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FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2020 and 2019

(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 position as of June 30, 2020 and 2019, and the related consolidated statements of activities, financial 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. 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, 2020 and 2019, and the changes in its net assets, cash flows, and functional expenses for the years then ended in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in Note 2(r) to the consolidated financial statements, on July 1, 2019, Fred Hutchinson Cancer Research Center adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

KPMG LLP

Seattle, Washington
October 16, 2020

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Assets:			
Cash and cash equivalents	$	36,454	22,329
Restricted cash		20,000	6,104
Grants and contracts receivable, net		44,862	49,127
Notes and pledges receivable, net		17,600	13,680
Other receivables, net		16,989	14,537
Investments		573,687	617,708
Land, buildings, and equipment, net of accumulated depreciation of $442,946 and $414,148, respectively		409,697	380,597
Right of use asset		111,774	—
Beneficial interest in perpetual trusts		28,941	29,937
Beneficial interest in net assets of SCCA		203,156	178,158
Other assets		6,594	6,593
Total assets	$	1,469,754	1,318,770
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	22,255	15,860
Accrued payroll and related costs		33,563	30,231
Deferred revenue		39,128	62,488
Lease liability		124,106	—
Long-term debt		397,996	353,623
Deferred credit on cash flow hedges		56,131	32,428
Total liabilities		673,179	494,630
Net assets:			
Without donor restriction		607,635	647,192
With donor restriction		188,940	176,948
Total net assets		796,575	824,140
Total liabilities and net assets	$	1,469,754	1,318,770

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2020

(In thousands)

	2020		
	Without donor restriction	**With donor restriction**	**Total**
Revenue and other support:			
Research grants and contracts	$ 460,350	—	460,350
Contributions	42,311	29,690	72,001
Investment income	38,494	2,091	40,585
IP commercialization income	4,217	—	4,217
Clinical service fee revenue	20,462	—	20,462
Other income	57,003	—	57,003
Net assets released from restrictions	20,068	(20,068)	—
Total revenue	642,905	11,713	654,618
Expenses:			
Program services and research	558,525	—	558,525
Management and general	86,054	—	86,054
Fundraising	18,726	—	18,726
Total expenses	663,305	—	663,305
Change in net assets from operations	(20,400)	11,713	(8,687)
Other changes in net assets:			
Change in net unrealized fair value of investments	9,131	1,644	10,775
Change in net foreign currency translation	(409)	—	(409)
Loss on defeasance of debt	(4,330)	—	(4,330)
Change in value of split-interest agreements	—	(1,365)	(1,365)
Change in net unrealized fair value of swap instruments	(23,549)	—	(23,549)
Total other changes in net assets	(19,157)	279	(18,878)
Total changes in net assets	(39,557)	11,992	(27,565)
Net assets balance at beginning of year	647,192	176,948	824,140
Net assets balance at end of year	$ 607,635	188,940	796,575

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 changes 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 Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(27,565)	98,609
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		30,535	28,567
Equity in earnings of SCCA		(24,998)	(24,189)
Change in net unrealized (gains) losses in fair value of investments		(10,775)	(47,258)
Change in value of split-interest agreements		1,365	(96)
Change in fair value of swap instruments		23,703	13,923
Net realized gains on investments		(2,684)	(6,727)
Loss on defeasance of debt		4,330	—
Noncash contributions		(14,967)	(26,652)
Contributions with donor restrictions in perpetuity		(14,507)	(9,126)
Changes in assets and liabilities:			
Grants and contracts receivable		4,265	(18,569)
Notes and pledges receivable		(3,920)	14,793
Other receivables		(2,451)	(3,094)
Other assets		(1)	(978)
Accounts payable and accrued liabilities		6,369	(2,771)
Accrued payroll and related costs		3,332	1,313
Change in right of use assets and lease liability		12,332	—
Deferred grant revenue		(23,359)	(13,861)
Net cash (used in) provided by operating activities		(38,996)	3,884
Cash flows from investing activities:			
Additions to land, buildings, equipment, and rental property		(60,139)	(29,176)
Purchases of investments		(69,541)	(171,558)
Sales of investments		125,627	147,555
Net cash used in investing activities		(4,053)	(53,179)
Cash flows from financing activities:			
Proceeds from new debt		121,225	—
Additions to deferred financing costs		(1,409)	—
Repayment of debt		(79,245)	(585)
Contributions restricted for long-term investment		29,474	35,777
Net cash provided by financing activities		70,045	35,192
Net increase (decrease) in cash and cash equivalents		26,996	(14,103)
Cash, cash equivalents and restricted cash at beginning of year		30,111	44,214
Cash, cash equivalents and restricted cash at end of year	$	57,107	30,111
Supplemental disclosures of cash flow information:			
Interest paid	$	13,984	13,676
Capital expenditures in accounts payable		2,357	2,332

