



FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

FRED HUTCHINSON CANCER RESEARCH CENTER

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Fred Hutchinson Cancer Research Center:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fred Hutchinson Cancer Research Center (the Center), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Center as of June 30, 2021 and 2020, 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.

KPMG LLP

Seattle, Washington
October 15, 2021

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2021 and 2020

(In thousands)

Assets	2021	2020
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 40,926	36,454
Restricted cash	1,700	20,000
Grants and contracts receivable, net	63,049	44,862
Notes and pledges receivable, net	13,532	17,600
Other receivables, net	16,890	16,989
Investments	749,562	573,687
Land, buildings, and equipment, net of accumulated depreciation of \$469,322 and \$442,946, respectively	418,675	409,697
Right of use asset and lease receivable	136,250	111,774
Beneficial interest in perpetual trusts	36,871	28,941
Beneficial interest in net assets of SCCA	253,936	203,156
Other assets	<u>7,762</u>	<u>6,594</u>
Total assets	\$ <u>1,739,153</u>	<u>1,469,754</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 29,989	22,255
Accrued payroll and related costs	41,979	33,563
Deferred revenue	46,693	39,128
Lease liability	120,197	124,106
Long-term debt	391,881	397,996
Deferred credit on cash flow hedges	<u>39,872</u>	<u>56,131</u>
Total liabilities	<u>670,611</u>	<u>673,179</u>
Net assets:		
Without donor restriction	852,033	607,635
With donor restriction	<u>216,509</u>	<u>188,940</u>
Total net assets	<u>1,068,542</u>	<u>796,575</u>
Total liabilities and net assets	\$ <u>1,739,153</u>	<u>1,469,754</u>

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2021

(In thousands)

	2021		
	Without donor restriction	With donor restriction	Total
Revenue and other support:			
Research grants and contracts	\$ 743,186	—	743,186
Contributions	31,186	17,412	48,598
Investment income	102,854	3,056	105,910
Clinical service fee revenue	16,306	—	16,306
Service and other income	70,018	—	70,018
Net assets released from restrictions	18,125	(18,125)	—
Total revenue	<u>981,675</u>	<u>2,343</u>	<u>984,018</u>
Expenses:			
Program services and research	755,404	—	755,404
Management and general	75,757	—	75,757
Fundraising	13,105	—	13,105
Total expenses	<u>844,266</u>	<u>—</u>	<u>844,266</u>
Change in net assets from operations	<u>137,409</u>	<u>2,343</u>	<u>139,752</u>
Other changes in net assets:			
Change in net unrealized fair value of investments	90,417	17,296	107,713
Change in net foreign currency translation	814	—	814
Change in value of split-interest agreements	—	7,930	7,930
Change in net unrealized fair value of swap instruments	15,758	—	15,758
Total other changes in net assets	<u>106,989</u>	<u>25,226</u>	<u>132,215</u>
Total changes in net assets	244,398	27,569	271,967
Net assets balance at beginning of year	<u>607,635</u>	<u>188,940</u>	<u>796,575</u>
Net assets balance at end of year	<u>\$ 852,033</u>	<u>216,509</u>	<u>1,068,542</u>

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	<u>642,905</u>	<u>11,713</u>	<u>654,618</u>
Expenses:			
Program services and research	558,525	—	558,525
Management and general	86,054	—	86,054
Fundraising	18,726	—	18,726
Total expenses	<u>663,305</u>	<u>—</u>	<u>663,305</u>
Change in net assets from operations	<u>(20,400)</u>	<u>11,713</u>	<u>(8,687)</u>
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	<u>(19,157)</u>	<u>279</u>	<u>(18,878)</u>
Total changes in net assets	<u>(39,557)</u>	<u>11,992</u>	<u>(27,565)</u>
Net assets balance at beginning of year	<u>647,192</u>	<u>176,948</u>	<u>824,140</u>
Net assets balance at end of year	\$ <u><u>607,635</u></u>	<u><u>188,940</u></u>	<u><u>796,575</u></u>

