KPMG

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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 audits 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 financial position of Fred Hutchinson Cancer Research Center as of June 30, 2018 and 2017, and the changes in its net assets, cash flows and functional expenses for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Seattle, WA
November 6, 2018

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Assets:			
Cash and cash equivalents	$	32,651	12,601
Restricted cash		9,885	21,647
Grants and contracts receivable, net		30,558	31,697
Notes and pledges receivable, net		28,473	26,825
Other receivables, net		11,443	12,185
Investments		539,720	320,514
Land, buildings, and equipment, net of accumulated depreciation of $394,632 and $368,952, respectively		379,815	379,354
Beneficial interest in perpetual trusts		29,841	28,315
Beneficial interest in assets of SCCA		153,969	137,053
Other assets		5,615	2,931
Total assets	$	1,221,970	973,122
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	17,968	14,125
Accrued payroll and related costs		28,918	23,165
Deferred revenue		76,349	62,998
Long-term debt		354,699	356,875
Deferred credit on cash flow hedges		18,505	24,048
Total liabilities		496,439	481,211
Net assets:			
Unrestricted		538,532	324,591
Temporarily restricted		100,248	87,203
Permanently restricted		86,751	80,117
Total net assets		725,531	491,911
Total liabilities and net assets	$	1,221,970	973,122

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2018

(In thousands)

	2018			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and other support:				
Research grants and contracts	$ 437,469	—	—	437,469
Contributions	27,142	39,723	6,107	72,972
Investment income and realized gains and losses	177,375	5,112	—	182,487
IP commercialization income	96,739	—	—	96,739
Clinical service fee revenue	19,976	—	—	19,976
Other income	54,621	—	—	54,621
Net assets released from restrictions	33,532	(32,532)	(1,000)	—
Total revenues	846,854	12,303	5,107	864,264
Expenses:				
Program services research	500,441	—	—	500,441
Management and general	84,100	—	—	84,100
Fundraising	16,517	—	—	16,517
Total expenses	601,058	—	—	601,058
Change in net assets from operations	245,796	12,303	5,107	263,206
Other changes in net assets:				
Change in net unrealized fair value of investments	(37,286)	742	—	(36,544)
Change in net foreign currency translation	(113)	—	—	(113)
Change in value of split-interest agreements	—	—	1,527	1,527
Change in net unrealized fair value of swap instruments	5,544	—	—	5,544
Total other changes in net assets	(31,855)	742	1,527	(29,586)
Total increase in net assets	213,941	13,045	6,634	233,620
Net assets balance at beginning of year	324,591	87,203	80,117	491,911
Net assets balance at end of year	$ 538,532	100,248	86,751	725,531

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statement of Activities

Year ended June 30, 2017

(In thousands)

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and other support:				
Research grants and contracts	$ 386,470	—	—	386,470
Contributions	19,514	36,337	5,353	61,204
Investment income and realized gains and losses	29,370	2,581	33	31,984
IP commercialization income	2,063	—	—	2,063
Clinical service fee revenue	22,260	—	—	22,260
Other income	51,075	—	—	51,075
Net assets released from restrictions	17,664	(17,664)	—	—
Total revenues	528,416	21,254	5,386	555,056
Expenses:				
Program services research	445,116	—	—	445,116
Management and general	69,339	—	—	69,339
Fundraising	13,637	—	—	13,637
Total expenses	528,092	—	—	528,092
Change in net assets from operations	324	21,254	5,386	26,964
Other changes in net assets:				
Change in net unrealized fair value of investments	(27,659)	2,970	—	(24,689)
Change in net foreign currency translation	(556)	—	—	(556)
Loss on defeasance of debt	(1,196)	—	—	(1,196)
Change in value of split-interest agreements	(167)	—	1,087	920
Change in net unrealized fair value of swap instruments	9,510	—	—	9,510
Total other changes in net assets	(20,068)	2,970	1,087	(16,011)
Total increase/(decrease) in net assets	(19,744)	24,224	6,473	10,953
Net assets balance at beginning of year	344,335	62,979	73,644	480,958
Net assets balance at end of year	$ 324,591	87,203	80,117	491,911

