



SEATTLE CANCER CARE ALLIANCE

Independent Auditors' Report in Accordance with the
Uniform Guidance for Federal Awards

Year Ended June 30, 2021

(With Independent Auditors' Report Thereon)

SEATTLE CANCER CARE ALLIANCE

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Seattle Cancer Care Alliance

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Seattle Cancer Care Alliance which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seattle Cancer Care Alliance as of June 30, 2021 and 2020 and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021 on our consideration of Seattle Cancer Care Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Seattle Cancer Care Alliance's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Seattle Cancer Care Alliance's internal control over financial reporting and compliance.

KPMG LLP

Seattle, Washington
October 7, 2021

SEATTLE CANCER CARE ALLIANCE

Consolidated Balance Sheets

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 232,457,000	165,575,000
Short-term investments	330,062,000	343,045,000
Patient accounts receivable, net	140,780,000	90,141,000
Other current assets	41,080,000	38,682,000
Total current assets	744,379,000	637,443,000
Assets whose use is limited	284,212,000	10,892,000
Property, plant, and equipment, net of accumulated depreciation	279,344,000	197,483,000
Right-of-use assets	194,098,000	142,575,000
Noncurrent investments	—	5,633,000
Goodwill and intangible assets, net of accumulated amortization of \$25,206,000 and \$24,098,000 in 2021 and 2020, respectively	9,014,000	7,539,000
Other assets	24,424,000	18,596,000
Total assets	\$ 1,535,471,000	1,020,161,000
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 3,415,000	3,219,000
Current portion of right-of-use lease liabilities	12,050,000	9,906,000
Accounts payable and accrued expenses	74,468,000	60,627,000
Other current liabilities	64,297,000	72,038,000
Total current liabilities	154,230,000	145,790,000
Long-term debt, net of current portion	395,917,000	91,677,000
Long-term right-of-use lease liabilities, net of current portion	195,031,000	144,631,000
Other long-term liabilities	812,000	812,000
Total liabilities	745,990,000	382,910,000
Net assets:		
Without donor restrictions	777,835,000	626,359,000
With donor restrictions	11,646,000	10,892,000
Total net assets	789,481,000	637,251,000
Total liabilities and net assets	\$ 1,535,471,000	1,020,161,000

See accompanying notes to the consolidated financial statements.

SEATTLE CANCER CARE ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions

Years ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Patient service revenue	\$ 890,271,000	753,028,000
Other operating revenue	28,403,000	32,461,000
Net assets released from restriction used for operations	5,279,000	17,513,000
Total operating revenues	923,953,000	803,002,000
Operating expenses:		
Salaries, wages, and benefits	200,929,000	177,562,000
Purchased services	208,572,000	202,601,000
Supplies	340,569,000	277,647,000
Depreciation and amortization	27,836,000	23,098,000
Interest	3,805,000	3,312,000
Other	59,136,000	50,713,000
Total operating expenses	840,847,000	734,933,000
Net income from operations	83,106,000	68,069,000
Nonoperating income:		
Investment income	64,710,000	2,901,000
Other income, net	3,470,000	2,237,000
Excess of revenues over expenses	151,286,000	73,207,000
Net assets released from restrictions for capital acquisitions	190,000	201,000
Change in net assets without donor restrictions	151,476,000	73,408,000
Net assets without donor restrictions, beginning of year	626,359,000	552,951,000
Net assets without donor restrictions, end of year	\$ 777,835,000	626,359,000

See accompanying notes to the consolidated financial statements.

SEATTLE CANCER CARE ALLIANCE

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2021 and 2020

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Balance, June 30, 2019	\$ 552,951,000	9,415,000	562,366,000
Excess of revenues over expenses	73,207,000	—	73,207,000
Restricted contributions, grants, and other	—	19,191,000	19,191,000
Net assets released from restrictions for capital acquisitions	201,000	(201,000)	—
Net assets released from restriction for operations	—	(17,513,000)	(17,513,000)
Change in net assets	<u>73,408,000</u>	<u>1,477,000</u>	<u>74,885,000</u>
Balance, June 30, 2020	<u>626,359,000</u>	<u>10,892,000</u>	<u>637,251,000</u>
Excess of revenues over expenses	151,286,000	—	151,286,000
Restricted contributions, grants, and other	—	6,223,000	6,223,000
Net assets released from restrictions for capital acquisitions	190,000	(190,000)	—
Net assets released from restrictions for operations	—	(5,279,000)	(5,279,000)
Change in net assets	<u>151,476,000</u>	<u>754,000</u>	<u>152,230,000</u>
Balance, June 30, 2021	\$ <u><u>777,835,000</u></u>	<u><u>11,646,000</u></u>	<u><u>789,481,000</u></u>

See accompanying notes to the consolidated financial statements.

SEATTLE CANCER CARE ALLIANCE

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 152,230,000	74,885,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and change in unrealized (gains) losses on investments	(53,757,000)	9,819,000
Losses on disposal of property, plant, and equipment	1,356,000	59,000
Depreciation and amortization	27,836,000	23,098,000
Amortization of operating lease right-of-use assets	835,000	11,962,000
Amortization of premium on issuance of long-term debt	(2,772,000)	(734,000)
Loss (Gain) on defeasance of debt	(1,995,000)	—
(Increase) decrease in:		
Patient accounts receivable	(42,332,000)	9,862,000
Assets whose use is limited	1,890,000	(1,872,000)
Other assets	(440,000)	(7,866,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	3,977,000	4,837,000
Other liabilities	(8,266,000)	38,026,000
Net cash provided by operating activities	<u>78,562,000</u>	<u>162,076,000</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment, net	(71,170,000)	(53,111,000)
Initial direct cost of finance lease	(560,000)	—
Net cash acquired in acquisition	24,431,000	—
Net purchases of trading securities	(10,784,000)	(5,680,000)
Purchases of other assets	<u>(10,244,000)</u>	<u>(10,411,000)</u>
Net cash used in investing activities	<u>(68,327,000)</u>	<u>(69,202,000)</u>
Cash flows from financing activities:		
Payment of debt issuance costs	(1,960,000)	(439,000)
Proceeds from issuance of long-term debt	322,621,000	—
Principal payments on long-term debt	<u>(67,061,000)</u>	<u>(3,074,000)</u>
Net cash provided by (used in) financing activities	<u>253,600,000</u>	<u>(3,513,000)</u>
Net increase in cash, cash equivalents, and restricted cash	263,835,000	89,361,000
Cash, cash equivalents, and restricted cash at beginning of year	<u>170,500,000</u>	<u>81,139,000</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u>434,335,000</u>	<u>170,500,000</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 11,298,000	4,097,000
Cash paid during the year for operating leases	\$ 19,883,000	8,337,000
Supplemental disclosure of noncash activities:		
Purchase of property, plant, and equipment included in accounts payable	\$ 9,542,000	4,889,000
Right-of-use assets obtained in exchange for finance lease liabilities	\$ 29,500,000	—
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 34,247,000	152,283,000

See accompanying notes to the consolidated financial statements.

