CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

CITY OF HOPE AND AFFILIATES

Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

City of Hope and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2011 and 2010

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Report of Independent Auditors

The Board of Directors of
City of Hope

We have audited the accompanying consolidated statements of financial position of City of Hope and Affiliates as of September 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of City of Hope and Affiliates. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the City of Hope and Affiliates' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Hope and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of City of Hope and Affiliates at September 30, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

December 23, 2011

City of Hope and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2011	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 80,585**	$ 227,537
Investments	**372,169**	202,945
Self-insurance trust fund investments	**3,848**	3,603
Bond trust fund investments	**6,494**	6,499
Patient accounts receivable, less allowances for uncollectible accounts of $5,254 in 2011 and $7,197 in 2010	**113,265**	99,182
Grants and other receivables	**11,836**	19,092
Donor-restricted unconditional promises to give, net	**14,716**	16,569
Due from third-party payors	**2,208**	1,387
Prepaid and other	**18,766**	11,704
Total current assets	**623,887**	588,518
Property, plant and equipment, net	**580,747**	542,815
Other assets:		
Investments	**6,422**	6,037
Board-designated investments	**445,215**	467,886
Bond trust fund investments	**12,320**	12,320
Donor-restricted assets:		
Investments	**136,979**	125,991
Unconditional promises to give, net	**25,421**	36,000
Contributions receivable from annuity and split-interest agreements, net	**12,766**	13,334
Other	**578**	578
Intangible assets	**9,022**	–
Goodwill	**30,137**	–
Other long-term assets	**16,658**	15,189
Total other assets	**695,518**	677,335
Total assets	**$ 1,900,152**	$ 1,808,668

	September 30 2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 75,237**	$ 56,394
Accrued salaries, wages and employee benefits	**49,396**	50,053
Long-term debt, current portion	**8,661**	8,368
Deferred revenue	**37,407**	16,476
Other	**524**	634
Total current liabilities	**171,225**	131,925
Long-term debt, net of current portion	**246,843**	255,374
Annuity and split-interest agreement obligations	**18,339**	19,223
Other	**29,492**	25,001
Total liabilities	**465,899**	431,523
Net assets:		
Unrestricted	**1,205,422**	1,148,484
Temporarily restricted	**97,783**	109,411
Permanently restricted	**131,048**	119,250
Total net assets	**1,434,253**	1,377,145
Total liabilities and net assets	**$ 1,900,152**	$ 1,808,668

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Activities
(In Thousands)

Year Ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions (including $23,240 of contributions from special events)	$ 50,088	$ 22,525	$ 11,307	$ 83,920
Special event participation revenue	4,305	–	–	4,305
Less: cost of direct benefits to donors	(5,869)	–	–	(5,869)
Contributions and net revenues from special events	48,524	22,525	11,307	82,356
Net patient service revenues	601,095	–	–	601,095
Research grants	77,829	–	–	77,829
Investment income	26,452	9,048	247	35,747
Net unrealized loss on investments	(43,501)	(10,891)	–	(54,392)
Royalty income	200,391	–	–	200,391
Other	13,366	55	–	13,421
Total revenues	924,156	20,737	11,554	956,447
Net assets released from restrictions	32,121	(32,365)	244	–
Total revenues and other increases (decreases)	956,277	(11,628)	11,798	956,447
Expenses:				
Program services:				
Patient care	438,984	–	–	438,984
Research	271,987	–	–	271,987
Public information and education	10,886	–	–	10,886
Total program services	721,857	–	–	721,857
Supporting services:				
Administrative and general	156,892	–	–	156,892
Fund-raising	20,798	–	–	20,798
Total supporting services	177,690	–	–	177,690
Total expenses	899,547	–	–	899,547
Excess of revenues and other increases over (under) expenses	56,730	(11,628)	11,798	56,900
Gain on interest rate swap	208	–	–	208
Changes in net assets	56,938	(11,628)	11,798	57,108
Net assets, beginning of year	1,148,484	109,411	119,250	1,377,145
Net assets, end of year	$ 1,205,422	$ 97,783	$ 131,048	$ 1,434,253

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Activities
(In Thousands)

Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions (including $24,200 of contributions from special events)	$ 56,430	$ 23,640	$ 26,407	$ 106,477
Special event participation revenue	4,340	–	–	4,340
Less: Cost of direct benefits to donors	(4,416)	–	–	(4,416)
Contributions and net revenues from special events	56,354	23,640	26,407	106,401
Net patient service revenues	521,343	–	–	521,343
Research grants	66,431	–	–	66,431
Investment income	33,548	2,351	183	36,082
Net unrealized gain on investments	16,590	5,298	–	21,888
Royalty income	202,564	–	–	202,564
Other	11,202	18	–	11,220
Total revenues	908,032	31,307	26,590	965,929
Net assets released from restrictions	37,232	(37,812)	580	–
Total revenues and other increases (decreases)	945,264	(6,505)	27,170	965,929
Expenses:				
Program services:				
Patient care	391,459	–	–	391,459
Research	245,504	–	–	245,504
Public information and education	13,427	–	–	13,427
Total program services	650,390	–	–	650,390
Supporting services:				
Administrative and general	129,598	–	–	129,598
Fund-raising	20,044	–	–	20,044
Total supporting services	149,642	–	–	149,642
Total expenses	800,032	–	–	800,032
Excess of revenues and other increases over (under) expenses	145,232	(6,505)	27,170	165,897
Loss on interest rate swap	(385)	–	–	(385)
Changes in net assets	144,847	(6,505)	27,170	165,512
Net assets, beginning of year	1,003,637	115,916	92,080	1,211,633
Net assets, end of year	$ 1,148,484	$ 109,411	$ 119,250	$ 1,377,145

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2011	**2010**
Operating activities		
Changes in net assets	**$ 57,108**	$ 165,512
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**49,064**	43,635
Net gain on sale of contributed real property held for sale	**(429)**	(26)
Loss on disposal of fixed assets	**68**	332
Net decrease in trading investments	**1,910**	116,017
Net unrealized loss (gain) on investments	**54,392**	(21,888)
Change in value of interest rate swap	**220**	3,163
Contribution proceeds restricted for long-term investment	**(22,415)**	(24,943)
Change in assets and liabilities:		
Patient accounts receivable, net	**(14,083)**	5,897
Grants and other receivables	**7,256**	(122)
Unconditional promises to give, net	**12,432**	(8,949)
Other assets	**(12,710)**	(3,460)
Accounts payable and accrued liabilities	**18,843**	(2,763)
Accrued salaries, wages and employee benefits	**(657)**	9,836
Other liabilities	**25,420**	3,320
Total adjustments	**119,311**	120,049
Net cash provided by operating activities	**176,419**	285,561
Investing activities		
Decrease (increase) in notes receivable	**2,191**	(153)
Additions to property, plant and equipment	**(76,814)**	(79,055)
Proceeds from sale of contributed real property held for sale	**1,942**	3,013
Proceeds from sale of property, plant and equipment	**–**	496
Acquisition of other long-term assets (See Note 7)	**(49,096)**	–
Net increase in alternative investments	**(214,468)**	(138,321)
Decrease in contributions receivable from split-interest agreements	**568**	2,049
Decrease in annuity and split-interest agreement obligations	**(884)**	(475)
Increase in contributed real property held for sale	**(987)**	(2,645)
Net cash used in investing activities	**(337,548)**	(215,091)
Financing activities		
Repayment of line of credit	**(966)**	(75)
Proceeds from line of credit	**966**	75
Principal payments on long-term debt	**(8,238)**	(7,353)
Contribution proceeds restricted for long-term investment	**22,415**	24,943
Net cash provided by financing activities	**14,177**	17,590
Net (decrease) increase in cash and cash equivalents	**(146,952)**	88,060
Cash and cash equivalents, beginning of year	**227,537**	139,477
Cash and cash equivalents, end of year	**$ 80,585**	$ 227,537
Supplemental disclosure of cash flow information:		
Interest paid (net of capitalized interest)	**$ 13,320**	$ 12,470

See accompanying notes.

1. Organization

City of Hope, a California nonprofit public benefit corporation, with its principal office located in Los Angeles, California, was formed to be the development organization of City of Hope National Medical Center (the Center), City of Hope Medical Foundation (the Foundation) and Beckman Research Institute of the City of Hope (the Institute) (collectively, the Affiliates or Affiliated Group). City of Hope's management and staff coordinate the fund-raising activities of the many volunteers and donors needed to support the mission of the Affiliated Group related to patient care and research.