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	233,620	10,953
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		26,246	24,876
Noncash deferred revenue		(973)	(1,200)
Equity in earnings of SCCA		(16,916)	(15,300)
Change in net unrealized losses (gains) in fair value of investments		36,664	20,169
Change in value of split-interest agreements		(1,527)	(920)
Change in fair value of swap instruments		(5,544)	(9,510)
Net realized gains on investments		(158,794)	(13,586)
Noncash contributions		(23,489)	(3,119)
Loss on defeasance of debt		—	1,196
Permanently restricted contributions		(6,107)	(5,353)
Changes in assets and liabilities:			
Grants and contracts receivable		1,139	(6,227)
Notes and pledges receivable		(1,648)	(18,073)
Other receivables		741	(3,633)
Prepaid expenses and deposits		(2,682)	(1,073)
Accounts payable and accrued liabilities		3,106	(2,773)
Accrued payroll and related costs		5,753	2,295
Deferred grant and contract revenue		14,324	19,814
Net cash provided by (used in) operating activities		103,913	(1,464)
Cash flows from investing activities:			
Additions to land, buildings, equipment, and rental property		(26,444)	(26,403)
Purchase of investments		(415,995)	(185,199)
Sale of investments		318,920	208,766
Change in restricted cash		11,762	(5,227)
Net cash used in investing activities		(111,757)	(8,063)
Cash flows from financing activities:			
Proceeds from new debt		—	198,061
Additions to deferred financing costs		(27)	(2,110)
Repayment of debt		(1,675)	(196,274)
Contributions restricted for long-term investment		29,596	8,471
Net cash provided by financing activities		27,894	8,148
Change in foreign currency translation		—	(301)
Net increase (decrease) in cash and cash equivalents		20,050	(1,680)
Cash and cash equivalents at beginning of year		12,601	14,281
Cash and cash equivalents at end of year	$	32,651	12,601
Supplemental disclosure of cash flow information:			
Interest paid	$	15,299	16,391
Capital expenditures in accounts payable		1,668	931

See accompanying notes to consolidated financial statements.

FRED HUTCHINSON CANCER RESEARCH CENTER

Consolidated Statements of Functional Expenses

Years ended June 30, 2018 and 2017

(In thousands)

		Program services research	Management and general	Fundraising	Total
2018:					
Salaries and wages	$	216,403	35,398	6,492	258,293
Employee benefits		52,740	8,444	1,553	62,737
Subawards		106,029	—	—	106,029
Purchased services		30,109	15,815	1,455	47,379
Supplies		31,675	3,288	201	35,164
Other		20,284	8,672	6,096	35,052
Rent, utilities, and maintenance		8,847	6,054	395	15,296
Interest and amortization		12,948	1,368	72	14,388
Depreciation		21,406	5,061	253	26,720
Total June 30, 2018	$	500,441	84,100	16,517	601,058
2017:					
Salaries and wages	$	196,926	29,999	5,696	232,621
Employee benefits		48,921	7,112	1,379	57,412
Subawards		80,014	—	—	80,014
Purchased services		25,048	13,211	1,413	39,672
Supplies		30,792	1,565	151	32,508
Other		18,792	6,991	4,371	30,154
Rent, utilities, and maintenance		9,038	5,398	310	14,746
Interest and amortization		13,991	1,477	78	15,546
Depreciation		21,594	3,586	239	25,419
Total June 30, 2017	$	445,116	69,339	13,637	528,092

See accompanying notes to consolidated financial statements.

(1) Organization

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

Controlled Affiliates of the Center

Hutchinson Centre Research Institute in Uganda Limited (HCRIU), is a Uganda not-for-profit corporation. It is organized and operated for the purpose of researching, detecting, treating and preventing infection-related cancers in Uganda and throughout the world. The Center is the sole member of HCRIU. The income and property of HCRIU is restricted to be used in meeting its organizational objectives. The net assets of HCRIU of $(6,947) and $(5,242) as of June 30, 2018 and 2017, respectively, are not considered pledged assets under debt covenants.

