KPMG

FRED HUTCHINSON CANCER CENTER

Consolidated Financial Statements

June 30, 2023

(With Independent Auditors' Report Thereon)

FRED HUTCHINSON CANCER CENTER

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KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Fred Hutchinson Cancer Center:

Opinion

We have audited the consolidated financial statements of Fred Hutchinson Cancer Center (Fred Hutch), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fred Hutch as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fred Hutch's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fred Hutch's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

Seattle, Washington
October 13, 2023

FRED HUTCHINSON CANCER CENTER

Consolidated Statement of Financial Position

June 30, 2023

(in thousands)

Assets

Assets:		
Cash and cash equivalents	$	249,477
Patient accounts receivable, net		159,330
Grants and contracts receivable, net		44,389
Notes and pledges receivable, net		404,625
Investments		1,156,077
Land, buildings and equipment, net of accumulated depreciation		915,260
Right-of-use assets		210,283
Other assets		256,663
Total assets	$	3,396,104

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued liabilities	$	176,001
Other liabilities		93,313
Collaborative arrangement		428,824
Right-of-use lease liabilities		227,513
Long-term debt		1,086,339
Deferred credit on cashflow hedges		9,613
Total liabilities		2,021,603
Net assets:		
Without donor restrictions		737,448
With donor restrictions		637,053
Total net assets		1,374,501
Total liabilities and net assets	$	3,396,104

See accompanying Notes to Consolidated Financial Statements.

FRED HUTCHINSON CANCER CENTER

Consolidated Statement of Activities

Twelve months ended June 30, 2023

(in thousands)

		Without donor restriction	With donor restriction	Total
Revenues and other support:				
Patient service revenue, net	$	1,171,545	—	1,171,545
Research grants and contracts		587,481	—	587,481
Contributions		38,435	447,128	485,563
Investment income and realized gains, net		36,559	3,417	39,976
Clinical service fee revenue		20,468	—	20,468
Service and other income		40,118	—	40,118
Net assets release from restrictions		22,076	(22,076)	—
Total revenues		1,916,682	428,469	2,345,151
Operating expenses:				
Salaries, wages and benefits		664,362	—	664,362
Subawards		150,120	—	150,120
Purchased services		298,716	—	298,716
Collaborative arrangement		101,614	—	101,614
Supplies		516,655	—	516,655
Rent, utilities and maintenance		82,881	—	82,881
Interest, depreciation and amortization		94,509	—	94,509
Other		66,888	—	66,888
Total expenses		1,975,745	—	1,975,745
Change in net assets from operations		(59,063)	428,469	369,406
Other changes in net assets:				
Change in net unrealized fair value of investments		49,988	2,784	52,772
Change in net unrealized fair value of swap instruments		8,462	—	8,462
Other net asset changes		(1,727)	1,205	(522)
Total other changes in net assets		56,723	3,989	60,712
Total changes in net assets		(2,340)	432,458	430,118
Net assets balance at beginning of year		739,788	204,595	944,383
Net assets balance at end of year	$	737,448	637,053	1,374,501

See accompanying Notes to Consolidated Financial Statements.

FRED HUTCHINSON CANCER CENTER

Consolidated Statements of Cash Flows

For the period ended June 30, 2023

(In thousands)

Cash flows from operating activities:		
Change in net assets	$	430,118
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization		51,357
Change in noncash deferred revenue		(717)
Change in net unrealized fair value of investments		(52,772)
Change in net realized fair value of investments		(646)
Change in value of split interest agreements		(825)
Change in fair value of swap instruments		(8,462)
Loss on defeasance of debt		1,151
Noncash contributions		(38,834)
Restricted contributions		(18,025)
Changes in assets and liabilities:		
Grants and contracts receivable		27,678
Patient accounts receivable		(13,880)
Notes and pledges receivable		(394,516)
Other assets		13,665
Assets whose use is limited		73,930
Accounts payable and accrued liabilities		23,438
Change in right of use assets and lease liabilities		2,237
Net cash provided by operating activities		94,897
Cash flows from investing activities:		
Additions to land, buildings, equipment and rental property		(175,028)
Purchase of investments		(388,632)
Sale of investments		234,711
Net cash used in investing activities		(328,949)
Cash flows from financing activities:		
Additions to deferred financing costs		(118)
Repayment of debt		(3,958)
Contributions restricted for long-term investment		18,025
Net cash provided by financing activities		13,949
Net decrease in cash and cash equivalents		(220,103)
Cash, cash equivalents and restricted cash at beginning of year		469,580
Cash, cash equivalents and restricted cash at end of period	$	249,477
Supplemental cash flow disclosure:		
Interest paid	$	50,488
Capital expenditures in accounts payable		7,509

See accompanying Notes to Consolidated Financial Statements.