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Functional Expenses

Years ended June 30, 2020 and 2019

(In thousands)

		Program services and research	Management and general	Fundraising	Total
2020:					
Salaries and wages	$	251,691	39,735	7,999	299,425
Employee benefits		58,057	9,378	1,819	69,254
Subawards		90,577	—	—	90,577
Purchased services		33,885	12,415	1,633	47,933
Supplies		42,971	1,782	135	44,888
Other		24,269	8,579	6,390	39,238
Rent, utilities, and maintenance		18,301	8,421	386	27,108
Interest and amortization		12,435	1,313	69	13,817
Depreciation		26,339	4,431	295	31,065
Total June 30, 2020	$	558,525	86,054	18,726	663,305
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

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.

(a) 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 $(10,774) and $(8,908) as of June 30, 2020 and 2019, 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 $7,184 and $5,585 as of June 30, 2020 and 2019, 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 $2,860 and $543 as of June 30, 2020 and 2019, respectively, are not considered pledged assets (obligations) 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.

(In thousands)

(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 $584 and $14,873 as of June 30, 2020 and 2019, 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.

The amount of cash held in investment accounts was $653 and $1,678 as of June 30, 2020 and 2019. The Center does not include cash equivalents included within investments in the statement of cash flows given the long-term nature.

		2020	2019
Cash and cash equivalents	$	36,454	22,329
Restricted cash		20,000	6,104
Cash included within investments		653	1,678
Total cash and cash equivalents	$	57,107	30,111

(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 with the counterparty to comply with the terms of swap agreements, as further discussed in note 18.

(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) Leases

The Center is a lessee in several noncancelable operating leases, primarily for lab and office space. The Center accounts for leases in accordance with Topic 842, *Leases* which was effective July 1, 2019. The Center determines if an arrangement is or contains a lease at inception. The Center recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date. The Center has no finance leases as of June 30, 2020.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus (minus) and prepaid (accrued) lease payments, less the unamortized balance of lease incentives received.

The lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

The Center has elected not to recognize ROU assets and lease liabilities for short-term leases of transportation equipment that have a lease term of 12 months or less. The Center has elected not to apply the short-term lease recognition and measurement exemption for other classes of leased assets.

(h) 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 15.

(i) Research Grants and Contracts Revenue

The Center recognizes revenue from grants and contracts on the research it performs. Grantors include both federal and nonfederal sponsors with approximately 75% and 74% of the Center's research revenue derived from federal agencies for the years ended June 30, 2020 and 2019, respectively.

Research grants and contracts without performance obligations are recognized as revenue as the costs are incurred in accordance with the terms of the grant or contract.

(Continued)

Research grants and contracts with performance obligations are treated as exchange transactions. Revenue is recognized over the term of the grants and contracts as performance obligations are satisfied either by incurring costs or achieving milestones.

Total grants and contracts revenue was $460,350 and $465,852 for the years ended June 30, 2020 and 2019, respectively.

Research funding that does not include conditions or performance obligations is recognized as contribution revenue.

(j) 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 in accordance with the terms.

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.

(k) 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.

(l) 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. 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, 2020 and 2019 were $1,121 and $1,100, respectively.

(m) 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.

(n) 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).

(o) 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.

(p) 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 Commercialization Income.

(q) 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. Unrelated business income typically is trade or business activity regularly carried on and is not related to furthering the exempt purpose of the Center.

(r) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 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 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. The Center has adopted this standard effective July 1, 2019 and recorded both a right-of-use asset of $117,692 and corresponding liability of $126,181.

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 has adopted the provisions of ASU No. 2016-18 as of July 1, 2019.