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 271,967	(27,565)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,269	30,535
Equity in earnings of SCCA	(50,780)	(24,998)
Change in net unrealized (gains) losses in fair value of investments	(107,713)	(10,775)
Change in value of split-interest agreements	(7,930)	1,365
Change in fair value of swap instruments	(16,259)	23,703
Net realized gains on investments	(42,605)	(2,684)
Gain on leases with SCCA	(29,500)	—
Loss on defeasance of debt	—	4,330
Noncash contributions	(11,760)	(14,967)
Contributions with donor restrictions in perpetuity	(4,217)	(14,507)
Changes in assets and liabilities:		
Grants and contracts receivable	(18,187)	4,265
Notes and pledges receivable	4,068	(3,920)
Other receivables	99	(2,451)
Other assets	(1,168)	(1)
Accounts payable and accrued liabilities	6,966	6,369
Accrued payroll and related costs	8,416	3,332
Change in right of use assets and lease liability	1,115	(23,359)
Deferred grant revenue	7,565	12,332
Net cash provided by (used in) operating activities	<u>45,346</u>	<u>(38,996)</u>
Cash flows from investing activities:		
Additions to land, buildings, equipment, and rental property	(44,014)	(60,139)
Purchases of investments	(38,529)	(69,541)
Sales of investments	24,079	125,627
Net cash used in investing activities	<u>(58,464)</u>	<u>(4,053)</u>
Cash flows from financing activities:		
Proceeds from new debt	—	121,225
Additions to deferred financing costs	(5)	(1,409)
Repayment of debt	(5,575)	(79,245)
Contributions restricted for long-term investment	4,217	29,474
Net cash (used in) provided by financing activities	<u>(1,363)</u>	<u>70,045</u>
Net (decrease) increase in cash and cash equivalents	(14,481)	26,996
Cash, cash equivalents and restricted cash at beginning of year	<u>57,107</u>	<u>30,111</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>42,626</u>	\$ <u>57,107</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 14,929	13,984
Capital expenditures in accounts payable	3,125	2,357
Noncash leases with SCCA	29,500	—

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Functional Expenses

Years ended June 30, 2021 and 2020

(In thousands)

	Program services and research	Management and general	Fundraising	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2021:				
Salaries and wages	\$ 230,604	33,630	6,817	271,051
Employee benefits	61,701	8,029	1,622	71,352
Subawards	210,559	—	—	210,559
Purchased services	64,259	9,279	1,578	75,116
Supplies	91,352	1,043	27	92,422
Other	33,510	7,632	2,602	43,744
Rent, utilities, and maintenance	18,815	10,457	233	29,505
Interest and amortization	13,394	1,245	74	14,713
Depreciation	31,210	4,442	152	35,804
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total June 30, 2021	\$ <u>755,404</u>	<u>75,757</u>	<u>13,105</u>	<u>844,266</u>
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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total June 30, 2020	\$ <u>558,525</u>	<u>86,054</u>	<u>18,726</u>	<u>663,305</u>

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(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 \$(12,643) and \$(10,774) as of June 30, 2021 and 2020, 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 \$ 6,937 and \$7,184 as of June 30, 2021 and 2020, 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 \$2,757 and \$2,860 as of June 30, 2021 and 2020, respectively, are not considered pledged assets (obligations) under the Center's debt covenants.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

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

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported

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(In thousands)

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 \$507 and \$584 as of June 30, 2021 and 2020, 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 \$0 and \$653 as of June 30, 2021 and 2020, respectively. The Center does not include cash equivalents included within investments in the statement of cash flows given the long-term nature.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 40,926	36,454
Restricted cash	1,700	20,000
Cash included within investments	<u>—</u>	<u>653</u>
Total cash and cash equivalents	<u>\$ 42,626</u>	<u>57,107</u>

(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. Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever

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(In thousands)

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, 2021 or 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 85% and 75% of the Center's research revenue derived from federal agencies for the years ended June 30, 2021 and 2020, respectively.

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 the Center meets the conditions for revenue recognition, namely when it incurs reimbursable program expenditures.

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(In thousands)

Total grants and contracts revenue was \$743,186 and \$460,350 for the years ended June 30, 2021 and 2020, respectively.

The Center has estimated that contingent contributions that do not meet the requirements for revenue recognition are estimated at \$663,000 as of June 30, 2021.

(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. When the Center has received more funds than it has earned for a project, the difference is recorded as deferred revenue. When the Center 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.

(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

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(In thousands)

accompanying consolidated statements of financial position. These amounts as of June 30, 2021 and 2020 were \$3,740 and \$1,121, 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 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.

(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 within Services and Other 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 August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing

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(In thousands)

implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. The Center is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements.