(1) Organization

Fred Hutchinson Cancer Center (Fred Hutch) is a Washington not-for-profit corporation organized and operated exclusively for charitable, scientific, and educational purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986. It unites innovative research and compassionate care to prevent and eliminate cancer and infectious disease. It is driven by the urgency of our patients, the hope of our community and our passion for discovery to pursue scientific breakthroughs and healthier lives for every person in every community. Fred Hutch is designated by the National Cancer Institute as a comprehensive cancer research center.

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

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

- The Hutchinson Centre Research Institute in Uganda Limited (HCRI-Ug) is a Uganda not-for-profit corporation. It is organized and operated for the purpose of researching, detecting, treating, and preventing infection-related cancers in Uganda and throughout the world. Fred Hutch is the sole member of HCRI-Ug. The income and property of HCRI-Ug are restricted to be used in meeting its organizational objectives. The net assets of HCRI-Ug of $(16,859) as of June 30, 2023, are not considered pledged obligations under debt covenants.
- Hutchinson Centre Research Institute of South Africa (HCRISA) is a South Africa not-for-profit corporation. It is organized and operated for the purpose of promoting and conducting clinical, laboratory, and other research aimed at the prevention, early detection, diagnosis, and treatment of HIV/AIDS, Tuberculosis, and other infectious diseases and cancer in South Africa and throughout the world. Fred Hutch is the sole member of HCRISA. The income and property of HCRISA are restricted to be used in meeting its organizational objectives. The net assets of HCRISA of $5,859 as of June 30, 2023, 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 501c(3). It is operated for the purpose of providing anti-retrovirals to eligible participants of HIV Trials Network. The net assets of SVRF of $2,517 as of June 30, 2023, are not considered pledged assets under Fred Hutch's debt covenants.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(Continued)

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Fred Hutch maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Fred Hutch to insolvency risk if the financial institution becomes insolvent. Included in $249,477 of cash and cash equivalents as of June 30, 2023 is $9,939 of cash held by trustee.

(d) Assets Whose Use is Limited

Assets whose use is limited include net assets without donor restrictions designated by the Board of Directors (the Board) for future capital purpose over which the Board retains controls and may, at its direction, subsequently use for other purposes. Assets whose use is limited also include net assets with donor restrictions and funds held under the terms of Fred Hutch's trust indenture.

As of June 30, 2023, there were no assets whose use was limited.

(e) Supplies Inventory

Included in other assets on the Consolidated Statement of Financial Position is inventory consisting primarily of surgical, medical, and pharmaceutical supplies that is carried at the lower of cost (first–in, first–out method) or net realizable value.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions, improvements and replacements are recorded at cost. Buildings are depreciated on a straight-line basis over 40 to 45 years, while improvements and equipment are depreciated over 3 to 30 years, depending on the nature of the asset. The costs and related accumulated depreciation of land, buildings and equipment sold or retired are removed from the accounts and the resulting gain or loss is recognized.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized. Capitalization of interest ceases when the asset is placed in service.

Maintenance and repairs costs are expensed.

Land, buildings and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the capital asset may not be recoverable.

Fred Hutch receives reimbursement for a portion of its buildings and equipment through direct and indirect cost reimbursement primarily from the federal government in connection with federal grants.

(g) Leases

Fred Hutch is a lessee in noncancelable operating leases for research, clinic, and office space that expire over the next forty years and contain renewal options for periods ranging from two to fifty years. Fred Hutch has a finance lease for equipment as of June 30, 2023. Fred Hutch determines if an arrangement is or contains a lease at inception. A right-of-use (ROU) asset and a lease liability are recognized at the lease commencement date.

