FRED HUTCHINSON CANCER CENTER

Consolidated Financial Statements

June 30, 2022

(With Independent Auditors’ Report Thereon)

FRED HUTCHINSON CANCER CENTER

Table of Contents

KPMG

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Fred Hutchinson Cancer Center:

Opinion

We have audited the consolidated financial statements of Fred Hutchinson Cancer Center (Fred Hutch), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, and cash flows, for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fred Hutch as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Fred Hutch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fred Hutch's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

KPMG

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fred Hutch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fred Hutch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Seattle, Washington
October 14, 2022

FRED HUTCHINSON CANCER CENTER

Consolidated Statement of Financial Position

June 30, 2022

(in thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	365,050
Assets whose use is limited		170,635
Patient accounts receivable, net		145,450
Grants and contracts receivable, net		72,067
Short-term investments		767,960
Other current assets		95,670
Total current assets		1,616,832
Land, buildings and equipment, net of accumulated depreciation		813,534
Right of use assets		225,552
Long-term investments		149,769
Other assets		186,464
Total assets	$	2,992,151
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$	161,630
Current portion of long-term debt and lease liabilities		18,045
Other current liabilities		105,737
Total current liabilities		285,412
Long-term debt, net of current portion		1,089,000
Collaborative arrangement		428,824
Long-term lease liabilities, net of current portion		226,457
Deferred credit on cashflow hedges		18,075
Total liabilities		2,047,768
Net assets:		
Without donor restrictions		739,788
With donor restrictions		204,595
Total net assets		944,383
Total liabilities and net assets	$	2,992,151

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER CENTER

Consolidated Statement of Activities

Twelve months ended June 30, 2022

(in thousands)

	Without donor restriction	With donor restriction	Total
Revenues and other support:			
Research grants and contracts	$ 660,241	—	660,241
Patient service revenue	269,929	—	269,929
Contributions	40,796	17,737	58,533
Investment income and realized gains, net	164,971	5,929	170,900
Clinical service fee revenue	18,367	—	18,367
Service and other income	48,340	—	48,340
Net assets release from restrictions	16,647	(16,647)	—
Total revenues	1,219,291	7,019	1,226,310
Operating expenses:			
Salaries, wages and benefits	418,347	—	418,347
Subawards	209,902	—	209,902
Purchased services	146,339	—	146,339
Collaborative arrangement	11,661	—	11,661
Supplies	152,293	—	152,293
Rent, utilities and maintenance	44,019	—	44,019
Interest, Depreciation and Amortization	55,692	—	55,692
Other	39,251	—	39,251
Total expenses	1,077,504	—	1,077,504
Change in net assets from operations	141,787	7,019	148,806
Other changes in net assets:			
Change in net unrealized fair value of investments	(269,343)	(14,337)	(283,680)
Change in net unrealized fair value of swap instruments	21,853	—	21,853
Loss on debt refinancing	(5,744)	—	(5,744)
Other net asset changes	(798)	(4,596)	(5,394)
Total other changes in net assets	(254,032)	(18,933)	(272,965)
Total changes in net assets	(112,245)	(11,914)	(124,159)
Net assets balance at beginning of year	852,033	216,509	1,068,542
Net assets balance at end of year	$ 739,788	204,595	944,383

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER CENTER

Consolidated Statements of Cash Flows

For the period ended June 30, 2022

(In thousands)

Cash flows from operating activities:		
Change in net assets	$	(124,159)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization		39,993
Decrease in noncash deferred revenue		(1,000)
Equity in earnings of unconsolidated related party		(22,753)
Change in net unrealized fair value of investments		283,680
Change in net realized fair value of investments		(129,341)
Gain on sale of pediatric transplant program		(3,670)
Change in value of split interest agreements		4,596
Change in fair value of swap instruments		(21,797)
Loss on defeasance of debt		5,744
Noncash contributions		(9,791)
Restricted contributions		(1,086)
Changes in assets and liabilities:		
Grants and contracts receivable		(9,018)
Patient accounts receivable		1,960
Other current assets		5,119
Other assets		(7,040)
Assets whose use is limited		(3,598)
Accounts payable and accrued liabilities		2,783
Other current liabilities		17,644
Change in right of use assets and lease liabilities		815
Net cash provided by operating activities		29,081
Cash flows from investing activities:		
Additions to land, buildings, equipment and rental property		(51,123)
Buy-out purchase of equity investor		(285,884)
Net cash and restricted cash acquired in acquisition		402,474
Purchase of investments		(548,266)
Sale of investments		576,192
Net cash provided by investing activities		93,393
Cash flows from financing activities:		
Proceeds from new debt		1,154,420
Additions to deferred financing costs		(2,770)
Repayment of debt		(848,256)
Contributions restricted for long-term investment		1,086
Net cash provided by financing activities		304,480
Net increase in cash and cash equivalents		426,954
Cash, cash equivalents and restricted cash at beginning of year		42,626
Cash, cash equivalents and restricted cash at end of period	$	469,580
Supplemental cash flow disclosure:		
Interest paid	$	14,584
Capital expenditures in accounts payable		28,283
Reclassification of land		29,779

See accompanying notes to consolidated financial statements.

(1) Organization

Fred Hutchinson Cancer Center (Fred Hutch) is a Washington not-for-profit corporation 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. It unites innovative research and compassionate care to prevent and eliminate cancer and infectious disease. It is driven by the urgency of our patients, the hope of our community and our passion for discovery to pursue scientific breakthroughs and healthier lives for every person in every community. Fred Hutch is designated by the National Cancer Institute as a comprehensive cancer research center.