SEATTLE CANCER CARE ALLIANCE

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(1) Organization

Seattle Cancer Care Alliance (SCCA) is a nonprofit corporation organized in 1998 by Seattle Children's Hospital, the University of Washington through UW Medicine, and Fred Hutchinson Cancer Research Center (FHCRC) for the purpose of developing and offering a comprehensive program of integrated cancer care services. SCCA operates a 20-bed licensed hospital inside the University of Washington Medical Center (UWMC), a member organization of UW Medicine, and operates ambulatory cancer care service facilities. In addition to providing inpatient and outpatient cancer care services, SCCA provides programmatic direction to the adult inpatient cancer services provided by UWMC and the pediatric inpatient and outpatient cancer services provided by Seattle Children's Hospital. As members of SCCA, Seattle Children's Hospital, the University of Washington, and FHCRC share equally in the results of operations.

Effective February 11, 2021, SCCA entered into a merger agreement with Seattle Proton Center Holdings (SPC), a taxable not-for-profit entity and the sole corporate member of ProCure Seattle Holdings, LLC (MidCo). MidCo is the holding company for Seattle Proton Center, LLC (OpCo). OpCo, doing business as SCCA Proton Therapy Center, was formed to construct and operate a stand-alone outpatient proton radiation treatment center in Seattle, Washington serving oncology patients throughout the Pacific Northwest. Under the agreement, SPC was merged into SCCA with SCCA as the sole surviving corporation succeeding to all assets, liabilities, and claims of SPC (the Merger). Refer to note 2 for additional information regarding the Merger.

(2) Proton Center Merger

The Merger furthers SCCA's mission by expanding its patients' access to proton radiation treatment.

The Merger constitutes a business combination under Accounting Standards Codification ("ASC") 958-805, *Not-for-Profit Entities – Business Combinations*. The fair value of SPC's acquired assets, and assumed liabilities, as of February 11, 2021, were as follows:

Acquired assets:	
Cash and cash equivalents	\$ 24,431,000
Patient accounts receivable	8,321,000
Assets whose use is limited	3,253,000
Right-of-use assets	14,810,000
Intangible asset	2,583,000
Other assets	1,947,000
Property, plant, and equipment	<u>32,532,000</u>
	<u>\$ 87,877,000</u>
Assumed liabilities:	
Current liabilities	\$ 5,860,000
Long-term debt and accrued interest	66,837,000
Lease liabilities	<u>15,180,000</u>
	<u>\$ 87,877,000</u>

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Notes to Consolidated Financial Statements
June 30, 2021 and 2020

The long-term debt and accrued interest assumed in the Merger consists of the following:

Series 2018A Bonds	\$	49,640,000
Series 2018B Bonds		8,325,000
Notes payable		<u>8,872,000</u>
	\$	<u><u>66,837,000</u></u>

Subsequent to the Merger, the Series 2018A Bonds were refinanced. Refer to note 14(a) for additional information.

As of June 30, 2020, SCCA held \$6,000,000 of the Series 2018B Bonds, subordinated lien taxable bonds issued by OpCo through the Wisconsin Public Finance Authority. As a result of the Merger, the Series 2018B Bonds were reacquired and effectively settled for \$8,325,000 as consideration transferred. The difference between the fair value of the Series 2018B Bonds, including accrued interest, on the merger date and the carrying value immediately prior to the acquisition is recognized as a gain of \$2,157,000 in investment income within the accompanying consolidated statement of operations for the year ending June 30, 2021.

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of SCCA and its subsidiaries. All significant intercompany transactions between SCCA and its subsidiaries have been eliminated in consolidation.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. 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 consolidated 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

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the date of purchase. SCCA maintains cash balances that may exceed federally insured limits. Management does not believe that this results in any significant credit risk to SCCA.

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheet that comprise the amounts reported on the consolidated statements of cash flows at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 232,457,000	165,575,000
Restricted cash in current other assets	9,000	13,000
Restricted cash in assets whose use is limited	4,303,000	4,912,000
Funds held by trustee in assets whose use is limited	<u>197,566,000</u>	<u>—</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 434,335,000</u>	<u>170,500,000</u>

Restricted cash in assets whose use is limited is cash held due to restricted use by donors and SCCA's trust indenture note 3(e). As of June 30, 2021, and 2020, cash equivalents were \$44,034,000 and \$43,818,000, respectively.

(d) Supplies Inventory

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

(e) Assets Whose Use is Limited

Assets whose use is limited includes net assets without donor restrictions designated by the Board of Directors (the Board) for future capital purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets whose use is limited also includes net assets with donor restrictions and funds held under the terms of SCCA's trust indenture. These cash and cash equivalents have been invested in various money market funds.

As of June 30, 2021 and 2020 the fair value of assets whose use is limited is as follows:

	<u>2021</u>	<u>2020</u>
Board-designated investments	\$ 75,000,000	—
Donor restricted funds	11,646,000	10,892,000
Funds held under trust indenture	<u>197,566,000</u>	<u>—</u>
Total assets whose use is limited	<u>\$ 284,212,000</u>	<u>10,892,000</u>

Board-designated investments includes \$50M for the Clinic Expansion project and \$25M for the second floor build-out related to the Clinic Expansion.

(f) Short-term Investments

Investments consist principally of U.S. government obligations, corporate bonds, collateralized mortgage and debt obligations, and equity mutual funds that are stated at fair market value. All

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

investment transactions are traded and valued in U.S. dollars. Management classifies investments expected to mature or be sold within the following year and not restricted for other purposes as short-term investments. SCCA has designated \$330,062,000 and \$343,045,000 of investments as trading securities for the years ended June 30, 2021 and 2020, respectively.

Investment income or loss is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, net of accumulated depreciation. Improvements and replacements of plant and equipment are capitalized, and repairs and maintenance are expensed. The cost and related accumulated depreciation of property, plant, and equipment sold or retired are removed from the accounts and the resulting gain or loss is recognized.

(h) Goodwill and Intangible Assets

Intangible assets other than goodwill are stated at the value assigned to them. 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.

Goodwill is an asset representing the future economic benefits arising from the difference in the fair value of the business acquired and the fair value of the identifiable and intangible net assets acquired in a business combination. SCCA evaluates goodwill for impairment annually or when indicators of a triggering event exist.

In 2021 and 2020, there were no impairment charges.