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 has adopted the provisions of ASU No. 2018-08 as of July 1, 2019. The Center has determined that this would not have a material effect on the method in which revenue is recognized. The Center has estimated that contingent contributions that do not meet the requirements for revenue recognition are estimated at $355,000 as of June 30, 2020.

(s) Reclassifications

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

(In thousands)

(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, 2020 or 2019.

(4) Availability and Liquidity

The Center regularly monitors its ability to meet its cash flow requirements and operating needs. The availability of financial assets is primarily affected by management's designation and external limitations imposed by donors. The following financial assets on the statement of financial position are expected to be readily available to be used for general expenditures of the Center with one year:

Financial Assets:		**2020**	**2019**
Cash and cash equivalents	$	36,454	22,329
Accounts receivables (a)		79,802	77,678
Investments		573,687	617,708
Total financial assets, at year-end		689,943	717,715
Less: those unavailable for general expenditures within one year:			
Accounts receivables (b)		16,970	9,723
Investments (c)		81,614	69,411
Total unavailable for general expenditures within one year		98,584	79,134
Financial assets available for general expenditures within one year	$	591,359	638,581

(a) Accounts receivable includes grants and contracts receivable, notes and pledges receivable, other receivables and VAT recoverable, at net values.

(b) Accounts receivable of $16,970 and $9,723 as of June 30, 2020 and 2019, respectively, are classified as unavailable within one year. This amount includes $6,904 and $4,147 pledges for donor restricted endowments, $5,818 and $3,032 pledges to be collected beyond one year, as well as $4,247 and $2,517 distributions from charitable remainder trusts anticipated to happen beyond one year.

(Continued)

(c) Investments totaling $81,614 and $69,411 as of June 30, 2020 and 2019, respectively, are considered unavailable within one year. This amount includes $3,562 and $3,756 required reserves for charitable annuities, donor restricted endowment funds, net of appropriations for expenditures in 2021 and 2020 in the amount of $78,052 and $65,656 respectively.

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

(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.

(In thousands)

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, 2020.

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.

(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, 2020 and 2019:

		2020			
		June 30, 2020	Level 1	Level 2	Level 3
Investments measured by fair value level:					
Cash and cash equivalents	$	743	743	—	—
Global equity securities and mutual funds		278,035	276,308	1,727	—
Governments, mortgage, and corporate debt funds		196,642	168,703	27,939	—
Commodity investments and funds		7,918	7,918	—	—
Other equity securities		34,733	34,509	—	224
Total investments by fair value level		518,071	488,181	29,666	224
Investments measured using NAV:					
Global equity securities and mutual funds		33,744			
Global real estate funds		44			
Private equity and venture capital funds		3,148			
Directional hedge securities		18,680			
Total investments measured using NAV		55,616			
Total investments	$	573,687			

(In thousands)

		2020			
		June 30, 2020	Level 1	Level 2	Level 3
Other receivables:					
Beneficial interest in charitable remainder trusts	$	2,413	—	—	2,413
Beneficial interest in perpetual trusts		28,941	—	—	28,941
Restricted cash		20,000	20,000	—	—
Liabilities:					
Deferred credit on cash flow hedges		(56,131)	—	(56,131)	—

		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		8,944	8,944	—	—
Other equity securities		34,706	34,336	—	370
Total investments by fair value level		565,047	536,457	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			
Total investments measured using NAV		52,661			
Total investments	$	617,708			

(In thousands)

	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)	—

There was no material activity in Level 3 investments during the current or prior year. Two charitable remainder trusts were added during the year ended June 30, 2020 resulting in an increase in Level 3 other receivables of $173.

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, 2020	June 30, 2019	Redemption or liquidation	Days notice	Unfunded commitment
Global equity securities and mutual funds	$ 33,744	32,135	Monthly	30	N/A
Global real estate funds	44	50	Quarterly	90	N/A
Private equity and venture capital funds	3,148	722	N/A	N/A	12,956
Directional hedge securities	18,680	19,754	Qtrly – Every 2 years	30–184	N/A
Total investments measured using NAV	$ 55,616	52,661			

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 2020 and 2019.

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.

(In thousands)

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.