Fred Hutch was formed in April 2022 when Fred Hutchinson Cancer Research Center (FHCRC), a cancer, infectious disease and biomedical research center, combined with the Seattle Cancer Care Alliance (SCCA), an integrated cancer care provider. Concurrent with the business combination, Fred Hutch entered into a Restructuring Agreement with University of Washington Medicine (UWM) forming a clinically integrated adult oncology program spanning two institutions. See Business Combination Note 2.

In support of its mission, Fred Hutch controls the following not-for-profit affiliates

- The 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. Fred Hutch 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 $(14,663) as of June 30, 2022, are not considered pledged obligations 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. Fred Hutch 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 $6,259 as of June 30, 2022, 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 $2,519 as of June 30, 2022, are not considered pledged assets (obligations) under Fred Hutch’s debt covenants.

(2) Business Combination and Restructure Agreement

On April 1, 2022, FHCRC purchased the membership interest held by Seattle Children's Hospital (SCH) in SCCA on behalf of both FHCRC and UWM. The total consideration paid to SCH was $285,900. UWM subsequently issued a promissory note to Fred Hutch for half of the purchase price. The note has a term of 10 years and an interest rate of 4.8%. The balance on the note was $140,089 as of June 30, 2022 and included in Other Assets and Other Current Assets.

(Continued)

(In thousands)

On April 1, 2022, FHCRC merged with SCCA to form Fred Hutch. The transaction was treated as an acquisition by a not-for-profit and business combination with FHCRC as the acquirer. The transaction was accounted for in accordance with Topic 805, *Business Combinations.* The fair value of SCCA's acquired assets, and assumed liabilities as of April 1, 2022, were as follows:

Acquired assets:		
Cash, cash equivalents, and restricted cash	$	402,474
Assets whose use is limited		75,224
Patient accounts receivable, net		147,410
Short-term investments		334,840
Other current assets		51,055
Land, buildings and equipment, net of accumulated depreciation		331,331
Right-of-use assets		204,275
Other assets		18,611
	$	1,565,220
Assumed liabilities:		
Accounts payable and accrued liabilities	$	89,056
Other current liabilities		20,736
Long-term debt		392,956
Lease liabilities		204,824
	$	707,572

On April 1, 2022 and concurrent with the business combination transaction, Fred Hutch entered into the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement) with UWM. In consideration for UWM relinquishing its membership interest in SCCA, UWM and Fred Hutch restructured their cancer programs into a clinically integrated adult oncology program and enhanced cancer research collaborations that integrate clinical care and research to provide the best possible patient care. Under a management agreement, Fred Hutch will provide management services to participating UWM oncology programs.

The Restructuring Agreement includes a Financial Alignment Plan. The plan prescribes the methodologies to allocate the clinical resources and provides for a perpetual flow of funds between FHCC and UWM to support the integrated program. The flow of funds is expected to be predominantly from FHCC to UWM, but under certain conditions payments from UWM to FHCC may be required. The Financial Alignment Plan was accounted for in accordance with Topic 808, *Collaborative Arrangements* with a recorded long-term liability at fair value of $428,824. A Collaborative Arrangement expense of $11,661 was recorded for the year ended June 30,2022.

As a result of the business combination, a prior year land transaction between FHCRC and SCCA was reclassified from a Right-of-use asset to Land. This is a non-cash transaction and noted on the cash flow statement.

(Continued)

(In thousands)

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Fred Hutchinson Cancer Center and its controlled affiliates, collectively referred to as Fred Hutch. All significant intercompany balances and transactions between Fred Hutch 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 $40,002 as of June 30, 2022 invested in liquid debt instruments with original maturities of three months or less. Cash equivalents within investment accounts is reflected as investment activity on the statement of cash flows.

Fred Hutch 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 Fred Hutch to insolvency risk if the financial institution becomes insolvent.

Cash and cash equivalents	$	365,050
Cash included within investments		7,825
Cash held by trustee in assets whose use is limited		96,705
Total cash and cash equivalents	$	469,580

(d) Assets whose use is limited

Assets whose use is limited include net assets without donor restrictions designated by the Board of Directors (the Board) for future capital purpose over which the Board retains control and may, at its direction, subsequently use for other purposes. Assets whose use is limited also include net assets with donor restrictions and funds held under the terms of FHCC’s trust indenture. As of June 30, 2022, the fair value of assets whose use is limited is as follows:

Board-designated investments – Clinical expansion	$	70,109
Donor restricted funds		3,821
Funds held under trust indenture		96,705
Assets whose use is limited	$	170,635

(Continued)

(e) Supplies Inventory

Inventory consisting primarily of surgical, medical, and pharmaceutical supplies, is carried at the lower of cost (first-in, first-out method) or net realizable value in other current assets.

(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 improvements and replacements of land, buildings, and equipment are capitalized; maintenance and repairs costs are expensed. The costs and related accumulated depreciation of property, plant and equipment sold or retired are removed from the accounts and the resulting gain or loss is recognized.

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.

Fred Hutch 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

Fred Hutch is a lessee in noncancelable operating leases for research, clinic, and office space that expire over the next forty years and generally contain renewal options for periods ranging from two to fifty years. Fred Hutch has a finance lease for equipment as of June 30, 2022. Leases are accounted for in accordance with Topic 842, *Leases*. Fred Hutch determines if an arrangement is or contains a lease at inception. A right-of-use (ROU) asset and a lease liability are recognized at the lease commencement date.

The lease liability represents Fred Hutch's obligation to make lease payments discounted to the present value of the unpaid lease payments at the commencement date of each lease.