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

The ROU asset represents Fred Hutch's right to use or control the use of a specified asset for a lease term and is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. These lease agreements do not contain any material residual value guarantees or material restrictive covenants. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term.

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

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

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

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

(h) Intangible Assets

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

In 2023 there were no impairment charges.

(Continued)

(i) Patient Service Revenue

Fred Hutch treats contracts with similar characteristics as a portfolio for the patient service revenue stream as the revenue represents a large volume of similar contracts with similar classes of customers. Patient service revenue is comprised of two primary portfolios: clinical services and retail pharmacy operations.

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

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

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

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

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

(Continued)

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

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

(j) Charity

Fred Hutch provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because Fred Hutch does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as revenue. The estimated cost of financial assistance provided was approximately $11,139 for the year ended June 30, 2023. The cost of financial assistance was calculated using a percentage of cost to charges, which was 46%. The number of financial assistance patients served was 2,769.

(k) Research Grants and Contracts Revenue

Fred Hutch recognizes revenue from grants and contracts on the research it performs. Grantors include both federal and nonfederal sponsors with approximately 81% of research revenue derived from federal agencies for the year ended June 30, 2023.

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

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

Fred Hutch has estimated that conditional contributions associated with grants and contracts that do not meet the revenue recognition criteria amount to $269,268 as of June 30, 2023.

(l) Deferred Revenue and Grants and Contracts Receivable

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

(Continued)

(m) Contributions with Donor Restrictions

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. 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 net assets with donor restrictions are reclassified as without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met within the same year as received are reported as without donor restrictions in the accompanying consolidated financial statements.

Conditional promises to give are reported at fair value on the date the gift is received or when the conditions are met. Fred Hutch has estimated that conditional contributions with donor restrictions that do not meet revenue recognition criteria are $225,000 as of June 30, 2023.

(n) Perpetual Trusts and Charitable Remainder Trusts

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

When Fred Hutch is notified of the existence of an irrevocable perpetual trust and can reasonably value its interest, Fred Hutch recognizes its beneficial interest in the outside trust at fair value as a contribution. The contribution is classified as an increase in net assets with donor restrictions based on restrictions placed by the donor. The changes in the fair value of the irrevocable perpetual trusts are reflected as investment changes in net assets with donor restrictions on the consolidated statement of activities.

When Fred Hutch is notified of an irrevocable charitable remainder trust for which it is not the trustee, Fred Hutch recognizes its beneficial interest in the outside trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received. The contribution is classified as an increase in net assets with donor restrictions based on restrictions placed by the donor. Periodic adjustments are recorded to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate based on information from trustees. At June 30, 2023, there were $3,787 of charitable remainder trusts for which Fred Hutch is not the trustee reflected as a receivable from trusts included in other assets in the accompanying consolidated statement of financial position.

(o) Foreign Currency Translation and Transaction Gains and Losses

The consolidated financial statements include foreign currency amounts attributable to foreign operations. The foreign currency amounts have been translated into U.S. dollars using year–end exchange rates for certain assets and liabilities, historical rates for net assets and average monthly rates for revenues and expenditures. Unrealized gains or losses arising from fluctuations in the year–end exchange rates of foreign currency denominated assets and liabilities are recorded as net asset adjustments from foreign currency translation, and gains or losses resulting from actual foreign exchange transactions are recorded in revenue and expenses in the consolidated statements of activities.

(p) Net Assets with Donor Restrictions

Net assets with donor restrictions include amounts restricted for time or purpose and amounts that are restricted in perpetuity. Fred Hutch’s net assets restricted in perpetuity consist of endowment funds and Fred Hutch’s interest in perpetual trusts. Income earned on funds restricted in perpetuity is used for operations in accordance with the terms of each endowment fund and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Net assets with donor restrictions are restricted for purposes designated by the donors for research and supportive patient care services. Net assets with donor restrictions that are perpetual in nature amounted to $136,380 and amounts restricted for time or purpose amounted to $500,585 as of June 30, 2023.

(q) Functional Expense Allocation Methodology

Fred Hutch’s consolidated financial statements report certain categories of expenses that are attributable to more than one function. These expenses are allocated based on the appropriate metrics and consistently applied.