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:

		2020	2019
Interest	$	2,239	2,831
Dividends		11,233	10,604
Net realized gains		2,684	6,726
Equity in earnings of SCCA investment		24,998	24,189
		41,154	44,350
Less investment management fees		(569)	(455)
	$	40,585	43,895

(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

(Continued)

(In thousands)

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.

(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. As of June 30, 2020, the fair market value of the underwater endowments total was $1,393. The original endowment contribution amount was $1,402 leaving a small deficiency amount.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2020 and 2019:

	2020			
	Without donor restrictions	With donor restrictions: Time or purpose restricted	With donor restrictions: Perpetually restricted	Total
Donor-restricted endowment funds	$ —	15,225	70,645	85,870
Board-designated endowment funds	354,535	—	—	354,535
Total	$ 354,535	15,225	70,645	440,405

(In thousands)

		2019			
		Without donor restrictions	With donor restrictions: Time or purpose restricted	With donor restrictions: Perpetually restricted	Total
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

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2020 and 2019:

		2020			
		Without donor restrictions	With donor restrictions: Time or purpose restricted	With donor restrictions: Perpetually restricted	Total
Endowment net assets, beginning of year	$	411,510	15,423	60,189	487,122
Investment return:					
Investment income		7,901	1,479	—	9,380
Net realized gain		714	120	—	834
Net unrealized gain		7,532	1,594	—	9,126
Total investment return		16,147	3,193	—	19,340
Contributions		—	218	10,456	10,674
Distributions		—	(896)	—	(896)
Board transfers in/out		(71,240)	—	—	(71,240)
Appropriation of endowment assets for expenditure		(1,882)	(2,713)	—	(4,595)
Endowment net assets, end of year	$	354,535	15,225	70,645	440,405

(In thousands)

	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

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:

	2020	2019
Land	$ 52,389	52,389
Buildings and improvements	544,205	536,341
Equipment	218,470	198,851
Construction in progress	37,579	7,164
	852,643	794,745
Less accumulated depreciation	(442,946)	(414,148)
	$ 409,697	380,597

(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 2020 or 2019.

(8) Notes and Pledges Receivable

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

		2020	2019
Amounts due in:			
Less than one year	$	6,825	7,421
One to five years		11,198	6,300
Less:			
Unamortized discount		(417)	(35)
Allowance for uncollectible pledges		(6)	(6)
Notes and pledges receivable, net	$	17,600	13,680

As of June 30, 2020 and 2019, the gross notes and pledges receivable balances include donor pledges of $16,645 and $12,311, 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:

		2020	2019
Series 2011A Revenue Bonds secured by a deed of trust due in varying amounts through 2035 plus interest at varying rates	$	—	76,440
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates		78,220	78,295
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
Series 2020 Revenue Bonds secured by a deed of trust due in varying amounts through 2050 plus interest at a fixed rate		121,225	—
		396,285	351,575
Deferred financing costs		(3,011)	(2,571)
Unamortized premium		4,722	4,619
	$	397,996	353,623

On May 7, 2020, the Center issued taxable bonds with a par amount of $121,225 and a maturity date of January 1, 2050. The bonds are in varying amounts with a fixed average coupon rate of 3.95%. The proceeds were used to defease the Series 2011A Revenue Bonds. The 2020 Bonds were issued under a public bond placement and the Center uses a third-party to administrator interest and principal payments.

On March 30, 2017, the Center issued $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 1.6% –2.0% for the year ended June 30, 2020. 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 1.5% –1.8% for the year ended June 30, 2020. The proceeds were used to refund Series 2012B Revenue bonds. The 2017 Bonds were all issued under a public bond placement and the Center uses a third-party to administrator interest and principal payments.

On July 8, 2015, the Center issued $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.

(In thousands)

On June 30, 2011, the Center issued $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. These bonds were defeased in May 2020 with the proceeds from the 2020 Revenue 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 2 012A 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:

2021	$	5,575
2022		5,880
2023		5,745
2024		9,835
2025		10,015
Thereafter		359,235
	$	396,285

(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, 2020 and 2019 were $21,201 and $18,251, respectively.

(Continued)

(In thousands)

(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 $2,372 and $2,597 at June 30, 2020 and 2019, respectively. The reserve fund requirement as determined by actuarial means was $2,145 and $2,174 at June 30, 2020 and 2019, 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.