Hutchinson Centre Research Institute of South Africa (HCRISA) is a South Africa not-for-profit corporation. It is organized and operated for the purpose of promoting and conducting clinical, laboratory and other research aimed at the prevention, early detection, diagnosis, and treatment of HIV/AIDS, Tuberculosis and other infectious diseases and cancer in South Africa and throughout the world. The Center is the sole member of HCRISA. The income and property of HCRISA is restricted to be used in meeting its organizational objectives. The net assets of HCRISA of $3,388 and $1,752 as of June 30, 2018 and 2017, 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 $447 and $446 as of June 30, 2018 and 2017, respectively, are not considered pledged assets under debt covenants.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Included in cash and cash equivalents are cash equivalents of approximately $23,783 and $3,644 as of June 30, 2018 and 2017, respectively, which are invested in money market funds and highly liquid debt instruments with original maturities of three months or less.

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

(d) Restricted Cash

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

(e) Investments

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

(f) Land, Buildings, and Equipment

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

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

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

(Continued)

(g) Beneficial Interest in Assets of SCCA

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

(h) Research Grants and Contracts Revenue & Receivable

The Center recognizes revenue from grants and contracts on research it performs. The sources of these revenues are both federal and nonfederal sponsors. Approximately 80% of the Center's research revenues are funded by federal agencies. The Center expends these funds consistent with the terms of the grants and contracts agreements. Total grants and contracts revenues were $437,469 and $386,470 for the years ended June 30, 2018 and 2017, respectively.

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

(i) Deferred Revenue

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

(j) Donor-Restricted Gifts

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

(k) IP Commercialization Income

The Center actively works to develop scientific discoveries into new products and services. Revenues are generated from licensing agreements, partnerships, royalty streams and new businesses are reported as IP Commercialization Income. The Center recognized $96,739 and $2,063 for the years ended June 30, 2018 and 2017, respectively.

(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 permanently restricted net assets based on restrictions placed by the donor. The changes in the fair value of the irrevocable perpetual trusts are reflected as investment changes restricted by donors, in permanently restricted net assets on the consolidated statements of activity.

When the Center is notified of an irrevocable charitable remainder trust for which it is not the trustee, the Center recognizes its beneficial interest in the outside trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received. The contribution is classified as an increase in temporarily restricted net assets based on restrictions placed by the donor upon the Center's beneficial interest in the assets. Periodic adjustments recorded to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized based on information from outside trustees. Any charitable remainder trusts for which the Center is not the trustee are reflected as a receivable from trusts and are included in other receivables in the accompanying consolidated statements of financial position. These amounts as of June 30, 2018 and 2017 were $1,129 and $1,058, 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 revenues and expenses in the consolidated statements of activities.

(n) Temporarily and Permanently Restricted Net Assets

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

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

(o) Statements of Activities

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

(p) Federal Income Taxes

The Center has obtained a determination letter from the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3), except for unrelated business income. Taxes on such income, if any, is not material to the Center's consolidated financial statements.

(q) Recent Accounting Pronouncements

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

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

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 84, *Leases*, and makes other conforming amendments to US. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-consolidated statements of financial position via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Center for annual periods in fiscal years beginning after December 15, 2019, and mandates a modified retrospective transition method. The Center will implement the provisions of ASU 2016-02 as of July 1, 2020, and management is evaluating the impact on the consolidated financial statements.

(Continued)

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, as an update to ASC 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The updated guidance will result in a change in the cash flow statement to include restricted cash and restricted cash equivalents. No other material impact is expected.

(r) Reclassifications

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

(3) Due from Government Agencies

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

The fixed federal F&A rate for grant and contract supported programs is determined by prospective negotiation with the Department of Health and Human Services (DHHS) based on an estimate of the costs that will be incurred during the period to which the rate applies. Any difference between the costs recovered through the fixed F&A cost rate and actual F&A costs incurred represents an estimated F&A settlement with the federal government, which will be included in future rates. No estimated settlement was recorded as of June 30, 2018 or 2017.

(4) Fair Value Measurements

(a) Fair Value Hierarchy

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

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

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

On adoption of ASU 2015-07, the Center determined that certain investments initially valued using net asset value as a practical expedient actually met the criteria for readily determinable fair value measurement. This presentation has been retroactively applied.

In accordance with Subtopic 820-10, certain investments that were measured at net asset value 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 statement of financial position.

(b) 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 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, 2018.

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

(In thousands)

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018 and 2017:

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

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

There was no material activity in Level 3 assets during the current year.