(r) Statement of Activities

The statement of activities describes the results of financial events included in the change in net assets. Contributions received are recorded either with or without donor restrictions. Investment income may be donor restricted or without donor restriction. Research grants and contracts revenue and related expenses incurred are without restriction. Changes in asset values resulting from fair value 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.

(s) Commercialization Income

Fred Hutch actively works to develop scientific discoveries into new products and services. Revenue is generated from licensing agreements, partnerships, and royalty streams, and new businesses are reported within Service and Other Income on the consolidated statement of activities.

(t) Professional Liability Insurance

Fred Hutch has claims made–professional and general liability insurance for 2023. Fred Hutch has accrued an actuarial estimate of unreported instances and claims as of June 30, 2023, which is included in accounts payable and accrued liabilities.

(u) Federal Income Taxes

Fred Hutch has obtained a determination letter from the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3), except for unrelated business income. Unrelated business income typically is trade or business activity regularly carried on and is not related to furthering the exempt purpose of Fred Hutch. During 2023, Fred Hutch did not record any liability for uncertain tax benefits.

(Continued)

(v) Recent Accounting Pronouncements

In March 2023, the FASB issued Accounting Standards Update (ASU) 2023-01, Common Control Arrangements. This ASU provides certain entities a practical expedient to use written terms and conditions for determining whether a lease exists and the accounting for the lease. The ASU also provides guidance related to accounting for leasehold improvements associated with common control leases. The ASU is effective for annual periods beginning after December 15, 2023, including interim periods within those fiscal years, with early adoption permitted. Fred Hutch is evaluating the impact that ASU 2023-01 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

(3) Due from Government Agencies

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

The fixed federal F&A rate for grant and contract supported programs is determined by prospective negotiation with the Department of Health and Human Services (DHHS) based on an estimate of the costs that will be incurred during the period to which the rate applies. Any difference between the costs recovered through the fixed F&A cost rate and actual F&A costs for a year are generally incorporated with the federal government through future rates. No estimated settlement was recorded as of June 30, 2023.

(4) Availability and Liquidity

Fred Hutch regularly monitors its ability to meet its cash flow requirements and operating needs. The availability of financial assets is primarily affected by management’s designation and donor restrictions. The following financial assets on the statements of financial position are expected to be readily available for general expenditures within one year:

(In thousands)

Financial assets:		
Cash and cash equivalents	$	249,477
Patient accounts receivable, net		159,330
Grants and contracts receivable, net		44,389
Notes and pledges receivable, net		404,625
Investments		1,156,077
Other financial assets		222,710
Total financial assets, at year-end		2,236,608
Less those unavailable for general expenditures within one year:		
Notes and pledges receivable, net		343,329
Investments		103,869
Other financial assets		157,171
Total unavailable for general expenditures within one year		604,369
Financial assets available for general expenditures within one year	$	1,632,239

Other assets on the Consolidated Statement of Financial Position are comprised of financial assets of $222,710 and nonfinancial assets of $33,953 as of June 30, 2023.

Financial assets not available for general expenditure within one year include amounts that will be paid beyond one year and donor restricted funds where release will occur beyond one year.

As part of Fred Hutch's liquidity management, it makes financial assets available based on forecasted liquidity requirements. Fred Hutch invests cash in excess of current requirements. In the event of unanticipated liquidity needs, Fred Hutch can increase liquidity.

(5) Investments

Investments are carried at fair value and include equity securities, debt securities, and alternative investments. GAAP 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:

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, 2023.

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

(b) Fair Value Hierarchy

In accordance with GAAP, 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.