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. The Center is currently assessing the impact that ASU 2020-07 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

(s) Reclassifications

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

(3) Due from Government Agencies

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

The fixed federal F&A rate for grant and contract supported programs is determined by prospective negotiation with the Department of Health and Human Services (DHHS) based on an estimate of the costs that will be incurred during the period to which the rate applies. Any difference between the costs recovered through the fixed F&A cost rate and actual F&A costs for a year are generally incorporated with the federal government through future rates. No estimated settlement was recorded as of June 30, 2021 or 2020.

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Consolidated Financial Statements

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(In thousands)

(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 statements of financial position are expected to be readily available for general expenditures with one year:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 40,926	36,454
Accounts receivables (a)	93,844	79,802
Investments	<u>749,562</u>	<u>573,687</u>
Total financial assets, at year-end	<u>884,332</u>	<u>689,943</u>
Less those unavailable for general expenditures within one year:		
Accounts receivables (b)	17,579	16,970
Investments (c)	<u>102,389</u>	<u>81,614</u>
Total unavailable for general expenditures within one year	<u>119,968</u>	<u>98,584</u>
Financial assets available for general expenditures within one year	\$ <u><u>764,364</u></u>	\$ <u><u>591,359</u></u>

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

(b) Accounts receivable of \$17,579 and \$16,970 as of June 30, 2021 and 2020, respectively, are classified as unavailable within one year. This amount includes \$5,392 and \$6,904 of pledges for donor restricted endowments, \$4,838 and \$5,818 of pledges to be collected beyond one year, as well as \$7,350 and \$4,247 of distributions from charitable remainder trusts anticipated to happen beyond one year.

(c) Investments totaling \$102,389 and \$81,614 as of June 30, 2021 and 2020, respectively, are considered unavailable within one year. This amount includes \$4,257 and \$3,562 of required reserves for charitable annuities, donor restricted endowment funds, net of appropriations for expenditures in 2021 and 2020 in the amount of \$98,132 and \$78,052 respectively.

As part of the Center's liquidity management, it makes financial assets available based on forecasted liquidity requirements. The Center invests cash in excess of current requirements in short-term investments. If necessary, it can increase liquidity from long-term investments.

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(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 – 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.

(a) *Fair Value Calculation Methodology*

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

Cash and cash equivalents – The carrying amount of cash designated for investment approximates fair value due the short-term maturity of those instruments (90 days or less).

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

Long-term debt – The carrying amount of long-term debt with variable interest rates approximates fair value because interest rates are adjusted either daily or weekly for the variable rate demand bonds. The carrying amount of the fixed rate debt is calculated based upon the net present value of the future cash outflows of the associated fixed rate debt discounted at the interest rates in effect as of June 30, 2021.

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.

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(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, 2021 and 2020:

		2021		
	June 30, 2021	Level 1	Level 2	Level 3
Investments measured by fair value level:				
Cash and cash equivalents	\$ —	—	—	—
Global equity securities and mutual funds	383,402	380,955	2,447	—
Governments, mortgage, and corporate debt funds	243,036	215,142	27,894	—
Commodity investments and funds	9,067	9,067	—	—
Other equity securities	31,086	29,618	—	1,468
Total investments by fair value level	666,591	\$ 634,782	30,341	1,468
Investments measured using NAV:				
Global equity securities and mutual funds	49,203			
Global real estate funds	8			
Private equity and venture capital funds	7,982			
Directional hedge securities	25,778			
Total investments measured using NAV	82,971			
Total investments	\$ 749,562			

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	2021			
	<u>June 30, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Other receivables:				
Beneficial interest in charitable remainder trusts	\$ 3,746	—	—	3,746
Beneficial interest in perpetual trusts	36,871	—	—	36,871
Restricted cash	1,700	1,700	—	—
Liabilities:				
Deferred credit on cash flow hedges	\$ (39,872)	—	(39,872)	—
	2020			
	<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>518,071</u>	<u>\$ 488,181</u>	<u>29,666</u>	<u>224</u>
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	<u>55,616</u>			
Total investments	<u>\$ 573,687</u>			

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	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)	—

There was no material activity in Level 3 investments during the current or prior year. Three charitable remainder trusts were added during the year ended June 30, 2021 resulting in an increase in Level 3 other receivables of \$939.