The ROU asset represents the lessee's right to use or control the use of a specified asset for a lease term and 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. These lease agreements do not contain any material residual value guarantees or material restrictive covenants. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term.

(Continued)

Fred Hutch uses an incremental borrowing rate at the commencement date in determining the discounted present value of lease payments. The incremental borrowing rate is a hypothetical rate based on Fred Hutch's implicit credit rating.

Fred Hutch has elected not to recognize ROU assets and lease liabilities for lease terms of 12 months or less. Rent for these leases is expensed in the period incurred. Fred Hutch has elected not to apply the short-term lease recognition and measurement exemption for other classes of leased assets. Options for lease extensions that Fred Hutch is reasonably certain of exercising are considered in determining the lease term used to establish the right-of-use assets and lease liabilities.

Certain lease agreements contain both lease and non-lease components. Fred Hutch accounts for lease and non-lease components separately. Payments for the lease and non-lease (service) components are allocated based on estimated stand-alone values.

Fred Hutch also has leases that include variable payments based on measures such as level of use. These payments are expensed as incurred and reported in other operating expenses.

(h) Intangible Assets

Intangible assets are stated at fair value. All intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets are amortized over the expected life of the asset.

In 2022 there were no impairment charges.

(i) Patient Services Revenue

Fred Hutch treats contracts with similar characteristics as a portfolio for the patient services revenue stream under *Accounting Standards Update No. 2014 09 – Revenue from Contracts with Customers (Topic 606)* as the revenue represents a large volume of similar contracts with similar classes of customers. Patient services revenues are comprised of two primary portfolios: clinical services and retail pharmacy operations.

Patient service revenue is reported at the estimated net realizable amount from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive agreements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Clinical services are the services performed by physicians and other medical professionals to aid in the diagnosis and treatment of cancer. Fred Hutch satisfies clinical service performance obligations over time as services are rendered and thus, recognizes revenue for clinical services over time based on actual charges incurred. Fred Hutch believes that this method provides a useful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Fred Hutch bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility.

The transaction price is based on standard charges for goods and services provided, reduced by contractual adjustments provided to third party payors and discounts provided to uninsured patients in accordance with Fred Hutch policy and implicit price concessions provided to the uninsured patient. Fred Hutch estimates the contractual adjustment for unpaid accounts based on contractual agreements, its discounts policies, and historical experience by class of patient. Fred Hutch analyzes the discounts on patient service revenue by portfolio of inpatient and outpatient clinical services and payor classification. Fred Hutch has sufficient historical information on these payor groups' collection rates and other information that allows Fred Hutch to analyze these statistics against the portfolio and conclude that the revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

Retail pharmacy operations consist of sales of prescription and over the counter drugs. These revenues are recognized at a point in time, upon delivery of prescription and over the counter drugs to the patient. Fred Hutch sends billing information to the insurance companies at the time of prescription fulfillment. Patient responsible portion is billed at the time of prescription pick up.

Fred Hutch has elected to apply the optional exemption in FASB Accounting Standards Codification (ASC) 606-10-50-14a *Revenue from Contracts with Customers* as all Fred Hutch's performance obligations relate to contracts with a duration of less than one year. As such, Fred Hutch is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period as permitted in ASC 606-10-50-14a. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient clinical services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within one and a half weeks after the end of the reporting period.

For patients that do not qualify for financial assistance, Fred Hutch recognizes that a portion of their patients will be unable or unwilling to pay for the services provided. Fred Hutch determines its estimate of implicit price concessions based on historical collection experience by primary payor class of patients. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Fred Hutch expects to collect based on its collection history with those patients.

Changes to the initial estimate of the transaction price are recorded as adjustments to patient service revenue in the period of the change while subsequent changes that are determined to be the result of an adverse change in the payor's ability to pay are recorded as bad debt expense.

(j) Charity

Fred Hutch provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because Fred Hutch does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as revenue. The estimated net cost of financial assistance provided was approximately $3,581 in 2022. The net cost of financial assistance was calculated using a percentage of cost to charges, which was 45% in 2022. The number of financial assistance patients served was 1,107 in 2022.

(k) Research Grants and Contracts Revenue

Fred Hutch recognizes revenue from grants and contracts on the research it performs. Grantors include both federal and nonfederal sponsors with approximately 86% of Fred Hutch's research revenue derived from federal agencies for the year ended June 30, 2022.

Research grants and contracts that represent exchange transactions are recognized as revenue as performance obligations are satisfied by achieving milestones or meeting barriers as disclosed in the agreement.

Research grants and contracts that represent non-exchange transactions are recognized as grant revenue in the period Fred Hutch meets the conditions for revenue recognition, namely when it incurs reimbursable program expenditures.

Fred Hutch has estimated that contingent contributions associated with grants and contracts that do not meet the requirements for revenue recognition are estimated at $318,827 as of June 30, 2022.

(l) Deferred Revenue and Grants and Contracts Receivable

Deferred revenue represents grant and contract funds received in advance for research to be performed by Fred Hutch in future periods. When Fred Hutch has received more funds than it has earned for a project, the difference is recorded as deferred revenue. When Fred Hutch has earned more revenue than project funds received, a receivable from the funding agency is recognized to the extent of remaining funding commitments in the grant and contracts receivable.

(m) Donor-Restricted Contributions

Unconditional promises to give cash and other assets to Fred Hutch 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.

(n) Perpetual Trusts and Charitable Remainder Trusts

Fred Hutch is the beneficiary of irrevocable perpetual trusts and charitable remainder trusts for which Fred Hutch is not the trustee. These funds held in trust by others represent resources neither in the possession nor under the control of Fred Hutch and are administered by third party-trustees.