(In thousands)

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023:

	June 30, 2023	Level 1	Level 2	Level 3
Investments measured by fair value level:				
US Treasury notes and bills	$ 71,700	71,700	—	—
Global equity securities and funds	529,259	526,892	2,367	—
Governments, mortgage, and corporate debt funds	440,910	262,560	178,350	—
Commodity investment and funds	9,453	9,453	—	—
Other equity securities	3,358	—	—	3,358
Total investments by fair value level	$ 1,054,680	870,605	180,717	3,358
Investments measured using NAV:				
Global equity securities	51,913			
Private equity and venture capital funds	18,795			
Directional hedge securities	30,689			
Total investments measured using NAV	101,397			
Total investments	$ 1,156,077			

	June 30, 2023	Level 1	Level 2	Level 3
Investments measured by fair value level:				
Assets:				
Beneficial interest in charitable remainder trusts	$ 3,434	—	—	3,434
Beneficial interest in perpetual trusts	33,285	—	—	33,285
Liabilities:				
Deferred credit on cash flow hedges	$ (9,613)	—	(9,613)	—

(In thousands)

There was no material activity in Level 3 investments during the current year. No new charitable remainder trusts were added during the year ended June 30, 2023.

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

	June 30, 2023	Redemption or liquidation	Days notice	Unfunded commitment
Global equity securities	$ 51,913	Monthly	30	$ N/A
Private equity and venture capital funds	18,795	N/A	N/A	11,539
Directional hedge securities	30,689	Every 2 years	30 – 184	N/A
Total investments measured using NAV	$ 101,397			

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

Private equity and venture capital funds – This category includes real estate, 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. 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 93% of the investments in this category can be redeemed within next year and 7% can be redeemed in two years.

Fred Hutch's investments contain endowment funds with donor restrictions for research and other related purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Fred Hutch's board designated investments include funds designated to function as endowments and funds designated for the clinic expansion. The Board of Directors may also elect to remove designations on funds previously designated.

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

Investment income:		
Interest and dividend income	$	40,572
Net realized gains		645
		41,217
Less investment management fees		(1,241)
Total investment income	$	39,976

(6) Endowments

(a) Return Objectives and Risk Parameters

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

(b) Strategies Employed for Achieving Objectives

Fred Hutch relies on a total return strategy in which investment returns are achieved through both capital appreciation and current income to achieve its long–term–rate of return objectives. Fred Hutch utilizes an efficient frontier approach to establish the appropriate asset allocation balancing long–term–return objectives within prudent risk constraints. The finance committee of Fred Hutch's Board of Directors reviews Fred Hutch's asset allocation at least once a year.

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

Fred Hutch's spending policy for individual endowment funds is to appropriate for distribution each year 5% of the endowment fund's average fair value over the prior three years, provided that the fair value of the endowment fund exceeds the corpus. Certain board designated-funds held for future capital and debt obligations do not make distributions. For the remaining endowment funds, Fred Hutch appropriates distributions to support its programs.

(d) Funds with Deficiencies

Unless otherwise agreed with the donor, Fred Hutch's policy has been to maintain the value of the original corpus of each individual donor restricted-endowment fund. From time to time, the fair value of assets in such endowment funds may fall below this level or such other level as may have been agreed to by the donor or required by law. Losses on donor restricted endowment funds reduce net assets with donor restrictions. As of June 30, 2023, there were seven funds with a fair market value below the original corpus value.

(In thousands)

(e) Endowment Allocation and Activity

The following tables show the net asset composition of Fred Hutch's endowment funds by type of fund as of June 30, 2023:

		Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds	$	—	110,275	110,275
Board designated endowment funds		436,775	—	436,775
	$	436,775	110,275	547,050

The following tables show the activity that has occurred within the endowment net asset accounts for the year ended June 30, 2023:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	400,424	102,032	502,456
Investment return:				
Investment income		8,798	1,816	10,614
Net realized gain		604	1,955	2,559
Net appreciation – unrealized		29,054	2,784	31,838
Total investment return		38,456	6,555	45,011
Contributions		—	6,595	6,595
Distributions		—	(282)	(282)
Board transfers In/(Out)		460	(451)	9
Appropriation of endowment assets for expenditure		(2,565)	(4,174)	(6,739)
Endowment net assets, end of year	$	436,775	110,275	547,050

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

(In thousands)

(7) Land, Buildings, and Equipment

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

Land	$	142,661
Buildings		979,084
Equipment		298,828
Construction in progress		35,115
		1,455,688
Less accumulated depreciation		(540,428)
Total land, buildings and equipment, net of accumulated depreciation	$	915,260

For the year ended June 30, 2023 capitalized interest and depreciation expense amounted to $22,426 and $52,554, respectively.