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		Redemption or liquidation	Days notice	Unfunded commitment
	2021	2020			
Global equity securities and mutual funds	\$ 49,203	33,744	Monthly	30	N/A
Global real estate funds	8	44	Quarterly	90	N/A
Private equity and venture capital funds	7,982	3,148	N/A	N/A	11,520
Directional hedge securities	25,778	18,680	Qtrly – every 2 years	30–184	N/A
Total investments measured using NAV	\$ <u>82,971</u>	<u>55,616</u>			

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 2021 and 2020.

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 2021.

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

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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 98% of the investments in this category can be redeemed within next year and 2% 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:

	2021	2020
Interest	\$ 2,191	2,239
Dividends	10,915	11,233
Net realized gains	42,605	2,684
Equity in earnings of SCCA investment	50,780	24,998
	106,491	41,154
Less investment management fees	(581)	(569)
	\$ 105,910	40,585

(6) Endowments

(a) Return Objectives and Risk Parameters

The Center 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 the Center'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. The Center defines the long term as five years and more. Consistent returns are to be emphasized over individual year results. The endowment should experience risk (volatility and variability of return) no greater than that of the market. The Center defines the market as the portfolio's asset allocation policy applied to the Russell 3000 Index, the Morgan Stanley Capital Europe, Australia, Far East (EAFE) Index or its equivalent, and the Bloomberg Barclays U.S. Aggregate Bond Index.

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

(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, 2021, there were no funds with a fair market value below the original corpus value.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2021 and 2020:

	2021			
	Without donor restrictions	With donor restrictions		Total
		Time or purpose restricted	Perpetually restricted	
Donor-restricted endowment funds	\$ —	33,137	76,585	109,722
Board-designated endowment funds	488,349	—	—	488,349
Total	\$ 488,349	33,137	76,585	598,071

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

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2021 and 2020:

2021					
		Without donor restrictions	With donor restrictions		Total
			Time or purpose restricted	Perpetually restricted	
Endowment net assets, beginning of year	\$	354,535	15,225	70,645	440,405
Investment return:					
Investment income		7,316	1,695	—	9,011
Net realized gain		5,523	1,294	—	6,817
Net unrealized gain		74,268	17,571	—	91,839
Total investment return		87,107	20,560	—	107,667
Contributions		—	—	5,940	5,940
Distributions		—	(426)	—	(426)
Board transfers in/out		47,923	—	—	47,923
Appropriation of endowment assets for expenditure		(1,216)	(2,222)	—	(3,438)
Endowment net assets, end of year	\$	<u>488,349</u>	<u>33,137</u>	<u>76,585</u>	<u>598,071</u>

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	2020			
	Without donor restrictions	With donor restrictions		Total
		Time or purpose restricted	Perpetually restricted	
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	<u>7,532</u>	<u>1,594</u>	<u>—</u>	<u>9,126</u>
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	<u>(1,882)</u>	<u>(2,713)</u>	<u>—</u>	<u>(4,595)</u>
Endowment net assets, end of year	\$ <u>354,535</u>	<u>15,225</u>	<u>70,645</u>	<u>440,405</u>

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

(7) Land, Buildings, and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 51,213	52,389
Buildings and improvements	583,735	544,205
Equipment	238,518	218,470
Construction in progress	<u>14,531</u>	<u>37,579</u>
	887,997	852,643
Less accumulated depreciation	<u>(469,322)</u>	<u>(442,946)</u>
	\$ <u>418,675</u>	<u>409,697</u>

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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 2021 or 2020.

(8) Notes and Pledges Receivable

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

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 4,502	6,825
One to five years	9,305	11,198
Less:		
Unamortized discount	(269)	(417)
Allowance for uncollectible pledges	<u>(6)</u>	<u>(6)</u>
Notes and pledges receivable, net	<u>\$ 13,532</u>	<u>17,600</u>

As of June 30, 2021 and 2020, the gross notes and pledges receivable balances include donor pledges of \$12,290 and \$16,645, 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%.

(9) Long-Term Debt

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

	<u>2021</u>	<u>2020</u>
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates	\$ 72,645	78,220
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	<u>121,225</u>	<u>121,225</u>
	390,710	396,285

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	<u>2021</u>	<u>2020</u>
Deferred financing costs	\$ (2,538)	(3,011)
Unamortized premium	3,709	4,722
	<u>\$ 391,881</u>	<u>397,996</u>

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 1.2% – 1.3% for the year ended June 30, 2021. 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 1.1% – 1.2% for the year ended June 30, 2021. 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 bond documents for 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. 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:

2022	\$ 5,880
2023	5,745
2024	9,835
2025	10,015
2026	10,575
Thereafter	<u>348,660</u>
	<u>\$ 390,710</u>

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(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, 2021 and 2020 were \$21,398 and \$21,201, respectively.