(Continued)

(In thousands)

	2017			
	June 30, 2017	Level 1	Level 2	Level 3
Investments measured by Fair Value Level:				
Cash and cash equivalents	$ 12,746	12,746	—	—
Global equity securities and mutual funds	160,028	156,107	3,921	—
Governments, mortgage and corporate debt funds	50,355	2,583	47,772	—
Private equity and venture capital funds	52	52	—	—
Commodity investments and funds	7,365	7,250	—	115
Other equity securities	754	362	—	392
Total investments by Fair Value Level	231,300	$ 179,100	51,693	507
Investments measured using Net Asset Value (NAV):				
Global equity securities and mutual funds	41,045			
Governments, mortgage and corporate debt funds	140			
Global real estate funds	5,255			
Private equity and venture capital funds	652			
Directional hedge securities	36,810			
Commodity investments and funds	5,313			
Total investments measured using NAV	89,215			
Total investments	$ 320,515			

	2017			
	June 30, 2018	Level 1	Level 2	Level 3
Other receivables:				
Beneficial interest in charitable remainder trusts	$ 1,055	—	—	1,055
Beneficial interest in perpetual trusts	28,315	—	—	28,315
Trustee-held funds	16,547	—	16,547	—
Liabilities:				
Deferred credit on cash flow hedges	(24,048)	—	(24,048)	—

(In thousands)

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, 2018	June 30, 2017	Redemption or liquidation	Days notice	Unfunded commitment
Global equity funds	$	40,440	41,045	Monthly	30	N/A
Debt funds		—	140	Daily – Every 2 years	One – 90	N/A
Global real estate funds		5,306	5,255	Quarterly	90	N/A
Private equity funds		274	652	N/A	N/A	N/A
Directional hedge funds		26,380	36,810	Qtrly – Every 2 years	30 – 184	N/A
Commodity investments and funds		—	5,313	Quarterly	90	N/A
Total investments measured using NAV	$	72,400	89,215			

Global Equity 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. Approximately 86% of the value of the investments in the category can be redeemed within 30 days in 2018 and 90 days in 2017, and 100% can be redeemed within a year in both 2018 and 2017.

Debt Funds: This category consists of fixed income and long-term debt in separately managed accounts. Fair values have been determined using the NAV per share of the investments. All investments were redeemed in 2018.

Global Real Estate Funds – This category includes real estate, natural resources and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership in the partners' capital. Approximately 96% and 93% of the value of the investments in this category can be redeemed within 90 days in 2018 and 2017. The remaining investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments are liquidated. It is expected the majority of the underlying assets of the funds will be liquidated over the next 3 years.

Directional Hedge Funds – 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 69% and 40% of the value of the investments in this category can be redeemed within 90 days in 2018 and 2017, and 100% can be redeemed within two years in both 2018 and 2017.

Private Equity 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 the majority of the underlying assets of the funds will be liquidated over the next 7 to 10 years.

(In thousands)

Commodity Investments and Funds – This category includes investments in commodity funds. Fair values have been determined using the NAV per share (or its equivalent) of the investment. All investments were redeemed in 2018.

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

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

	2018	2017
Interest	$ 2,907	1,785
Dividends	4,736	1,568
Net realized gains	158,793	14,349
Equity in earnings of SCCA investment	16,916	15,300
	183,352	33,002
Less investment management fees	(865)	(1,018)
	$ 182,487	31,984

(5) Endowments

(a) Return Objectives and Risk Parameters

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

(b) Strategies Employed for Achieving Objectives

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

(In thousands)

Investment Committee of the Center's board of trustees reviews the Center's asset allocation at least once a year.

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

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

(d) Funds with Deficiencies

Unless otherwise agreed with the donor, the Center's policy has been to maintain the value of the original corpus of each individual donor-restricted endowment fund. From time to time, the fair value of assets in such endowment funds may fall below this level or such other level as may have been agreed to by the donor or required by law. Losses on donor-restricted endowment funds reduce temporarily restricted net assets to the extent of any previous net appreciation. Any remaining losses reduce unrestricted net assets. As of June 30, 2018 and 2017, the aggregate reduction from unrestricted net assets totaled $(8) and $0, respectively.