(8) Notes and Pledges Receivable

Pledges receivable are unconditional donor promises to give and are initially recorded at fair value by discounting the expected future pledge payments.

The primary unobservable input used in the fair value measurement of pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate is based on the Treasury Constant Maturity rate, and is revised at each measurement date to reflect current market conditions.

(In thousands)

Unconditional pledges are expected to be received in the following periods:

Payments through June 30,		
2024	$	61,296
2025		59,529
2026		58,575
2027		59,045
2028		58,515
Thereafter		175,715
		472,675
Less discount, net		(70,326)
Total pledges receivable, net		402,349
Add notes receivable		2,276
Total notes and pledges receivable, net	$	404,625

(9) Collaboration Agreement

Under the terms of the Collaboration Agreement, University of Washington Medicine (UWM) relinquished its membership interest in the SCCA, and UW and Fred Hutch restructured their cancer programs into a single clinically integrated adult oncology program that unites innovative research and compassionate care to prevent and eliminate cancer and infectious disease. Under a management agreement, Fred Hutch provides management services to participating UWM oncology programs.

The Collaboration Agreement includes a Financial Alignment Plan (FAP). The FAP prescribes the methodologies to allocate clinical resources and provides for a perpetual flow of funds between Fred Hutch and UWM to support the integrated program. The flow of funds is expected to be predominantly from Fred Hutch to UWM, but under certain conditions payments from UWM to Fred Hutch may be required. The FAP was accounted for in accordance with *Collaborative Arrangements* (*Topic 808*) with a recorded long-term liability of $428,824. A Collaborative Arrangement expense of $101,614 was accrued for the year ended June 30, 2023.

UWM and Fred Hutch will determine the final settlement of the annual FAP calculations 180 days after fiscal year-end. Upon finalization and mutual approval, a final payment will be made for that fiscal year. As of June 30, 2023 Fred Hutch accrued $27,385 of Collaboration Expense payable to UWM pending final settlement.

(In thousands)

(10) Long–Term Debt

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

Washington Health Care Facilities Authority Revenue Bonds, Series 2022C, due in varying amounts through 2052 plus interest at a variable interest rate	$	55,000
Washington Health Care Facilities Authority Revenue Bonds, Series 2022D, due in varying amounts through 2034 plus interest at a fixed interest rate		103,545
Washington Health Care Facilities Authority Revenue Bonds, Series 2022E, due in varying amounts through 2052 plus interest at a variable interest rate		125,000
Taxable Bonds, Series 2022, due in 2052 plus interest at a fixed interest rate		300,000
Washington Health Care Facilities Authority Revenue Bonds, Series 2021, (SCCA), due in varying amounts through 2048 plus interest at fixed rates, net of unamortized bond premium of $5,567		41,782
Washington Health Care Facilities Authority Revenue Bonds, Series 2020, (SCCA), due in varying amounts through 2055 plus interest at fixed rates, net of unamortized bond premium of $39,700		272,625
Taxable Bonds, Series 2020, (FHCRC) due in varying amounts through 2050 at a fixed interest rate		121,225
Washington Health Care Facilities Authority Revenue Bonds, Series 2014, (SCCA), due in varying amounts through 2055 plus interest at fixed rates, net of unamortized bond premium of $3,363		68,413
Notes payable, net of unamortized discount $380		5,688
		1,093,278
Less deferred financing costs		(6,939)
Long-term debt, net	$	1,086,339

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

On June 30, 2022, Fred Hutch issued $283,545 Series 2022 C, D, E, and $300,000 Taxable Bonds Series 2022. The proceeds were used to refinance a taxable bridge loan, finance general corporate purposes and pay for the costs of the Series 2017C, D, E Bonds and the Taxable Bonds Series 2022. The Series 2022D Bonds have a fixed interest rate of 3.34% while the Taxable Bonds Series 2022 have a fixed interest rate of 4.97%. The Series 2022C Bonds and Series 2022E Bonds have a variable interest rate.