(i) Leases

SCCA determines whether an arrangement is a lease at inception. Leases are classified as either operating or finance leases. As of June 30, 2021, SCCA has one finance lease, recorded in right-of-use assets. All other leases for clinics, office space, parking, and equipment are classified as operating leases and recorded in right-of-use assets. Options that SCCA is reasonably certain of exercising are considered in determining the lease term used to establish the right-of-use assets and lease liabilities. The right-of-use lease liability represents the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right-of-use asset represents the lessee's right to use or control the use of a specified asset for a lease term. The right-of-use asset includes any lease payments made prior to commencement and is recorded net of any right-of-use lease incentives received to date. 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.

SCCA elected not to record leases with an initial term of 12 months or less (short-term leases) on its consolidated balance sheet, rather rent for these leases is expensed in the period they are incurred.

Since most of SCCA's leases do not provide an implicit rate of return, SCCA uses an incremental borrowing rate based on information available at the commencement date in determining the present

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

value of lease payments. The incremental borrowing rate is a hypothetical rate based on SCCA's implicit credit rating.

Certain lease agreements contain both lease and non-lease components. SCCA 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.

SCCA 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.

(j) *Deferred Financing Costs*

Costs incurred to secure financing are presented as a direct deduction from the carrying amount of debt and are amortized on a straight-line basis over the shorter of the life of the debt or the initial bank loan tender term for private issue debt.

(k) *Net Assets*

Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. These donor restrictions may be limited to a specific time period, purpose, or to be maintained in perpetuity. When restricted funds to be used for operations are expended for their restricted purposes, these amounts are reflected in net assets without donor restrictions as net assets released from restrictions for operations and are included in operating revenues. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are reflected in net assets without donor restrictions as net assets released from restrictions for capital acquisitions.

Net assets that are available for use in general operations and not subject to donor (or certain grantor) restrictions are reported as increases in net assets without donor restrictions.

(l) *Functional Expense Allocation Methodology*

SCCA's consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These allocations include:

- Occupancy costs related to building and security allocated based on square footage
- Equipment depreciation and amortization allocated to the function using the asset in operations
- Information technology department costs, and other natural costs allocated based on the usage of the computer equipment.

Management believes these allocation bases allocate the costs to the related program function or supporting function in a reasonable manner.

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Notes to Consolidated Financial Statements
June 30, 2021 and 2020

(m) Depreciation

Depreciation is computed using the straight-line method, which allocates the cost of depreciable assets over the following estimated useful lives:

Land improvements	2–25 Years
Buildings and fixed equipment	3–40 Years
Major movable and minor equipment	2–20 Years
Leasehold improvements	2–10 Years

(n) Patient Service Revenue

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

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

Clinical services are the services performed by physicians and other medical professionals to aid in the diagnosis and treatment of cancer. SCCA 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. SCCA 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. SCCA 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 SCCA policy and implicit price concessions provided to the uninsured patient. SCCA estimates the contractual adjustment for unpaid accounts based on contractual agreements, its discounts policies, and historical experience by class of patient. SCCA analyzes the discounts on patient service revenue by portfolio of inpatient and outpatient clinical services and payor classification. SCCA has sufficient historical information on these payor groups' collection rates and other information that allows SCCA 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. SCCA 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.

SEATTLE CANCER CARE ALLIANCE

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

For patients that do not qualify for financial assistance, SCCA recognizes that a portion of their patients will be unable or unwilling to pay for the services provided. SCCA 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 SCCA 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.

(o) COVID-19

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) enacted on March 27, 2020 authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). Payments from the PRF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PRF funds to reimburse expenses or losses that other sources are obligated to reimburse. The U.S. Department of Health and Human Services (the HHS) allocated the funding proportional to the providers' share of 2019 net patient revenue. HHS indicated that distributions of the remaining \$50 billion were targeted primarily to hospitals in COVID-19 high-impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. SCCA received approximately \$14,675,000 in payments from the PRF program, all of which was recognized as revenue for the year ended June 30, 2020 as net assets released from restriction used for operations.

The CARES Act also sought to increase cash flow to providers through the Medicare Accelerated and Advance Payment Program. This program, administered by the Centers for Medicare & Medicaid Services (CMS), allowed certain cancer hospitals an advance of up to 100% of the Medicare Payment of a six-month period. In April 2020, SCCA received approximately \$35,852,000 of accelerated payments, which are reported on the consolidated balance sheet as of June 30, 2020 under other current liabilities. Advance payments of \$6,752,000 were automatically withheld from claims by CMS in 2021. As of June 30, 2021, the remaining advance reported in other current liabilities totaled \$29,100,000.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. SCCA began deferring the employer portion of social security taxes in mid-April 2020. Deferred social security tax payments of \$5,962,000 and \$2,049,000 are reported in accounts payable and accrued expenses as of June 30, 2021 and June 30, 2020 respectively.

In addition to relief provided by the CARES Act, SCCA also qualified for assistance from the Federal Emergency Management Agency (FEMA). FEMA assistance was awarded on the basis of actual qualifying costs incurred. During the year ended June 30, 2021, SCCA recognized \$3,161,000 in FEMA assistance, included in net assets released from restriction used for operations in the accompanying consolidated statement of operations and changes in net assets without donor restrictions.

Due to the recent enactment of the CARES Act, there is still a high degree of uncertainty surrounding its implementation, and the public health emergency continues to evolve. SCCA will continue to assess the potential impact of the CARES Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on its business, results of operations, financial condition, and cash flows.

(p) Charity

SCCA provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because SCCA does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as revenue. The estimated net cost of financial assistance provided was approximately \$6,470,000 and \$8,211,000 in 2021 and 2020, respectively. The net cost of financial assistance was calculated using a percentage of cost to charges, which was 49% in 2021 and 52% in 2020. The number of financial assistance patients served was 2,182 in 2021 and 2,420 in 2020.

(q) Investment Income

Investment income includes (1) interest, dividends, and realized gains and losses on SCCA's cash equivalents, short-term investments, and assets whose use is limited, (2) changes in unrealized gains and losses on short-term investments, (3) investment management expense and (4) gain for settlement, upon merger, of preexisting relationships between SCCA and SPC.

(r) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets without donor restrictions include excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses include capital acquisitions related to grants and contributions of long-lived assets (including assets acquired using contributions, which by donor restrictions were to be used for the purposes of acquiring such assets).

(s) Taxes

SCCA has obtained a determination letter from the Internal Revenue Service indicating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income tax. SCCA recognizes the effect of income tax positions only if those positions are

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more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

MidCo and OpCo are classified as disregarded entities for tax purposes and included on the tax return of SCCA. As a disregarded entity, neither MidCo nor OpCo has an individual tax status; rather, each is treated as a division of SCCA for federal income tax purposes.