When Fred Hutch is notified of the existence of an irrevocable perpetual trust and can reasonably value its interest, Fred Hutch 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 Fred Hutch is notified of an irrevocable charitable remainder trust for which it is not the trustee, Fred Hutch 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 Fred Hutch'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. At June 30, 2022, there was $3,428 of charitable remainder trusts for which Fred Hutch is not the trustee are reflected as a receivable from trusts that are included in other current assets in the accompanying consolidated statement of financial position.

(o) 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.

(p) Net Assets with Donor Restrictions

Donor restricted net assets include amounts restricted for time or purpose and amounts that are restricted in perpetuity. Fred Hutch's net assets restricted in perpetuity consist of various endowment funds and Fred Hutch'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).

(q) Functional Expense Allocation Methodology

Fred Hutch's consolidated financial statements report certain categories of expenses that are attributable to more than one function. These expenses are allocated based on the appropriate metrics and consistently applied. Management believes the basis of allocation among related program or supporting functions is reasonable.

(r) Statement of Activities

The statement of activities describes the results of financial events included in the change in net assets. Contributions received are recorded either with or without donor restrictions. Investment income may be donor restricted or without donor restriction. Research grants and contracts revenue 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.

(Continued)

(s) Commercialization Income

Fred Hutch 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 within Service and Other Income.

(t) Federal Income Taxes

Fred Hutch 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 Fred Hutch.

(u) Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, Not--for--Profit Entities (Topic 958): Presentation and Disclosures by Not--for--Profit Entities for Contributed Nonfinancial Assets. This ASU changes the presentation and disclosure requirements for not--for--profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. Fred Hutch has implemented ASU 2020-07 and all provisions are included in the consolidated financial statements.

(4) Due from Government Agencies

Fred Hutch 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 Fred Hutch 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 for a year are generally incorporated with the federal government through future rates. No estimated settlement was recorded as of June 30, 2022.

(5) Availability and Liquidity

Fred Hutch 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 statements of financial position are expected to be readily available for general expenditures within one year:

(In thousands)

Financial assets:		
Cash and cash equivalents	$	365,050
Assets whose use is limited		170,635
Patient accounts receivable, net		145,450
Grants and contracts receivable, net		72,067
Other current assets		17,596
Other assets (a)		177,884
Inves tments		917,729
Total financial assets, at year-end		1,866,411
Less those unavailable for general expenditures within one year:		
Assets whose use is limited (c)		170,635
Other assets (b)		152,020
Investments (c)		148,420
Total unavailable for general expenditures within one year		471,075
Financial assets available for general expenditures within one year	$	1,395,336

a. Other Assets include the UW promissory note to Fred Hutch, notes and pledges receivable, other assets and VAT recoverable, net of values.

b. Other assets of $152,020 as of June 30, 2022 are classified as unavailable within one year. This amount includes $140,089 for the UW promissory note to Fred Hutch with a term of 10 years, $4,900 of pledges for donor restricted endowments, $3,614 of deferred gifts to be collected beyond one year, and $3,417 of other amounts.

c. Assets whose use is limited totaling $170,635 and investments totaling $148,420 as of June 30, 2022, are considered unavailable within one year. The investment total amount includes $4,531 required reserves for charitable annuities, $143,889 of donor restricted endowment funds, net of appropriations for expenditures in 2022 in the amount of $5,880.

As part of Fred Hutch’s liquidity management, it makes financial assets available based on forecasted liquidity requirements. Fred Hutch invests cash in excess of current requirements in short-term-investments. In the event of unanticipated liquidity needs, Fred Hutch has committed lines of credit in the amount of $30,000. If necessary, it can also increase liquidity from long-term investments.

(6) Investments

Donor restricted, board-designated and undesignated 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 – Quoted prices (unadjusted) in active markets accessible at the measurement date for identical investments.
- Level 2 – Inputs based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, data other than quoted prices that are observable for the asset or liability, and data 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 unobservable 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.

Management classifies investments expected to mature or be sold within the following year or not designated or restricted for other purposes as short-term investments. Fred Hutch has designated $767,960 of investments as short-term as of June 30, 2022.

(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 to 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, 2022.

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 Fred Hutch'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 as of June 30, 2022:

	June 30, 2022	Level 1	Level 2	Level 3
Investments measured by fair value level:				
Cash and cash equivalents imbedded in investment	$ 7,876	7,876	—	—
U.S. Treasury notes and bills	34,460	34,460	—	—
Global equity securities and mutual funds	384,892	382,848	2,044	—
Governments, mortgage, and corporate debt funds	381,916	182,622	199,294	—
Commodity investments and funds	11,767	11,767	—	—
Other equity securities	10,317	9,350	—	967
Total investments by fair value level	$ 831,228	628,923	201,338	967
Investments measured using NAV:				
Global equity securities and mutual funds	43,262			
Global real estate funds	123			
Private equity and venture capital funds	14,976			
Directional hedge securities	28,140			
Total investments measured using NAV	86,501			
Total investments	$ 917,729			

(In thousands)

		June 30, 2022	Level 1	Level 2	Level 3
Investments measured by fair value level:					
Assets:					
Beneficial interest in charitable remainder trusts	$	3,428	—	—	3,428
Beneficial interest in perpetual trusts		32,460	—	—	32,460
Assets whose use is limited		73,930	73,930	—	—
Liabilities:					
Deferred credit on cash flow hedges	$	(18,075)	—	(18,075)	—

There was no material activity in Level 3 investments during the current year. No new charitable remainder trusts were added during the year ended June 30, 2022.