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

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

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

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

As a result of the business combination with Seattle Proton Holdings and SCCA in February 2021, Fred Hutch assumed two notes payable. The remaining principal and accrued interest balances totaling $5,688 and $160 respectively, on June 30, 2023. The terms of the notes state the unsecured debt accrues interest at a rate of 5% per year. Future payments of principal and interest on these notes will be made only from excess cash generated by the proton facility as defined in the agreements, if certain financial ratios have been met, and the aggregate amount of all such payments do not exceed $836K for any fiscal year.

(In thousands)

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

2024	$	13,732
2025		14,250
2026		14,784
2027		15,332
2028		15,892
Thereafter		971,038
		1,045,028
Plus unamortized net premiums		48,250
	$	1,093,278

(11) Retirement Plan

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

Retirement plan contributions for the year ended June 30, 2023, were $37,143.

(12) Annuities

Fred Hutch administers gift annuities for which it makes periodic distributions to the annuitants. When contributed assets are initially received, the assets are recorded at fair value within the investments balance, and contribution revenue is recorded equal to the value of the contributed assets received less the annuity liability. The present value of the annuity liability totaled $2,072 on June 30, 2023. The reserve fund requirement as determined by actuarial means was $2,693 on June 30, 2023. 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. Fred Hutch maintains segregated funds that exceed the actuarial value of the annuity liability as required by law.

(13) Leases

Fred Hutch has various operating and one finance lease for clinical, office, and equipment.

Payments due under the lease contracts include fixed payments plus market rate adjustments. The leases do not include any variable lease costs.

(In thousands)

The components of the lease cost for the year ended June 30, 2023 were as follows:

Fixed lease costs	$	28,063
Variable lease costs		5,125
Total lease costs	$	33,188

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

Weighted average remaining lease term in years:	
Operating lease	16.10
Finance lease	3.14
Weighted average discount rate:	
Operating lease	3.21 %
Finance lease	3.76

Supplemental information related to leases are as follows on June 30:

	Statement of position classification		2023
Assets:			
Operating right-of-use	Right-of-use assets	$	206,918
Finance right-of-use	Right-of-use assets		3,365
Total leased assets		$	210,283
Liabilities:			
Operating	Right-of-use lease liabilities	$	224,148
Finance	Right-of-use lease liabilities		3,365
Total leased liabilities		$	227,513

The cash paid for amounts included in lease costs was $22,532 for operating leases and $1,158 for financing leases during the year ended June 30, 2023.

(In thousands)

Maturities of lease liabilities under noncancelable leases as of June 30, 2023, are as follows:

		Operating	Finance	Total
2024	$	20,290	1,158	21,448
2025		19,652	1,158	20,810
2026		19,721	1,158	20,879
2027		20,160	1,158	21,318
2028		18,398	95	18,493
Thereafter		196,393	—	196,393
Total undiscounted cash flows		294,614	4,727	299,341
Less imputed Interest		(70,466)	(1,362)	(71,828)
Present value of lease liabilities	$	224,148	3,365	227,513

There are no real estate obligations for leases signed but not yet commenced as of June 30, 2023.

(14) Contingencies

(a) Litigation and Compliance with Laws and Regulations

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

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

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

(In thousands)

(b) Contingent Liability

Fred Hutch received federal grant funding for a portion of the construction of its South Lake Union Campus. Because Fred Hutch received federal grant funding for a portion of its campus, the government retains an interest in the net proceeds received if portions of the campus are sold. No liability is recorded related to this interest. Management has determined the probability of this transaction occurring is remote and the value of the interest is unmeasurable.

(15) Functional Expenses

Fred Hutch provides clinical healthcare and research services. The following tables present expenses by both their nature and function for the year ended June 30, 2023:

		Program services clinical	Program services research	Management and general	Fundraising	Grand Total
Salaries, wages and benefits	$	207,092	346,107	98,560	12,603	664,362
Subawards		—	150,120	—	—	150,120
Purchased services		191,576	61,405	42,110	3,625	298,716
Collaborative arrangement		—	—	101,614	—	101,614
Supplies		467,460	44,631	4,478	86	516,655
Rent, utilities and maintenance		36,540	20,406	25,790	145	82,881
Interest, depreciation and amortization		25,340	57,558	11,366	245	94,509
Other		10,662	29,343	17,976	8,907	66,888
Total operating expenses	$	938,670	709,570	301,894	25,611	1,975,745