(t) Recently Adopted or Newly Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. The ASU removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, including the policy for timing of transfers between levels; the description of valuation processes for Level 3 fair value measurements; and, for nonpublic entities, the changes in unrealized gains and losses from remeasurement for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. However, in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. SCCA adopted ASU 2018-13 effective July 1, 2020, and the provisions of the standard did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment*. This ASU simplifies the impairment testing process by eliminating Step 2 from the goodwill impairment test, which measures goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020 with early adoption permitted. SCCA is currently assessing the impact that ASU 2017-04 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. SCCA is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements.

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

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

(4) Reclassifications

Certain reclassifications, which have no impact on net assets, have been made to prior year amounts to conform to the current year presentation.

(5) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used by SCCA in estimating the fair value of its financial instruments:

Cash and Cash Equivalents – The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value.

Short-term and Noncurrent Investments, Assets whose use is limited – Investments in fixed-income securities and equity securities with a readily determinable fair value are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

(b) Fair Value Hierarchy

In accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Valuation is based upon quoted prices for identical assets in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques, such as present value of future cash flows and adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions for which all significant assumptions are observable in the market.
- Level 3 – Inputs are unobservable inputs for the asset or liability. Level 3 investments include pooled investments related to net assets with donor restrictions that are perpetual in nature and managed by two of SCCA's member organizations.

The level in the fair value hierarchy within which a fair value measurement falls, in its entirety, is based on the lowest-level input that is significant to the fair value measurement. Assets and liabilities classified within Level 3 inherently require the use of various assumptions, estimates, and judgments when measuring their fair value. As SCCA is not able to exercise significant influence over the management of the Level 3 assets, the inputs and assumptions used, such as the discount rate, are unobservable. Changes in the significant underlying factors or assumptions in any of these areas

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underlying the estimates may have resulted in a significant increase/decrease in the Level 3 fair value measurement of a particular asset and/or liability from period to period.

The following table presents assets that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at June 30, 2021:

	<u>June 30, 2021</u>	<u>Fair value measurements at reporting date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Investments:				
U.S. Treasury notes and bills	\$ 23,818,000	23,818,000	—	—
Equity mutual funds:				
Domestic	94,858,000	94,858,000	—	—
International (U.S. dollar denominated)	48,882,000	48,882,000	—	—
Corporate debt securities:				
Domestic – financial services	67,960,000	—	67,960,000	—
Domestic – utilities	13,341,000	—	13,341,000	—
Domestic – healthcare	6,839,000	—	6,839,000	—
Domestic – consumer goods	9,846,000	—	9,846,000	—
Domestic – other	7,147,000	—	7,147,000	—
International (U.S. dollar denominated)	11,152,000	—	11,152,000	—
U.S. mortgage-backed securities – residential	9,336,000	—	9,336,000	—
Collateralized debt securities	33,646,000	—	33,646,000	—
Municipal bonds	3,237,000	—	3,237,000	—
Total investments	<u>\$ 330,062,000</u>	<u>167,558,000</u>	<u>162,504,000</u>	<u>—</u>
Assets whose use is limited:				
Cash and cash equivalents	\$ 201,878,000	201,878,000	—	—
Domestic equity mutual funds	75,000,000	75,000,000	—	—
Pooled investments and other	7,343,000	—	—	7,343,000
Total assets whose use is limited	<u>\$ 284,221,000</u>	<u>276,878,000</u>	<u>—</u>	<u>7,343,000</u>

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The following table presents assets that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at June 30, 2020:

	<u>June 30, 2020</u>	<u>Fair value measurements at reporting date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Investments:				
U.S. Treasury notes and bills	\$ 19,015,000	19,015,000	—	—
Equity mutual funds:				
Domestic	104,771,000	104,771,000	—	—
International (U.S. dollar denominated)	39,305,000	39,305,000	—	—
U.S. government inflation protection bonds	6,545,000	—	6,545,000	—
Foreign government bonds	4,477,000	—	4,477,000	—
Corporate debt securities:				
Domestic – financial services	73,407,000	—	73,407,000	—
Domestic – utilities	18,767,000	—	18,767,000	—
Domestic – healthcare	10,240,000	—	10,240,000	—
Domestic – consumer goods	4,028,000	—	4,028,000	—
Domestic – other	5,473,000	—	5,473,000	—
International (U.S. dollar denominated)	8,082,000	—	8,082,000	—
U.S. mortgage-backed securities – residential	10,659,000	—	10,659,000	—
Collateralized debt securities	37,722,000	—	37,722,000	—
Municipal bonds	6,187,000	—	6,187,000	—
Total investments	<u>\$ 348,678,000</u>	<u>163,091,000</u>	<u>185,587,000</u>	<u>—</u>
Assets whose use is limited:				
Cash and cash equivalents	\$ 4,924,000	4,924,000	—	—
Pooled Investments and other	5,981,000	—	—	5,981,000
Total assets whose use is limited	<u>\$ 10,905,000</u>	<u>4,924,000</u>	<u>—</u>	<u>5,981,000</u>

There were no Level 3 transfers into or out of Level 1 or Level 2 financial instruments during the years ended June 30, 2021 or 2020.

Pooled Investments and other, reported in assets whose use is limited are based on the fair value of the investments as determined by SCCA's member organizations using inputs that are not observable.

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The consolidated financial statements as of and for the years ended June 30, 2021 and 2020 do not contain any nonrecurring fair value measurements relating to assets or liabilities that require disclosure under the provisions of ASC Topic 820.

(6) Investment Income

Investment income comprises the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Investment income:		
Interest and dividend income	\$ 11,477,000	13,038,000
Changes in net unrealized gain (loss) on trading securities	51,264,000	(10,299,000)
Realized gain on investments, net	2,541,000	481,000
Investment management expense	<u>(572,000)</u>	<u>(319,000)</u>
Total investment income	<u>\$ 64,710,000</u>	<u>2,901,000</u>

Realized gain on investments, net includes a \$2,157,000 gain relating to the effective settlement of the Series 2018B bonds in the Merger. Refer to note 2 for additional discussion.

(7) Liquidity and Availability of Financial Assets

SCCA's financial assets available within one year for general expenditures, liabilities, and other obligations as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 232,457,000	165,575,000
Short-term investments	330,062,000	343,045,000
Patient accounts receivable, net	140,780,000	90,141,000
Other current assets	<u>14,558,000</u>	<u>18,361,000</u>
Financial assets available for general expenditures within one year	<u>\$ 717,857,000</u>	<u>617,122,000</u>

In addition, SCCA invests daily cash in excess of near-term requirements in short-term investments. In the event of unanticipated liquidity needs, SCCA has committed lines of credit in the amount of \$30,000,000. Refer to note 14(f) for additional information.