The following tables show the net asset composition of the Center's endowment funds by type of fund as of June 30, 2018 and 2017:

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(8)	14,889	52,001	66,882
Board-designated endowment funds		325,099	—	—	325,099
Total	$	325,091	14,889	52,001	391,981

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

(Continued)

(In thousands)

The following tables show the activity that has occurred within the endowment net asset accounts for the years ended June 30, 2018 and 2017:

		2018			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$	144,368	13,656	44,248	202,272
Investment return:					
Investment income		2,966	800	—	3,766
Net realized gain		17,015	3,732	—	20,747
Net unrealized losses		(9,123)	(693)	—	(9,816)
Total investment return		10,858	3,839	—	14,697
Contributions		—	230	7,753	7,983
Distributions		—	(833)	—	(833)
Board transfers in		216,341	—	—	216,341
Board transfers out		(44,791)	—	—	(44,791)
Appropriation of endowment assets for expenditure		(1,685)	(2,003)	—	(3,688)
Endowment net assets, end of year	$	325,091	14,889	52,001	391,981

(In thousands)

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

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

(6) Land, Buildings, and Equipment

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

		2018	2017
Land	$	52,389	52,389
Buildings and improvements		524,640	515,691
Equipment		188,311	171,945
Construction in progress		9,107	8,281
Total		774,447	748,306
Less accumulated depreciation		(394,632)	(368,952)
Total land, buildings, and equipment, net	$	379,815	379,354

(In thousands)

Buildings are depreciated on a straight-line basis over 45 years, while improvements and equipment are depreciated over 3 to 30 years, depending on the nature of the asset. Interest expense on borrowed funds during construction is a component of the cost of assets. The amount capitalized represents interest on funds expended for construction. Capitalization of interest ceases when the asset is placed in service. The Center had no capitalized interest in 2018 and 2017.

(7) Notes and Pledges Receivable

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

		2018	2017
Amounts due in:			
Less than one year	$	23,318	19,823
One to five years		5,227	7,115
Less:			
Unamortized discount		(66)	(107)
Allowance for uncollectible pledges		(6)	(6)
Notes and pledges receivable, net	$	28,473	26,825

As of June 30, 2018 and 2017, the gross notes and pledges receivable balances include donor pledges of $26,903 and $25,457, 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%.

(8) Long-Term Debt

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

		2018	2017
Series 2011A Revenue Bonds secured by a deed of trust due in varying amounts through 2035 plus interest at varying rates	$	76,950	78,555
Series 2015 Revenue Bonds secured by a deed of trust due in varying amounts through 2033 plus interest at varying rates		78,370	78,440
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
Total		352,160	353,835

(Continued)

(In thousands)

		2018	2017
Deferred financing costs	$	(3,049)	(3,502)
Unamortized premium		5,588	6,542
Total, net	$	354,699	356,875
Fair value disclosure (note 4)	$	363,671	373,053

On March 30, 2017, the Center issued through the Washington Health Care Facility Authority (the Authority) $196,840 of tax-exempt revenue bonds Series 2017 A, B, C. The 2017A Bond consists of $19,015 and is a fixed rate bond with a coupon rate of 5.0%. The proceeds were used to reimburse the Center for future capital costs on the Center's campus. The 2017B Bond consists of $92,110 and is a variable rate bond with interest ranging from 1.80% – 2.42% for the year ended June 30, 2018. 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 1.81% – 2.86% for the year ended June 30, 2018. The proceeds were used to refund Series 2012B Revenue bonds. The 2018 Bonds were all issued under a public bond placement and the Center is using an administrator to coordinate all interest and principal payments made to bond holders.

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

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

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

(Continued)

(In thousands)

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

2019	$	585
2020		860
2021		6,245
2022		6,630
2023		7,005
Thereafter		330,835
	$	352,160

(9) Retirement Plan

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

Retirement plan contributions for the years ended June 30, 2018 and 2017 were $16,434 and $15,314, respectively.

(10) Annuities

The Center administers, through a third party, gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. When contributed assets are initially received, the assets are recorded at fair value within the investments balance, and contribution revenue is recorded equal to the value of the contributed assets received less the annuity liability. The present value of the payments due to the beneficiaries totaled $858 and $3,175 at June 30, 2018 and 2017, respectively, and the reserve fund requirement as determined by the actuary was $2,191 and $2,752 at June 30, 2018 and 2017, respectively. The annuity liability is revalued annually based upon actuarially computed present values. Present values are based on life expectancy and discount rates range between 4% and 10%. The Center maintains segregated funds that exceed the actuarial value of the annuity liability as required by state law. The gift annuity payable is recorded in accrued liabilities.