(11) Annuities

The Center administers gift annuities for which it makes periodic distributions to the annuitants. When contributed assets are initially received, the assets are recorded at fair value within the investments balance, and contribution revenue is recorded equal to the value of the contributed assets received less the annuity liability. The present value of distributions to annuitants totaled \$2,177 and \$2,372 at June 30, 2021 and 2020, respectively. The reserve fund requirement as determined by actuarial means was \$2,018 and \$2,145 at June 30, 2021 and 2020, 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 years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 9,101	9,288
Short-term lease cost	713	753
Total lease costs	<u>\$ 9,814</u>	<u>10,041</u>

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 16.9 years and 17.8 years as of June 30, 2021 and 2020, respectively.

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The cash paid for amounts included in lease costs was \$7,401 and \$6,078 during the years ended June 30, 2021 and 2020, respectively.

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.

Maturities of lease liabilities under noncancelable leases as of June 30, 2021 are as follows:

2022	\$	8,206
2023		8,647
2024		8,784
2025		8,500
2026		8,739
Thereafter		<u>111,784</u>
		154,660
Less amounts related to interest		<u>(34,463)</u>
Total lease liability	\$	<u><u>120,197</u></u>

(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.

(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.

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(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 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, 2021.

(14) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2021 and 2020. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2021, 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.

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The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Assets	\$ 1,535,471	1,020,161
Liabilities	\$ 745,990	382,910
Net assets	<u>789,481</u>	<u>637,251</u>
Total liabilities and net assets	<u>\$ 1,535,471</u>	<u>1,020,161</u>
	<u>2021</u>	<u>2020</u>
Revenue	\$ 923,953	803,002
Less expenses	(840,847)	(734,933)
Plus nonoperating income	<u>68,180</u>	<u>5,138</u>
Increase in unrestricted net assets	<u>\$ 151,286</u>	<u>73,207</u>

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 \$18,171 and \$31,438 of other income for the years ended June 30, 2021 and 2020, respectively, as a result of these agreements.

On June 2, 2020, the Center entered into a reciprocal lease agreement with SCCA for the purpose of facilitating expansion of SCCA's existing cancer center in Seattle, Washington. Under the terms of the agreement, the Center entered into a lease with SCCA on July 28, 2020 for certain real property (Center's Parcel) with a fair market value of \$30,060 for a period of eighty years ending January 23, 2100. Concurrently, the Center entered into a lease with SCCA of certain real property (SCCA Parcel) with a fair market value of \$29,500. Rent obligations under this agreement were equalized with a one-time payment of \$560 from SCCA to the Center on July 28, 2020. These terms of the agreement provide a right of occupancy for the Center with the SCCA parcel and SCCA with the Center parcel, respectively, in lieu of rental payments. As a result of these transactions, the Center recorded a lease receivable and corresponding gain on sales type lease of \$29,500.

The Center recognized clinical service fee revenue (note 16) for the years ended June 30, 2021 and 2020, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(16) Service and Other Income

Service and other income includes income from noncore sources, including service agreements, commercialization (note 2), related-party transactions (note 15), professional services, core resources, rent,

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(In thousands)

parking, and similar activities. The Center had \$70,018 and \$61,220 of service and other income for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 from UWMC total \$8,151 and \$11,462, respectively, from Seattle Children's total \$676 and \$688, respectively, and from the SCCA total \$7,479 and \$8,312, respectively. Of these amounts, \$5,469 and \$8,801 is included in other receivables as of June 30, 2021 and 2020, respectively.

(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 is 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 67% of an indexed rate. 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 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 \$39,872 and \$56,131 at June 30, 2021 and 2020, 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, 2021 and 2020, respectively. Collateral amounts of \$1,700 and \$20,000 was posted as of June 30, 2021 and 2020, respectively.

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(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, 2021 was R 23,000 (\$1,568).

(19) *Subsequent Events*

The Center has evaluated subsequent events through October 15, 2021, the date the consolidated financial statements were issued, and has determined there are no material subsequent events.