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(8) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Patient housing	\$ 134,000	104,000
Research	1,445,000	2,048,000
Specific clinics or treatment programs	252,000	168,000
Supportive care services	2,211,000	2,580,000
Other	261,000	11,000
	<u>4,303,000</u>	<u>4,911,000</u>
Endowments perpetual in nature, distributions available to support the following purposes:		
Supportive care services	7,214,000	5,888,000
Research	129,000	93,000
	<u>7,343,000</u>	<u>5,981,000</u>
Total net assets with donor restrictions	<u>\$ 11,646,000</u>	<u>10,892,000</u>

(9) Net Assets Released from Restriction

Net assets were released from restrictions for the following purposes for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Patient housing	\$ 30,000	35,000
Capital equipment for Patient Housing	—	202,000
Research	1,140,000	2,129,000
Specific clinics or treatment programs	36,000	33,000
Supportive care services	899,000	630,000
CARES Act Provider Relief Fund	—	14,675,000
FEMA funding	3,161,000	—
Capital equipment for COVID	190,000	—
Other	13,000	10,000
	<u>\$ 5,469,000</u>	<u>17,714,000</u>

(10) Endowments

SCCA's endowment fund consists of donor-restricted funds that are perpetual in nature. Earnings on these funds are subject to the spending policy and appropriation as stipulated by the donor.

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The endowment funds are invested in pooled investments managed by two of SCCA's member organizations. As such, SCCA does not have the ability to exert significant influence in the endowment fund investment process.

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor standards require SCCA to retain as a fund of perpetual duration. At June 30, 2021, no donor-restricted endowment funds have fallen below the required level.

The following table summarizes the changes in endowment net assets for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 5,981,000	4,074,000
Investment income	1,571,000	97,000
Contributions	50,000	2,000,000
Appropriation of endowment assets for expenditure	<u>(259,000)</u>	<u>(190,000)</u>
Endowment net assets, end of year	<u>\$ 7,343,000</u>	<u>5,981,000</u>

Net assets with donor restrictions that are perpetual in nature included net accumulated earnings of \$1,848,000 and \$536,000 as of June 30, 2021 and 2020, respectively.

(11) Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 29,284,000	28,254,000
Buildings and fixed equipment	183,636,000	179,386,000
Major movable and minor equipment	147,935,000	119,504,000
Leasehold improvement	41,959,000	28,850,000
Construction in progress	<u>89,129,000</u>	<u>30,614,000</u>
	491,943,000	386,608,000
Less accumulated depreciation	<u>(212,599,000)</u>	<u>(189,125,000)</u>
	<u>\$ 279,344,000</u>	<u>197,483,000</u>

Construction in progress includes \$8,655,000 of capitalized interest in the year ended June 30, 2021. No interest was capitalized in the year ended June 30, 2020.

Depreciation expense for the fiscal years ended June 30, 2021 and 2020 amounted to approximately \$25,138,000 and \$21,610,000, respectively.

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(12) Leases

SCCA leases equipment and office space under operating leases expiring at various dates through March 2063. Many of these leases contain options under which SCCA can extend the term for five to fifty years.

On June 2, 2020, SCCA entered into a reciprocal lease agreement with FHCRC for the purpose of facilitating expansion of SCCA's existing cancer care center in Seattle, Washington. Under the terms of the agreement, SCCA entered a finance lease with FHCRC on July 28, 2020 for certain real property (Hutch Parcel) with a fair market value of \$30,060,000 for a period of eighty years ending January 23, 2100. Concurrently, SCCA entered a sales-type lease with FHCRC of certain real property at 1213 Valley (SCCA Parcel), with a fair market value of \$29,500,000, recorded in lease right-of-use assets. Rent obligations under this agreement were equalized with a one-time payment of \$560,000 from SCCA to FHCRC on July 28, 2020. The terms of the agreement provide a right of occupancy for SCCA with the Hutch Parcel and FHCRC with the SCCA Parcel, respectively, in lieu of rental payments.

As a part of the Merger (refer to Note 2), SCCA assumed a lease contract with the University of Washington for a parcel of land in Seattle, Washington (King County). The initial lease term, commencing March 5, 2013, is for 50 years and expires on March 4, 2063. There are two options to renew for a period of 25 years each. Beginning March 1, 2019 and every fifth year thereafter through the end of the initial lease term, the annual base rent is adjusted for inflation, based on the Consumer Price Index (CPI). Base rent for each of the renewal terms will be at fair value at the time of renewals.

Rental expense for the operating, variable, and short-term lease costs is included in other expenses and for the finance lease in depreciation and amortization expense in June 30, 2021 and 2020, respectively, and is composed of the following:

	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 15,280,000	12,418,000
Finance lease costs, amortization of leased assets	376,000	—
Variable lease cost	3,026,000	2,156,000
Short-term lease cost	<u>18,000</u>	<u>96,000</u>
Total lease cost	<u>\$ 18,700,000</u>	<u>14,670,000</u>

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The following is a schedule, by year, of future minimum operating lease payments, including options for lease extensions if reasonably assured they will be exercised, as of June 30, 2021, which have initial or remaining lease terms in excess of one year:

	Operating
2022	\$ 13,213,000
2023	12,664,000
2024	13,248,000
2025	13,325,000
2026	12,352,000
Thereafter	137,473,000
Total undiscounted cash flows	202,275,000
Less imputed interest	(24,694,000)
Present value of lease liabilities	\$ 177,581,000

No payments are due in future for the finance lease.

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

	Balance sheet classification	2021	2020
Assets:			
Operating right-of-use	Lease right-of-use assets	\$ 164,414,000	142,575,000
Finance right-of-use	Lease right-of-use assets	29,684,000	—
Total leased assets		\$ 194,098,000	142,575,000
Liabilities:			
Current:			
Operating	Current portion of operating right-of-use lease liabilities	\$ 12,050,000	9,906,000
Non-current:			
Operating	Long-term right-of-use lease liabilities, net of current portion	165,531,000	144,631,000
Finance	Long-term right-of-use lease liabilities, net of current portion	29,500,000	—
Total leased liabilities		\$ 207,081,000	154,537,000

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Weighted-average remaining lease term and discount rates are as follows:

	<u>2021</u>	<u>2020</u>
Weighted average remaining lease term in years:		
Operating lease	17.06	15.64
Finance lease	78.62	—
Weighted average discount rate:		
Operating lease	3.42 %	3.19 %
Finance lease	6.09	—

(13) Goodwill and Intangible Assets

At inception, SCCA acquired a ground lease and contributed outpatient businesses, which are reported as intangible assets. The ground lease was contributed by FHCRC. It relates to land upon which SCCA's South Lake Union outpatient facility was constructed and has a term of 99 years. The outpatient businesses were contributed by FHCRC and by UWMC with the designation that SCCA be a site of practice for certain oncology-related outpatient activities.

During the year ended June 30, 2019, SCCA completed an asset purchase agreement, which qualified as a business combination under ASC Section 954-805, *Not-for-Profit Business Combinations*, for the Peninsula Cancer Center for consideration in the amount of \$6,794,000. This purchase resulted in goodwill of \$3,939,000.