Fred Hutch's interests in certain non-readily 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 Fred Hutch 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, 2022	Redemption or liquidation	Days notice	Unfunded commitment
Global equity securities and mutual funds	$	43,262	Monthly	30	N/A
Global real estate funds		123	Quarterly	90	N/A
Private equity and venture capital funds		14,976	N/A	N/A	12,199
Directional hedge securities		28,140	Qtrly – Every 2 years	30 – 184	N/A
Total investments measured using NAV	$	86,501			

Global equity securities and mutual funds: This investment category includes public equity investments in separately managed accounts, log-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.

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 of the investments in this category can be redeemed within a year.

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.

(In thousands)

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 97% of the investments in this category can be redeemed within next year and 3% can be redeemed in two years.

Fred Hutch'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. Fred Hutch's board designated-investments include funds designated by the board of trustees to function as endowments and funds designated for the clinic expansion. The board of trustees may also elect to remove designations on funds previously designated.

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

Investment income:		
Interest and dividend income	$	19,652
Net realized gains		129,341
Equity in earnings of SCCA investment prior to business combination		22,753
		171,746
Less investment management fees		(846)
Total investment income	$	170,900

(7) Endowments

(a) Return Objectives and Risk Parameters

Fred Hutch has adopted investment and spending policies for its endowment that aim to provide resources to its programs. The endowment includes donor restricted-funds as well as board designated-investments. Under this policy, as approved by the investment committee of Fred Hutch's board of trustees, the primary objective of the investment of the endowment is to provide a rate of total return that exceeds the rate of inflation (as represented by the Consumer Price Index All-Urban Consumers) plus 5% over the long term. Fred Hutch 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. Fred Hutch 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.

(In thousands)

(b) Strategies Employed for Achieving Objectives

Fred Hutch 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. Fred Hutch utilizes an efficient frontier approach to establish the appropriate asset allocation balancing long-term-return objectives within prudent risk constraints. The investment committee of Fred Hutch's Board of Trustees review Fred Hutch's asset allocation at least once a year.

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

Fred Hutch'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. Certain board designated-funds held for future capital and debt obligations do not make distributions. For the remaining endowment funds, Fred Hutch appropriates distributions to support its programs.

(d) Funds with Deficiencies

Unless otherwise agreed with the donor, Fred Hutch'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, 2022, there were 9 funds with a fair market value below the original corpus value.

(e) Endowment Allocation and Activity

The following tables show the net asset composition of Fred Hutch's endowment funds by type of fund as of June 30, 2022:

		Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds	$	—	102,032	102,032
Board designated endowment funds		400,424	—	400,424
	$	400,424	102,032	502,456

(In thousands)

The following tables show the activity that has occurred within the endowment net asset accounts for the year ended June 30, 2022:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	488,350	109,722	598,072
Investment return:				
Investment income		8,500	1,925	10,425
Net realized gain/(loss)		56,919	4,461	61,380
Net appreciation (depreciation) – unrealized		(127,464)	(14,115)	(141,579)
Total investment return		(62,045)	(7,729)	(69,774)
Contributions		—	11,565	11,565
Distributions		—	(167)	(167)
Board transfers In/(Out)		(23,466)	(7,637)	(31,103)
Appropriation of endowment assets for expenditure		(2,415)	(3,722)	(6,137)
Endowment net assets, end of year	$	400,424	102,032	502,456

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

(8) Land, Buildings, and Equipment

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

Land	$	142,661
Buildings and improvements		703,015
Equipment		255,105
Construction in progress		210,632
		1,311,413
Less accumulated depreciation		(497,879)
Total land, buildings and equipment, net of accumulated depreciation	$	813,534

(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. Construction in progress includes $17,487 of capitalized interest, of which $2,214 was capitalized in the year ended June 30, 2022.

Depreciation expense for the fiscal year ended June 30, 2022, amounted to approximately $39,993.

(9) Long-Term-Debt

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

Washington Health Care Facilities Authority Revenue Bonds, Series 2022C, due in varying amounts through 2052 plus interest at a variable interest rate	$	55,000
Washington Health Care Facilities Authority Revenue Bonds, Series 2022D, due in varying amounts through 2034 plus interest at a fixed interest rate		103,545
Washington Health Care Facilities Authority Revenue Bonds, Series 2022E, due in varying amounts through 2052 plus interest at a variable interest rate		125,000
Taxable Bonds, Series 2022, due in 2052 plus interest at a fixed interest rate		300,000
Washington Health Care Facilities Authority Revenue Bonds, Series 2021, (SCCA), due in varying amounts through 2048 plus interest at fixed rates, net of unamortized bond premium of $6,129		43,054
Washington Health Care Facilities Authority Revenue Bonds, Series 2020, (SCCA), due in varying amounts through 2055 plus interest at fixed rates, net of unamortized bond premium of $41,551		274,476
Taxable Bonds, Series 2020, (FHCRC) due in varying amounts through 2050 at a fixed interest rate		121,225
Washington Health Care Facilities Authority Revenue Bonds, Series 2014, (SCCA), due in varying amounts through 2055 plus interest at fixed rates, net of unamortized bond premium of $3,929		71,854
Notes payable, net of unamortized discount $380		6,062
		1,100,216
Less current portion		(3,959)
Less deferred financing costs		(7,257)
Long-term debt, net	$	1,089,000

All of the Revenue Bonds above are subject to the terms of Fred Hutch’s Master Trust Indenture which defines the members of the Obligated Group for the long-term debt, establishes a collateral pledge on the gross receivables of the Obligated Group and provides covenants, including a requirement to maintain a debt service coverage ratio of 1.10 to 1.00.

