pledges of $12,311 and $26,903, 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%.

(In thousands)

(9) Long-Term Debt

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

		2019	2018
Series 2011A Revenue Bonds secured by a deed of trust due in varying amounts through 2035 plus interest at varying rates	$	76,440	76,950
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates		78,295	78,370
Series 2017A Revenue Bonds secured by a deed of trust due in varying amounts though 2047 plus interest at fixed rate		19,015	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	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	85,715
		351,575	352,160
Deferred financing costs		(2,571)	(3,049)
Unamortized premium (discount)		4,619	5,588
	$	353,623	354,699
Fair value disclosure (note 5)	$	374,308	363,671

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 5.00%. 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 2.50% – 2.78% for the year ended June 30, 2019. 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 2.12% – 2.87% for the year ended June 30, 2019. 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 coordinate all interest and principal payments made to bond holders.

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 2009A Bonds were placed into escrow along with the proceeds of the 2015 bonds and center funds to fund principal and interest payments that will be made to bondholders through the call date, July 1, 2019.

(Continued)

(In thousands)

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.

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:

2020	$ 860
2021	6,245
2022	6,630
2023	7,005
2024	9,835
Thereafter	321,000
	$ 351,575

(10) Retirement Plan

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

Retirement plan contributions for the years ended June 30, 2019 and 2018 were $18,251 and $16,434, respectively.

(11) Annuities

The Center administers gift annuities for which it makes periodic distributions to the annuitants. 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 distributions to annuitants totaled $2,597 and $2,858 at June 30, 2019 and 2018, respectively. The reserve fund requirement as determined by actuarial means was $2,174 and $2,191 at June 30, 2019 and 2018, respectively. The liability is revalued annually based upon actuarially computed present values and recorded in accrued liabilities. Present values are based on life expectancy and discount rates ranging between 4% and 10%. The Center maintains segregated funds that exceed the actuarial value of the annuity liability as required by law.

(In thousands)

(12) 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 the operating leases with noncancelable terms in excess of one year as of June 30, 2019 are as follows:

2020	$	13,360
2021		10,270
2022		9,662
2023		9,616
2024		9,449
Thereafter		114,280
	$	166,637

(b) Litigation and Compliance with Laws and Regulations

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

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

(c) Contingent Liability

The Center received federal grant funding for a portion of the construction of its South Lake Union Campus. Because the Center received federal grant funding for a portion of its campus, the government retains an interest in the net proceeds received if portions of the campus are 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.

(In thousands)

(13) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2019 and 2018. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2019, which is included in accounts payable and accrued liabilities.

(14) 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 net 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.

The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2019 and 2018:

		2019	2018
Assets	$	753,311	648,504
Liabilities		190,945	158,595
Net assets		562,366	489,909
Total liabilities and net assets	$	753,311	648,504

(In thousands)

		2019	2018
Revenue	$	737,339	641,325
Less expenses		(684,666)	(607,727)
Plus nonoperating income		17,779	15,634
Increase in unrestricted net assets	$	70,452	49,232

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 $30,646 and $27,891 of other income for the years ended June 30, 2019 and 2018, respectively, as a result of these agreements.

The Center recognized clinical service fee revenue (note 16) for the years ended June 30, 2019 and 2018, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(15) Other Income

Other income includes income from noncore sources, including service agreements, related-party transactions (note 14), professional services, core resources, rent, parking, and similar activities. The Center had $55,624 and $54,621 of other income for the years ended June 30, 2019 and 2018, respectively.

(16) 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, 2019 and 2018 from UWMC total $11,621 and $11,316, respectively, from Seattle Children's total $685 and $658, respectively, and from the SCCA total $8,239 and $8,001, respectively. Of these amounts, $5,710 and $6,293 is included in other receivables as of June 30, 2019 and 2018, respectively.

(17) 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. This agreement has been amended in December 2017. The duration of the swaps in extended to 2042 to match up the duration of the existing underlying variable rate bonds. The first swap has a notional amount of $56,577. The interest rate paid by the Center is fixed at 3.60% while the counterparty pays the Center an indexed rate plus 0.20%. The second swap has notional value of $52,723. The interest rate paid by the Center is fixed at 3.53% while the counterparty pays the Center 67% of an indexed rate plus 0.64%.

The fair value is the estimated amount the counterparties would receive or pay to terminate the swap agreements at the reporting date based on 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 $32,428 and $18,505 at June 30, 2019 and 2018, 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 when the fair value amount to terminate the swaps exceeds $40,000 and $35,000 as of June 30, 2019 and 2018, respectively. No collateral was posted as of June 30, 2019 and 2018, respectively.

(c) Currency hedge activity

The Center purchases forward contracts for South African Rand currency. This allows the Center to mitigate currency risk related to HCRISA research activities in South Africa. Outstanding forward contracts that obligate the center to purchase ZAR at June 30, 2019 was R 68,000 ($4,800 USD).

(18) Subsequent Events

On July 26, 2019, the Center entered into a line of credit agreement in the amount of $40,000. The line was secured to provide additional liquidity if needed and the Center has the option to renew each year in July. The Center has evaluated subsequent events through October 16, 2019, the date the consolidated financial statements were issued, and has determined there are no other material subsequent events.