As part of the Merger (refer to Note 2), SCCA acquired an equipment service agreement discount of \$2,583,000 which is reported as an intangible asset and amortized over the term of the agreement. Refer to note 19(a) for additional information on the related agreement.

Amortization expense for intangible assets is calculated using the straight-line method and for the fiscal years ended June 30, 2021 and 2020 amounted to \$1,108,000 and \$1,241,000, respectively.

Goodwill and the unamortized balance of the intangible assets consists of the following as of June 30:

	<u>2021</u>	<u>2020</u>	<u>Amortization period</u>
Goodwill	3,939,000	3,939,000	NA
Ground lease	\$ 2,861,000	2,897,000	99 Years
Outpatient businesses	—	703,000	20 Years
Equipment services agreement discount	2,214,000	—	3 Years
	<u>\$ 9,014,000</u>	<u>7,539,000</u>	

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The estimated amortization expense related to these intangible assets is as follows:

2022	\$ 922,000
2023	922,000
2024	479,000
2025	36,000
2026	36,000
Thereafter	<u>2,680,000</u>
	<u>\$ 5,075,000</u>

(14) Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2021, at an average fixed interest rate of 3.68% for the year ended June 30, 2021 maturing on December 1, 2035, net of unamortized bond premium of \$6,704,000, and at increasing principal amounts of \$680,000 to \$9,080,000	\$ 44,309,000	—
Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2020, at an average fixed interest rate of 3.92% for the year ended June 30, 2021 maturing on September 1, 2055, net of unamortized bond premium of \$43,402,000, and at increasing principal amounts of \$690,000 to \$79,750,000	276,327,000	—
Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2014, at an average fixed interest rate of 4.66% and 4.62% for the years ended June 30, 2021 and 2020, respectively, maturing on March 1, 2038, net of unamortized bond premium of \$4,555,000, and at increasing principal amounts of \$2,735,000 to \$22,225,000	75,215,000	78,521,000
Washington Health Care Facility Authority, Weekly Rate Revenue Bonds, Series 2010, at an average variable interest rate of 1.84% for the year ended June 30, 2020	—	16,786,000
Notes payable, including accrued interest	<u>6,869,000</u>	<u>—</u>
	402,720,000	95,307,000
Less current portion	(3,415,000)	(3,219,000)
Less deferred financing costs	<u>(3,388,000)</u>	<u>(411,000)</u>
Long-term debt, net	<u>\$ 395,917,000</u>	<u>91,677,000</u>

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The maturities by year of the long-term debt obligations are as follows:

2022	\$	3,415,000
2023		3,963,000
2024		4,974,000
2025		5,213,000
2026		5,479,000
Thereafter		<u>324,588,000</u>
		347,632,000
Plus unamortized net premiums		<u>55,088,000</u>
	\$	<u><u>402,720,000</u></u>

(a) Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2021

In fiscal year 2021, SCCA borrowed the proceeds of the Washington Health Care Facility Authority's \$37,605,000 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, construction, remodeling, renovating, and equipping of certain health care facilities owned and operated by SCCA, including reimbursing SCCA for a portion of the costs thereof, (2) redeem all of the outstanding Series 2018A Bonds acquired in the Merger, and (3) pay certain costs incurred in the issuance and sale of the Bonds.

Under the terms of the credit agreement, SCCA is subject to certain covenants, including a requirement to maintain a minimum debt service coverage ratio of 1.10 to 1.00.

SCCA has pledged as collateral its gross receivables. Payments on the 2021 Bonds will be made solely by SCCA; the member organizations do not guaranty any of SCCA's financial obligations, including repayment of the 2021 Bonds.

As noted above, proceeds from the 2021 Bonds were used, in part, to redeem all of the outstanding Series 2018A Bonds acquired in the Merger. The terms of the redemption were negotiated with the bondholders. The excess of the carrying value over the negotiated redemption price is recognized as a \$1,995,000 gain on extinguishment presented within other income, net in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the year ending June 30, 2021.

(b) Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2020

In fiscal year 2021, SCCA borrowed the proceeds of the Washington Health Care Facility Authority's \$232,925,000 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 SCCA, including reimbursing SCCA for a portion of the costs thereof, (2) advance refund and defease all of the 2010 Bonds discussed below, (3) fund capitalized interest and (4) pay certain costs incurred in the issuance costs of such bonds.

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June 30, 2021 and 2020

Under the terms of the credit agreement, SCCA is subject to certain covenants, including a requirement to maintain a minimum debt service coverage ratio of 1.10 to 1.00.

SCCA has pledged as collateral its gross receivables. Payments on the 2020 Bonds will be made solely by SCCA; the member organizations do not guaranty any of SCCA's financial obligations, including repayment of the 2020 Bonds.

(c) Washington Health Care Facility Authority, Fixed Rate Revenue Bonds, Series 2014

In fiscal year 2015, SCCA borrowed the proceeds of the Washington Health Care Facility Authority's \$86,950,000 Revenue Bonds, Series 2014 (the 2014 Bonds). The 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, and pay certain costs in connection with the issuance of the 2014 Bonds. Principal is paid upon maturity of the bond and interest is paid semiannually. SCCA has the option to redeem outstanding bonds prior to their maturity dates, provided certain conditions are met.

Under SCCA's master trust, SCCA is subject to certain covenants, including a requirement to maintain a minimum debt service coverage ratio of 1.10 to 1.00.

SCCA has pledged as collateral its gross receivables. Payments on the 2014 Bonds will be made solely by SCCA; the member organizations do not guaranty any of SCCA's financial obligations, including repayment of the 2014 Bonds.

(d) Washington Health Care Facility Authority, Weekly Rate Revenue Bonds, Series 2010

In fiscal year 2011, SCCA borrowed the proceeds of the Washington Health Care Facility Authority's \$21,415,000 Variable Rate Revenue Bonds, Series 2010 (the 2010 Bonds) to provide a portion of the funds necessary to refund bonds issued to fund the Seattle Cancer Care Alliance House and to pay a portion of the costs of issuing the 2010 Bonds.

Upon issuance, SCCA entered into a private placement agreement which was in effect as of June 30, 2012. The 2010 bonds were advance refunded and defeased upon issuance of the 2020 Bonds.

(e) Notes Payable

As a result of the Merger, SCCA assumed two notes payable with principal and accrued interest balances totaling \$6,062,000 and \$808,000 respectively, at June 30, 2021. The terms of the notes state the unsecured debt accrues interest at a rate of 5.0% per year. Future payments of principal and interest on these notes will be made only from OpCo's excess cash as defined in the agreements, if certain financial ratios have been met, and the aggregate amount of all such payments, when combined with payments made on the intercompany note do not exceed \$1,100,000 for any fiscal year.