On March 10, 2022, Fred Hutch issued $166,035 Taxable Bonds, Series 2022A as the first tranche of a taxable bridge loan (Bridge Loan). The proceeds of this tranche of the Bridge Loan were used to establish escrow accounts for the purpose of defeasing $66,765 of the Washington Health Care Facilities Authority Revenue Bonds, Series 2015 (Fred Hutchinson Cancer Research Center) and $92,110 of the Washington Health Care Facilities Authority Revenue Bonds, Series 2017B (Fred Hutchinson Cancer Research Center).

On March 31, 2022, Fred Hutch issued $404,840 Taxable Bonds, Series 2022B as the second tranche of the Bridge Loan for the purpose of establishing an escrow account to defease $19,015 of the Washington Health Care Facilities Authority Revenue Bonds, Series 2017A (Fred Hutchinson Cancer Research Center), establishing an escrow account to defease $85,715 of the Washington Health Care Facilities Authority Revenue Bonds, Series 2017C (Fred Hutchinson Cancer Research Center), and buying out the Seattle Children's interest in the SCCA.

On June 30, 2022, Fred Hutch issued $283,540 of tax--exempt revenue bonds Series 2022 C,D,E, and $300,000 Taxable Bonds Series 2022. The proceeds were used to refinance the Bridge Loan, finance general corporate purposes of Fred Hutch and pay for the costs of issuing the Series 2017C, D, E Bonds and the Taxable Bonds Series 2022. The Series 2022D Bonds have a fixed interest rate of 3.34% while the Taxable Bonds Series 2022 have a fixed interest rate of 4.97%. The Series 2022C Bonds and Series 2022E Bonds have a variable interest rate.

In fiscal year 2021, Fred Hutch borrowed the proceeds of the Washington Health Care Facility Authority's $37,605 Revenue Bonds, Series 2021 (the 2021 Bonds). The bonds are issued for the purpose of providing the funds necessary, together with certain other moneys, to (1) finance, refinance, or reimburse a portion of the costs of acquisition of Seattle Proton Holdings, construction, remodeling, renovating, and equipping of certain health care facilities owned and operated by the Center, (2) redeem all of the outstanding Wisconsin Public Finance Authority Revenue Bonds, Series 2018A (Seattle Proton Center, LLC) acquired in the Business combination, and (3) pay certain costs incurred in the issuance and sale of the 2021 Bonds. The 2021 Bonds have fixed interest rates ranging from 3.00% to 5.00%

In fiscal year 2021, Fred Hutch borrowed the proceeds of the Washington Health Care Facility Authority's $232,925 Revenue Bonds, Series 2020 (the 2020 Bonds). The Bonds are issued for the purpose of providing the funds necessary to (1) finance, refinance, or reimburse a portion of the costs of acquisition, construction, remodeling, renovating and equipping certain health care facilities owned and operated by Fred Hutch(2) advance refund and defease all of the Washington Health Care Facilities Authority Revenue Bonds, Series 2010 (Seattle Cancer Care Alliance) previously owned, (3) fund capitalized interest and (4) pay certain costs incurred in the issuance costs of the 2020 bonds. The 2020 bonds have fixed interest rates ranging from 4.00% to 5.00%.

In fiscal year 2020, Fred Hutch issued taxable bonds (the 2020 Taxable Bonds) with a par amount of $121,225 and a maturity date of January 1, 2050. The 2020 Taxable Bonds are in varying amounts with a fixed average coupon rate of 3.95%. The proceeds were used to defease the Washington Health Care Facilities Authority Revenue Bonds, Series 2011A (Fred Hutchinson Cancer Research Center). The 2020 Taxable Bonds were issued under a public bond placement.

(Continued)

(In thousands)

In fiscal year 2015, Fred Hutch borrowed the proceeds of the Washington Health Care Facility Authority's $86,950 Revenue Bonds, Series 2014 (the 2014 Bonds). The 2014 Bonds are issued for the purpose of providing the funds necessary to advance refund and defease all the Washington Health Care Facility Authority, Revenue Bonds, Series 2008 (Seattle Cancer Care Alliance), and pay certain costs in connection with the issuance of the 2014 Bonds. The 2014 Bonds have fixed interest rates ranging from 4.00% ot 5.00%.

As a result of the business combination with Seattle Proton Holdings and SCCA in February 2021, Fred Hutch assumed two notes payable. The remaining principal and accrued interest balances totaling $5,529 and $533 respectively, on June 30, 2022. The terms of the notes state the unsecured debt accrues interest at a rate of 5.0% per year. Future payments of principal and interest on these notes will be made only from excess cash generated by the proton facility as defined in the agreements, if certain financial ratios have been met, and the aggregate amount of all such payments, when combined with payments made on the intercompany note do not exceed $1,100 for any fiscal year.

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

2023	$	3,959
2024		13,729
2025		14,238
2026		14,769
2027		15,315
Thereafter		986,977
		1,048,987
Plus unamortized net premiums		51,229
	$	1,100,216

(10) Retirement Plan

Fred Hutch has a 403(b) defined contribution-plan for its salaried employees. Employees are generally eligible after one year of service. Fred Hutch 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, Fred Hutch contributes 10% of compensation up to the Social Security wage base limit and 15% above the limit.

Retirement plan contributions for the year ended June 30, 2022, were $22,021.

(11) Annuities

Fred Hutch 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 $2,364 on June 30, 2022. The reserve fund requirement as determined by actuarial means was $2,701 on June 30, 2022. 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%. Fred Hutch maintains segregated funds that exceed the actuarial value of the annuity liability as required by law.