(12) Leases

The Center has several noncancelable operating leases, primarily for lab and office that expire over the next twenty years. These leases generally contain renewal options for periods ranging from two to ten years. Because the Center is reasonably certain to exercise these renewal options, the options are considered in determining the lease term, and associated payments are included in lease payments. The Center's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus market rate adjustments. The leases do not include any variable lease costs.

The components of the lease cost for the year ended June 30, 2020 were as follows:

		2020
Operating lease cost	$	9,288
Short-term lease cost		753
Total lease costs	$	10,041

The Center has decided to use an incremental borrowing rate (IBR) as the discount rate for the leases. The Center considers the lease term and the lease start date when applying the appropriate IBR. The weighted average of IBR rate used as the discount rate for determining the lease liability is 2.91%. The weighted average of remaining lease term is 17.8 years as of June 30, 2020. The cash paid for amounts included in lease costs was $6,078 during the year ended June 30, 2020.

The Center records a right of use asset and lease liability for all leases with a lease term greater than 12 months. At the lease commencement date, the Center measures and records a lease liability equal to the present value of the lease payments.

(Continued)

(In thousands)

Maturities of lease liabilities under noncancelable leases as of June 30, 2020 are as follows:

2021	$	7,952
2022		8,167
2023		8,605
2024		8,738
2025		8,451
Thereafter		120,314
		162,227
Less amounts related to interest		(38,121)
Total lease liability	$	124,106

The related future minimum rental payments for the operating leases with noncancelable terms in excess of one year as of June 30, 2019 (prior to adoption of ASU No 2016-02 Leases) were as follows:

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

(13) Contingencies

(a) 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.

(Continued)

(b) 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.

(c) Impact from COVID-19

The impacts from the COVID-19 pandemic continue to be evolving and management is continuing to monitor and act to mitigate the impacts on the Center. COVID-19 has had a broad impact on commerce and financial markets around the world. Future impacts whether positive or negative will depend on certain developments, including the duration and spread of the outbreak and its impact on funding agencies, donors, employees and vendors, all of which cannot be determined. Accordingly, the extent to which COVID-19 may impact the consolidated financial position and changes in net assets and cash flows of the Center remains uncertain and the accompanying consolidated financial statements include no adjustments relating to any potential future effects of this pandemic beyond June 30, 2020.

(14) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2020 and 2019. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2020, which is included in accounts payable and accrued liabilities.

(15) 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.

 (Continued)

(In thousands)

The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2020 and 2019:

		2020	2019
Assets	$	1,020,161	753,311
Liabilities		382,910	190,945
Net assets		637,251	562,366
Total liabilities and net assets	$	1,020,161	753,311

		2020	2019
Revenue	$	803,002	737,339
Less expenses		(734,933)	(684,666)
Plus nonoperating income		5,138	17,779
Increase in unrestricted net assets	$	73,207	70,452

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 $31,438 and $30,646 of other income for the years ended June 30, 2020 and 2019, respectively, as a result of these agreements.

The Center recognized clinical service fee revenue (note 16) for the years ended June 30, 2020 and 2019, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(16) Other Income

Other income includes income from noncore sources, including service agreements, related-party transactions (note 15), professional services, core resources, rent, parking, and similar activities. The Center had $57,003 and $55,624 of other income for the years ended June 30, 2020 and 2019, respectively.

(17) 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, 2020 and 2019 from UWMC total $11,462 and $11,621, respectively, from Seattle Children's total $688 and $685, respectively, and from the SCCA total $8,312 and $8,239, respectively. Of these amounts, $8,801 and $5,710 is included in other receivables as of June 30, 2020 and 2019, respectively.

(Continued)

(18) 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 $56,131 and $32,428 at June 30, 2020 and 2019, 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 $40,000 as of June 30, 2020 and 2019, respectively. Collateral amounts of $20,000 and $0 was posted as of June 30, 2020 and 2019, respectively.

(c) Currency hedge activity

The Center purchases forward contracts for South African Rand (ZAR) 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, 2020 was R 73,000 ($4,414).

(19) Subsequent Events

On July 28, 2020, the Center entered into 80-year reciprocal long-term ground leases with a related party. The Center is the lessor of property valued at $30,000 and is the lessee on a separate property valued at $29,500. Including an equalization payment, annual lease payments fully offset.