(f) Line of Credit

SCCA has available lines of credit in the amount of \$3,000,000 and \$27,000,000, with annual interest rates on outstanding principal balances of daily LIBOR plus 2.5% and monthly LIBOR plus 1.5%, and expiration dates of December 1, 2021 and November 29, 2021, respectively. Since inception, no funds have been drawn on either line of credit.

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

(15) Patient Services Revenue

SCCA has agreements with third-party payors that provide for payments to SCCA at amounts different from its established rates. Patient services revenues were billed to the following payors for the year ended June 30, 2021:

	<u>2021</u>	<u>2020</u>
Commercial	\$ 565,603,000	500,506,000
Medicare	281,053,000	221,861,000
Medicaid	32,744,000	23,853,000
Self-pay and other	<u>10,871,000</u>	<u>6,808,000</u>
Total patient services revenue	<u>\$ 890,271,000</u>	<u>753,028,000</u>

For the years ended June 30, 2021 and 2020, 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

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

For certain commercial payors, SCCA 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 SCCA'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 SCCA related parties. With the exception of pediatric cases, SCCA serves as the collection agent for the case rate payments. For pediatric cases, Seattle Children's Hospital serves as the collection agent. All case rate payments, except for pediatric cases, are remitted to SCCA, which in turn remits payments to each respective related party for its proportionate share of services rendered. Payments for pediatric cases are to be remitted to Seattle Children's Hospital, which in turn remits payments to each respective party for its proportionate share of services. Any liability to related parties has been accrued in accounts payable and accrued expenses at June 30, 2021 and 2020.

(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. SCCA's inpatient facility is recognized by Medicare as an Exempt Hospital.

SEATTLE CANCER CARE ALLIANCE

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 Centers 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, SCCA 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 SCCA 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 the SCCA’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 \$2,610,000 in 2021 and an increase of net patient service revenues of \$2,648,000 in 2020.

(c) Medicaid

SCCA 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 qualify for government program payments, such as Medicare and Medicaid, do not have some form of private insurance, and therefore are responsible for their own medical bills. Despite comprising a smaller percent of SCCA’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.

SEATTLE CANCER CARE ALLIANCE

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Other Insurers are patients whose funding stem 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 SCCA based on a Diagnosis Related Group (DRG) system modeled on the Medicare inpatient PPS. For outpatient clinical services, TRICARE reimburses SCCA based on a PPS that is similar to that utilized for services provided to Medicare beneficiaries.

(16) Concentration of Credit Risk

SCCA grants credit without collateral to its patients, most of which are insured under third-party payor agreements. Percentage of outstanding patient accounts receivable by third-party payor and patients are as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Patient accounts receivable:		
Commercial	50 %	58 %
Medicare	34	30
Medicaid	12	9
Self-pay and other	4	3
Total	<u>100 %</u>	<u>100 %</u>

(17) Related Party Transactions

(a) Transactions with Member Organizations

SCCA purchases various goods and services from member organizations for use in the operation of its 20-bed licensed hospital and its ambulatory cancer care services. Purchases include physician and other clinical and non-clinical labor, certain support functions such as human resources and information technology, facility and equipment rental, pharmaceutical and other medical supplies, research and development support, data collection and analysis, and license rights to member organizations' names.

SCCA also sells various goods and services to its members including programmatic direction for cancer services, other clinical and non-clinical labor, and facility rental.

SEATTLE CANCER CARE ALLIANCE

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The following table summarizes, by related party, the impact of these transactions to the accompanying consolidated statements of operations and changes in net assets without donor restrictions for the years ending June 30, 2021 and 2020:

	2021				
	Other operating revenue	Purchased services	Supplies	Other	Total
FHCRC	\$ 1,736,000	36,977,000	7,000	4,098,000	41,082,000
UW	14,105,000	128,860,000	11,904,000	1,992,000	142,756,000
Seattle Children's	5,792,000	119,000	—	80,000	199,000
	\$ 21,633,000	165,956,000	11,911,000	6,170,000	184,037,000
	2020				
	Other operating revenue	Purchased services	Supplies	Other	Total
FHCRC	\$ 2,012,000	38,383,000	2,000	2,359,000	40,744,000
UW	17,091,000	135,329,000	11,979,000	844,000	148,152,000
Seattle Children's	4,571,000	193,000	—	90,000	283,000
	\$ 23,674,000	173,905,000	11,981,000	3,293,000	189,179,000

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

	2021		2020	
	Due from related parties	Due to related parties	Due from related parties	Due to related parties
FHCRC	\$ 168,000	1,423,000	257,000	960,000
Seattle Children's Hospital	383,000	8,000	232,000	—
UW	1,949,000	16,503,000	3,405,000	16,914,000
	\$ 2,500,000	17,934,000	3,894,000	17,874,000

SCCA pays its members, in advance, for certain services to be received in future years. These are included in other assets in the accompanying balance sheets and amount to \$30,000 and \$6,246,000 as of June 30, 2021 and 2020, respectively.

During the fiscal years ending June 30, 2021 and 2020, there were no distributions made to nor contributions received from members.

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

(b) Intercompany Note

At June 30, 2020, SCCA held a note receivable from OpCo in the amount of \$2,032,000, accruing 5% interest annually, as payment for previously rendered professional services. Outstanding principal and interest receivables at June 30, 2020 totaling \$2,184,000, is included in other noncurrent assets in the accompanying balance sheets. As a result of the Merger, during the fiscal year ended June 30, 2021, the note and interest eliminates in consolidation with OpCo.

(18) Functional Expenses

SCCA provides inpatient and outpatient healthcare services. SCCA also has Community (Clinic) Sites outside of the South Lake Union area that also provide outpatient cancer care to patients. The following tables present expenses by both their nature and function for the years ended June 30, 2021 and 2020 (in thousands):

	2021					
	Inpatient	Outpatient	Community sites	Total program services	General and administrative	Grand total
Salaries, wages, and benefits	\$ 366	141,452	20,443	162,261	38,668	200,929
Purchased services	49,748	113,725	17,607	181,080	27,492	208,572
Supplies	7,870	260,332	71,214	339,416	1,153	340,569
Depreciation and amortization	10	19,220	3,680	22,910	4,926	27,836
Interest expenses	—	3,291	514	3,805	—	3,805
Other expenses	2,113	22,117	10,737	34,967	24,169	59,136
Total operating expenses	<u>\$ 60,107</u>	<u>560,137</u>	<u>124,195</u>	<u>744,439</u>	<u>96,408</u>	<u>840,847</u>

	2020					
	Inpatient	Outpatient	Community sites	Total program services	General and administrative	Grand total
Salaries, wages, and benefits	\$ 477	124,270	13,302	138,049	39,513	177,562
Purchased services	52,402	117,076	8,909	178,387	24,214	202,601
Supplies	11,196	223,755	41,954	276,905	742	277,647
Depreciation and amortization	—	17,507	1,466	18,973	4,125	23,098
Interest expenses	—	3,312	—	3,312	—	3,312
Other expenses	1,880	20,843	5,114	27,837	22,876	50,713
Total operating expenses	<u>\$ 65,955</u>	<u>506,763</u>	<u>70,745</u>	<u>643,463</u>	<u>91,470</u>	<u>734,933</u>

(19) Commitments and Contingencies

(a) Proton Center Equipment Service Agreement

OpCo has an agreement with a third party which stipulates that the third party provide regular maintenance and operational services to OpCo's proton system. For the fiscal year ending June 30, 2021, expense of \$1,650,000 for these services is included as a component of other expenses in the accompanying consolidated statement of operations and changes in net assets without donor

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

restrictions. Future committed base service fees are estimated at approximately \$4,000,000 per calendar year through the term of the agreement ending December 31, 2023.