(In thousands)

(12) Leases

As a part of the business combination (refer to Note 2), Fred Hutch assumed various operating and one finance lease for clinical, office, and equipment.

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, 2022 were as follows:

Operating lease costs	$	15,191
Finance lease costs		290
Total lease costs	$	15,481

Weighted average remaining lease term and discount rates are as of June 30:

Weighted average remaining lease term in years:	
Operating lease	16.67
Finance lease	4.14
Weighted average discount rate:	
Operating lease	3.21 %
Finance lease	3.76 %

(Continued)

(In thousands)

Supplemental cash flow information and noncash activity related to leases are as follows on June 30:

	Balance Sheet Classification		2022
Assets:			
Operating Right-of-Use	Lease right-of-use assets	$	221,176
Finance Right-of-Use	Lease right-of-use assets		4,376
Total Leased Assets		$	225,552
Liabilities:			
Current			
Operating	Current portion of operating right-of-use lease liabilities	$	13,076
Finance	Current portion of operating right-of-use lease liabilities		1,010
Non-current			
Operating	Long-term right-of-use lease liabilities, net of current portion		223,091
Finance	Long-term right-of-use lease liabilities, net of current potion		3,366
Total Leased Liabilities		$	240,543

The cash paid for amounts included in lease costs was $11,598 for operating leases and $193 for financing leases during the year ended June 30, 2022.

Maturities of lease liabilities under noncancelable leases as of June 30, 2022, are as follows:

		Operating	Finance	Total
2023	$	20,121	1,158	21,279
2024		20,255	1,158	21,413
2025		19,618	1,158	20,776
2026		19,692	1,158	20,850
2027		20,138	95	20,233
Thereafter		213,093	—	213,093
Total undiscounted cash flows		312,917	4,727	317,644
Less: Imputed Interest		(76,750)	(351)	(77,101)
Present value of lease liabilities	$	236,167	4,376	240,543

Real estate obligations exclude legally binding minimum lease payments for leases signed but not yet commenced as of June 30, 2022, in amounts of $2,529 for operating lease.

(13) Contingencies

(a) Litigation and Compliance with Laws and Regulations

Fred Hutch 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 effects on Fred Hutch'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 Fred Hutch 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.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Through its compliance program, Fred Hutch maintains an effective and safe program for reporting and addressing potential regulatory concerns. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

(b) Contingent Liability

Fred Hutch received federal grant funding for a portion of the construction of its South Lake Union Campus. Because Fred Hutch 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. Fred Hutch 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.

(Continued)

(In thousands)

(c) Impact from COVID-19

The impacts from the COVID-19 pandemic continue to evolve and management continues to monitor and attempt to mitigate the impacts. 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 Fred Hutch remains uncertain and the accompanying consolidated financial statements include no adjustments relating to any potential future effects of this pandemic beyond June 30, 2022

(14) Functional Expenses

Fred Hutch provides clinical healthcare and research services. The following tables present expenses by both their nature and function for the years ended June 30, 2022:

		Program services Clinical	Program services Research	Management and General	Fundraising	Grand Total
Salaries, wages and benefits	$	47,517	305,394	56,778	8,658	418,347
Subawards		—	209,908	(6)	—	209,902
Purchased services		50,815	72,953	19,239	3,332	146,339
Collaborative arrangement		—	11,661	—	—	11,661
Supplies		104,681	44,960	2,630	22	152,293
Rent, utilities and maintenance		9,696	20,051	14,265	7	44,019
Interest and depreciation		4,591	42,802	8,146	153	55,692
Other		2,786	17,352	16,855	2,258	39,251
Total operating expenses	$	220,086	725,081	117,907	14,430	1,077,504

(15) Professional Liability Insurance

Fred Hutch has claims made-professional and general liability insurance for 2022. Fred Hutch has accrued an actuarial estimate of unreported instances and claims as of June 30, 2022, which is included in accounts payable and accrued liabilities.

(16) Related Party-Transactions

Fred Hutch purchases many services and products from its related parties. By leveraging the existing infrastructure of its related parties, Fred Hutch has financially benefited from avoiding duplication of overhead and services. Each year Fred Hutch negotiates services and costs with its related parties. Fred Hutch purchases various goods and services from its related parties for use in the operation of its 20-bed licensed hospital and its ambulatory cancer care services. Purchases include physician and other clinical and non-clinical labor, certain support functions such as information technology, facility and equipment rental, pharmaceutical and other medical supplies, data collection and analysis, and license rights to related party organizations’ names.

(In thousands)

Fred Hutch also sells various goods and services to its related parties including programmatic direction for cancer services, other clinical and non-clinical labor, and facility rental.

The following table summarizes, by related party, the impact of these transactions to the accompanying consolidated statements of activities and financial position.

	Service and other income	Purchased services	Supplies	Other	Total
UW	$ 3,237	$ 35,444	2,500	1,284	39,228

Amounts due from or due to related parties included in other current assets and other current liabilities for the various transactions described above are as follows on June 30:

	Due from related parties	Due to related parties
UW	$ 4,098	16,907

(17) Service and Other Income

Service and other income includes income from noncore sources, including service agreements, commercialization (note 2), related party-transactions (note 16), professional services, core resources, rent, parking, and similar activities. Fred Hutch had $48,340 of service and other income for the year ended June 30, 2022.

(18) Net Patient Service Revenue

Fred Hutch has agreements with third-party payors that provide payments to Fred Hutch at amounts different from its established rates. Patient services revenues were billed to the following payors for the year ended June 30, 2022:

Commercial	$ 168,146
Medicare	91,283
Medicaid	8,111
Self-pay and other	2,389
Total patient services revenue	$ 269,929

For the year ended June 30, 2022, revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price) was insignificant.