(In thousands)

(11) Commitments and Contingencies

(a) Operating Leases

Certain equipment and facilities utilized by the Center in its operations are leased. The related future minimum rental payments for these operating leases with noncancelable terms in excess of one year as of June 30, 2018 are as follows:

2019	$	2,476
2020		7,774
2021		8,162
2022		7,713
2023		7,761
Thereafter		44,130
	$	78,016

Rental expense for all operating leases for the years ended June 30, 2018 and 2017 was $3,004 and $3,048, respectively.

(b) Litigation and Compliance with Laws and Regulations

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

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

(c) Contingent Liability

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

(In thousands)

(12) Professional Liability Insurance

The Center has claims-made professional and general liability insurance for 2018 and 2017. The Center has accrued an actuarial estimate of unreported instances and claims as of June 30, 2018, which is included in accounts payable and accrued liabilities.

(13) Related-Party Transactions

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

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

The following is a summary of the SCCA's financial position and results as of and for the years ended June 30, 2018 and 2017:

		2018	2017
Assets	$	648,504	593,130
Liabilities	$	158,595	153,861
Net assets		489,909	439,269
Total liabilities and net assets	$	648,504	593,130

(In thousands)

		2018	2017
Revenues	$	641,325	548,164
Less expenses		(607,727)	(526,843)
Plus nonoperating income		15,634	23,434
Increase in unrestricted net assets	$	49,232	44,755

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 $27,891 and $24,420 of other income for the years ended June 30, 2018 and 2017, respectively, as a result of these agreements.

The Center recognized clinical service fee revenue (see note 15) for the years ended June 30, 2018 and 2017, respectively, for fees associated with licenses, data collection, and research and development services provided by the Center to the SCCA.

(14) Other Income

Other income includes income from service agreements, related party transactions (see note 13), professional services, shared resources, rent, parking and similar activities. The Center had $54,621 and $51,075 of Other Income for the years ended June 30, 2018 and 2017, respectively.

(15) Clinical Service Fee Revenue

The Center has entered into inpatient service agreements with UWMC, Seattle Children’s, and the SCCA for which the Center receives various payments related to research and development support, data collection and analysis, physician assistant services, consulting services, and license rights to use the Center’s name in connection with the inpatient cancer services program. Fees for services during the years ended June 30, 2018 and 2017 from UWMC total $11,316 and $14,271, respectively, from Seattle Children’s total $658 and $819 respectively, and from the SCCA total $8,001 and $7,170, respectively. Of these amounts, $6,293 and $4,368 are included in other receivables as of June 30, 2018 and 2017, respectively.

(16) Accounting for Derivative Instruments and Hedging Activities

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

(a) Interest Rate Swaps

The Center has entered into two interest rate swap agreements to mitigate the risks associated with variable rate bond issues. This agreement was amended in December 2017. The duration of the swaps were extended to 2042 to match the duration of the existing underlying variable rate bonds. The first swap has a notional amount of $56,577. The interest rate paid by the Center is fixed at 3.60% while the counterparty pays the Center an indexed rate plus 0.20%. The second swap has notional value of $52,723. The interest rate paid by the Center is fixed at 3.53% while the counterparty pays the Center 67% of an indexed rate plus 0.64%.

The fair value is the estimated amount the bank would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the swaps, recorded as deferred credits on cash flow hedges, was $18,505 and $24,048 at June 30, 2018 and 2017, 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 mark-to-market amount to terminate the swaps exceeds $35,000 and $20,000 as of June 30, 2018 and 2017, respectively. Collateral of $0 and $5,100 was posted as of June 30, 2018 and 2017, respectively.

(17) Subsequent Events

On September 27, 2018 the Center agreed into a settlement agreement relating to rights to potential future IP commercialization revenue. Per terms of the agreement, the Center will receive $70,000 on or before March 29, 2019 to resolve the matter. The Center has evaluated subsequent events through November 6, 2018, the date the financial statements were issued, and has determined there are no other material subsequent events.