(b) Litigation

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

(c) Regulatory Environment

- (i) Washington State's Department of Health conducted a survey at SCCA between April 4 and April 12, 2018 on behalf of the Centers for Medicare and Medicaid Services (CMS). In a letter dated May 16, 2018 and accompanying Statement of Deficiencies and Plan of Correction Form CMS 2567 (2567), CMS asserted that SCCA had "failed to be primarily engaged in providing inpatient services by depending on another hospital to meet the CMS Conditions of Participation." Through conversation with CMS, SCCA understands that the stated deficiencies do not relate to patient quality or safety. Rather, the 2567 identifies deficiencies relating to a lack of distinct physical space for SCCA beds, and insufficient oversight by SCCA of inpatient policies and support services, such as nursing, pharmaceutical, Medical records and Medical Staff. Failure to timely remediate these deficiencies would result in loss of SCCA's participating provider status with Medicare, which would result in a decrease in future revenues. SCCA submitted a Plan of Correction ("POC") on June 8, 2018 and in response to CMS' additional comments, submitted a Revised Plan of Correction ("RPOC") on July 31, 2019 to address the stated deficiencies. CMS accepted SCCA's RPOC on January 15, 2020. SCCA has continued to meet and implement the remediations stated in the RPOC. Additionally, on July 15, 2020 SCCA provided CMS a written update confirming its progress pursuant to the RPOC, which was accepted by CMS. SCCA has provided updates to CMS on its progress toward remediation, most recently on August 3, 2021. A revisit was conducted on September 14, 2021. On October 5, 2021, CMS sent written confirmation the findings from the revisit indicate SCCA is now in substantial compliance with Federal requirements for participating in the Medicare and Medicaid programs, and CMS is rescinding the termination action.
- (ii) 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, SCCA 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.

SEATTLE CANCER CARE ALLIANCE
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

(20) Professional Liability

SCCA maintains professional liability insurance coverage on a claims-made basis through commercial insurance carriers. The policies providing primary and excess coverage for the years ending June 30, 2021 and 2020 had limits of \$41,000,000 per occurrence and \$45,000,000 in the aggregate.

SCCA has recorded a liability that represents an estimate for the ultimate settlement for claims incurred but not reported. The professional liability was estimated at approximately \$812,000 for both June 30, 2021 and 2020, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

(21) Retirement Plans

SCCA has a defined contribution plan for its paid employees. Employees are generally eligible after one year and 1,000 hours of service. SCCA contributes 7% of each eligible employee's compensation up to the Social Security wage base limit and 12% on compensation above the limit. SCCA also has a Supplemental Executive Retirement Plan for eligible members of the executive team. Contributions for the years ended June 30, 2021 and 2020 were \$9,478,000 and \$8,112,000, respectively, and are presented in salaries, wages, and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(22) Subsequent Events

SCCA has performed an evaluation of subsequent events through October 7th, 2021, which is the date these consolidated financial statements were issued.

FHCRC Merger

In July 2021, SCCA, Seattle Children's Hospital, FHCRC, and UW Medicine announced a plan to restructure their cancer care and research alliance in order to accelerate cancer cures. The restructure, if approved, would be completed in early 2022. Under the proposal, FHCRC would merge with SCCA to create an adult cancer care and research facility called the Fred Hutchinson Cancer Center. The center would be clinically integrated with UW Medicine. Seattle Children's would continue to operate as a separate site for pediatric care.



KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Seattle Cancer Care Alliance, which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statement of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 7, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Seattle Cancer Care Alliance's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Seattle Cancer Care Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of Seattle Cancer Care Alliance's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Seattle Cancer Care Alliance's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Seattle Cancer Care Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seattle Cancer Care Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Seattle, Washington
October 7, 2021



KPMG LLP
Suite 2800
401 Union Street
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**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Finance, Audit, and Investment Committee
Seattle Cancer Care Alliance:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Seattle Cancer Care Alliance's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it



exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2021, and have issued our report thereon dated October 7, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Seattle, Washington
September 28, 2022

SEATTLE CANCER CARE ALLIANCE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal CFDA or Grant	Funding agency	Federal grant/program title	Expenditures
	Direct Assistance Awards:		
93.498	Department of Health and Human Services	HHS CARES ACT COVID Provider Relief Funds	\$ 13,961,203
93.U01	Washington State Hospital Association (WSHA) Grant	HHS – ASPR COVID Emergency Grant	10,000
97.036	Federal Emergency Management Agency's (FEMA) Public Assistance (PA)	Disaster Grant – Public Assistance	<u>2,844,867</u>
	Grant total – Direct Assistance Awards		<u>\$ 16,816,070</u>
93	DEPARTMENT OF HEALTH AND HUMAN SERVICES / NATIONAL INSTITUTES OF HEALTH		\$ 13,971,203
97	FEDERAL EMERGENCY MANAGEMENT AGENCY		2,844,867

See accompanying notes to schedule of expenditures of federal awards.

SEATTLE CANCER CARE ALLIANCE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Seattle Cancer Care Alliance (SCCA) under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of SCCA, it is not intended to and does not present the complete consolidated balance sheets, statements of operations and changes in net assets without donor restrictions, changes in net assets, cash flows, or functional expenses of SCCA.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, are shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures or passed through to subrecipients in prior years. The SCCA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

SEATTLE CANCER CARE ALLIANCE
Schedule of Findings and Questioned Costs
Year ended June 30, 2021

(1) Summary of Auditors' Results

Financial Statements

Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

Noncompliance material to the financial statements: **No**

Federal Awards

Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

Type of report issued on compliance for major programs: **Unmodified**

Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

Major programs:

- HHS CARES Act COVID Provider Relief Funds – 93.498
- Federal Emergency Management Agency's (FEMA) Public Assistance (PA) Disaster Grant – 97.036

Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**

Auditee qualified as a low-risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None