A summary of the payment arrangements with major third-party payors is as follows:

(a) Commercial

Fred Hutch negotiates contracts for reimbursement of care provided to patients with commercial third-party insurance payors.

For certain commercial payors, Fred Hutch has negotiated a single payment (case rate) for a defined period of care (case rate period) related to providing a bone marrow or stem cell transplant. All of Fred Hutch's case rate contracts specify a minimum and maximum payment calculation based on a review of actual gross charges provided during the case rate period. In addition to the case rate payments, the case rate contracts also specify negotiated fee-for-service rates for services performed outside of the case rate period. Case rate contracts extend to Fred Hutch related parties. Fred Hutch serves as the collection agent for the case rate payments. All case rate payments are remitted to Fred Hutch, which in turn remits payments to each respective related party for its proportionate share of services rendered. Any liability to related parties has been accrued in accounts payable and accrued expenses on June 30, 2022.

(b) Medicare

Medicare pays for inpatient hospital services under the prospective payment system (PPS) unless the provider is statutorily exempt from PPS (Exempt Hospital). PPS hospitals are paid a predetermined flat rate for inpatient care that is based on the patient's diagnosis at discharge while Exempt Hospitals are paid based on the "reasonable cost" of the services provided subject to an annual rate of increase limit. Exempt Hospitals receive an interim payment based on a percentage of charges submitted that is adjusted based on the filed cost report. Certain types of cancer hospitals are currently included among the Exempt Hospitals. Fred Hutch's inpatient facility is recognized by Medicare as an Exempt Hospital.

Medicare has historically paid for outpatient services on the basis of the cost of or a portion of the cost of providing the services. The Balanced Budget Act of 1997 required a phased in prospective payment system for outpatient services (OP PPS). The Center's for Medicare and Medicaid Services (CMS), an agency of the United States Department of Health and Human Services, issued regulations implementing OP PPS, which became effective as of August 1, 2000. Before the effective date of OP PPS, the Balanced Budget Refinement Act of 1999 established a "hold harmless" provision for cancer hospitals ensuring that they would be supplemented for certain covered services incurred under OP PPS. Under the hold harmless provision, if the amount of payment the cancer hospital would receive under OP PPS is less than what it would have received before OP PPS' implementation, the amount of payment due to the cancer hospital will be increased by the amount of such difference. As an Exempt Hospital, Fred Hutch qualifies for payment under the hold harmless provision.

The Budget Control Act of 2011 requires automatic spending reductions beginning April 1, 2013 to reduce the federal deficit, including Medicare spending reductions of up to 2% for a fiscal year, with a uniform percentage reduction across all Medicare programs. In 2013, the CMS notified Fred Hutch that Medicare fee-for-service claims with dates of service or dates of discharge on or after April 1, 2013 will incur a 2% reduction in Medicare payments.

Settlements with third-party payors for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Fred Hutch's historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalizations of prior-year cost reports and other third-party settlement estimates resulted in an increase of net patient service revenues of approximately $1,697 in 2022.

(c) Medicaid

Fred Hutch is paid for services provided to Medicaid patients under the state's fee schedule, which is based on a modification of Medicare's prospective payment systems for inpatient and outpatient care. In 2009, the State of Washington enacted a safety net assessment program involving Washington State hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services.

(d) Self-Pay & Other Insurers

Self-pay patients are those who do not quality for government program payments, such as Medicare and Medicaid, do not have some form of private insurance, and therefore are responsible for their own medical bills. Despite comprising a smaller percent of Fred Hutch's patient service revenues, the risk of collectability is higher with self-pay accounts. Any increases in uninsured individuals or changes to the payor mix could increase amounts due from individuals.

Other Insurers are patients whose funding stems from TRICARE and other insurers such as workers' compensation. TRICARE is the Department of Defense's health care program for members of the armed forces. For inpatient clinical services, TRICARE reimburses Fred Hutch based on a Diagnosis Related Group (DRG) system modeled on the Medicare inpatient PPS. For outpatient clinical services, TRICARE reimburses Fred Hutch based on a PPS that is similar to that utilized for services provided to Medicare beneficiaries.

(In thousands)

(19) Concentration of Credit Risk

Fred Hutch grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Percentage of outstanding patient accounts receivable by third-party payor and patients are as follows as of June 30, 2022:

Patient accounts receivable:	
Commercial	51%
Medicare	35
Medicaid	11
Self-pay and other	3
Total	100%

(20) 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

Fred Hutch 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 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 Fred Hutch is fixed at 3.60% while the counterparty pays Fred Hutch 67% of an indexed rate. The second swap has a notional value of $52,723. The interest rate paid by Fred Hutch is fixed at 3.53% while the counterparty pays Fred Hutch 89% of an indexed rate.

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 $18,075 on June 30, 2022.

(b) Collateral Posted with Swap Counterparty

The swap agreements contain terms that require Fred Hutch to post collateral with the counterparty if certain conditions are met, including when the fair value amount to terminate the swaps exceeds $40,000 as of June 30, 2022. No collateral amounts were required to be posted as of June 30, 2022.

(c) Currency hedge activity

Fred Hutch purchases forward contracts for South African Rand (ZAR) currency. This allows Fred Hutch to mitigate currency risk related to HCRISA research activities in South Africa. Outstanding forward contracts that obligate Fred Hutch to purchase ZAR on June 30, 2022 was R34,000 ($2,171 USD).

(21) Subsequent Events

Fred Hutch has evaluated subsequent events through October 14, 2022, the date the consolidated financial statements were issued, and has determined there are no material subsequent events.