(16) Related Party–Transactions

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

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

(In thousands)

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

		Service and other income	Research grants and contracts	Contributions	Interest income	Total
UW	$	15,944	11,509	(193)	6,551	33,811

		Purchased services	Subawards	Supplies	Lease expense	Other	Total
UW	$	154,045	30,400	10,015	732	6,788	201,980

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

		Due from related party	Due to related party
UW	$	4,904	18,094

(17) Service and Other Income

Service and other income includes income from noncore sources, including service agreements, commercialization, related party–transactions, professional services, core resources, rent, parking, and similar activities. Fred Hutch had $40,118 of service and other income for the year ended June 30, 2023.

(18) Net Patient Service Revenue

Fred Hutch has agreements with third-party payors that provide payments to Fred Hutch at amounts different from its established rates. Patient services revenues were billed to the following payors for the year ended June 30, 2023:

Commercial	$	738,201
Medicare		391,052
Medicaid		42,119
Self-pay and other		173
Total patient services revenue	$	1,171,545

For the year ended June 30, 2023, revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price) was insignificant.

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

(a) Commercial

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

For certain commercial payors, Fred Hutch has negotiated a single payment (case rate) for a defined period of care (case rate period) related to providing a bone marrow or stem cell transplant. All of Fred Hutch's case rate contracts specify a minimum and maximum payment calculation based on a review of actual gross charges provided during the case rate period. In addition to the case rate payments, the case rate contracts also specify negotiated fee-for-service rates for services performed outside of the case rate period. Case rate contracts extend to Fred Hutch related parties. Fred Hutch serves as the collection agent for the case rate payments. All case rate payments are remitted to Fred Hutch, which in turn remits payments to each respective related party for its proportionate share of services rendered. Any liability to related parties has been accrued in accounts payable and accrued expenses on June 30, 2023.

(b) Medicare

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Fred Hutch's historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalizations of prior-year cost reports and other third-party settlement estimates resulted in an increase of net patient service revenues of approximately $6,759 in 2023.

(c) Medicaid

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

(d) Self-Pay & Other Insurers

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

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

(In thousands)

(19) Concentration of Credit Risk

Fred Hutch grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Percentage of outstanding patient accounts receivable by third-party-payor and patients are as follows on June 30, 2023:

Patient accounts receivable:	
Commercial	50 %
Medicare	35
Medicaid	12
Self-pay and other	3
Total	100 %

(20) Accounting for Derivative Instruments and Hedging Activities

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

(a) Interest Rate Swaps

Fred Hutch has entered into two interest rate swap agreements to mitigate the risks associated with variable rate bond issues. This agreement has been amended in December 2017. The duration of the swaps extended to 2042 to match up the duration of the existing underlying variable rate bonds. The first swap has a notional amount of $56,577. The interest rate paid by Fred Hutch is fixed at 3.60% while the counterparty pays Fred Hutch 67% of an indexed rate. The second swap has a notional value of $52,723. The interest rate paid by Fred Hutch is fixed at 3.53% while the counterparty pays Fred Hutch 89% of an indexed rate.

The fair value is the estimated amount the counterparties would receive or pay to terminate the swap agreements at the reporting date based on current interest rates and the current creditworthiness of the swap counterparties. The fair value of the swaps, recorded as deferred credits on cash flow hedges, was $9,613 on June 30, 2023.

(b) Collateral Posted with Swap Counterparty

The swap agreements contain terms that require Fred Hutch to post collateral with the counterparty if certain conditions are met, including when the fair value amount to terminate the swaps exceeds $40,000 as of June 30, 2023. No collateral amounts were required to be posted as of June 30, 2023.

(Continued)

(c) Currency hedge activity

Fred Hutch purchases forward contracts for South African Rand (ZAR) currency. This allows Fred Hutch to mitigate currency risk related to HCRISA research activities in South Africa. Outstanding forward contracts that obligate Fred Hutch to purchase ZAR on June 30, 2023 was R120,000 ($6,455 USD).

(21) Subsequent Events

Fred Hutch has evaluated subsequent events through October 13, 2023 the date the consolidated financial statements were issued, and has included all necessary adjustments and disclosures.