The Center, located in Duarte, California, is a California nonprofit public benefit corporation currently operating a 185-bed tertiary referral center with a licensed capacity of 217 beds, treating primarily cancer and other life-threatening diseases. City of Hope is the sole corporate member of the Center.

The Foundation, located in Duarte, California, is a California nonprofit public benefit corporation, formed in 2011, was organized as part of a coordinated health care system to provide an extensive range of medical care and treatment through outpatient clinic facilities and through coordination of patient care and research with the Center and the Institute. City of Hope is the sole corporate member of the Foundation. The Foundation is preparing its application to the Internal Revenue Service for recognition of tax exempt status.

The Institute, also located in Duarte, California, is a California nonprofit public benefit corporation organized to conduct basic medical and scientific research. City of Hope is the sole corporate member of the Institute.

The accounts of City of Hope include the assets, liabilities and results of operations of the supporting auxiliaries of City of Hope (the Auxiliaries). The Auxiliaries, located throughout the United States, are nonprofit public benefit unincorporated associations that coordinate fund-raising activities to support the mission of the Affiliated Group.

The accounts of City of Hope include the assets, liabilities and results of operations of GenBasix, Inc. (GenBasix), a wholly owned for-profit subsidiary subject to federal and state income taxes. GenBasix, a Delaware corporation, is inactive and was formed in June 1998 to market research discoveries.

The accounts of the Center include the assets, liabilities and results of operations of Oncology Management Services, Inc. (OMSI), a wholly owned for-profit subsidiary subject to federal and state income taxes. OMSI, a California corporation, is inactive and previously provided management services to physicians and medical groups and also acted as a leasing agent.

1. Organization (continued)

Principles of Consolidation

The accompanying consolidated financial statements of City of Hope and Affiliates include the accounts of the Affiliated Group, the net assets and activities of the Auxiliaries and the assets, liabilities and results of operations of GenBasix and OMSI. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Collective Bargaining Agreements (Unaudited)

The City of Hope and Affiliates are subject to six different Collective Bargaining Agreements related to certain members of its labor force. The percentage of employees covered under all collective bargaining agreements as of September 30, 2011, was approximately 54%. Two of the six agreements will expire within one year of September 30, 2011, and the City of Hope anticipates these agreements will be renegotiated and renewed for one to three years, depending on the agreement.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the amounts could be material to the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents reflect all unrestricted cash and cash equivalents that include highly liquid investments with original or remaining maturities at purchase of three months or less.

Contributions

All contributions are considered available for the program services of City of Hope and for distribution to the Center and the Institute (the Affiliates) unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted contributions.

2. Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets consist of assets restricted by donors for specific purposes until time restrictions lapse and/or the purpose for the restriction is accomplished. These net assets are primarily available for use in future periods or for capital purposes. Permanently restricted net assets have been restricted by donors in perpetuity, the income from which is expendable to support patient care, research or other designated restricted purposes. All other net assets are unrestricted.

When a donor restriction expires or when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. City of Hope holds restricted monetary gifts received that are specifically earmarked for the Affiliated Group until such time as the restriction is met. Donor-restricted contributions whose restrictions are met within the same fiscal period as the contributions are received are reflected as net assets released from restrictions in the accompanying consolidated statements of activities.

City of Hope is the beneficiary under various wills and trust agreements, the total realizable amount of which is not readily determinable at the date of gift. For wills, such amounts are recognized as contributions when the will is declared valid by a probate court and the proceeds are measurable. For the years ended September 30, 2011 and 2010, valid will and trust agreement amounts that became measurable totaled \$10,993,000 and \$24,324,000, respectively, and are included in contributions in the accompanying consolidated statements of activities.

City of Hope reports unconditional promises to give with payments due in future periods as temporarily restricted contributions unless otherwise restricted by the donor. Conditional promises to give are reported as contribution revenue when the conditions stipulated by the donor are substantially met, so the conditional promises become unconditional. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates approximating the five-year U.S. Treasury Note rate applicable to the last day of the fiscal year in which the promises are received. These rates were 0.9% and 1.44% for 2011 and 2010, respectively.

City of Hope reports conditional promises to give as contribution revenue when the conditions stipulated by the donor are substantially met, so the conditional promises become unconditional. There are no conditional promises to give as of September 30, 2011.

2. Summary of Significant Accounting Policies (continued)

Amortization of pledge discounts is included in contribution revenue. Net unconditional promises to give in the accompanying consolidated statements of financial position consist of the following as of September 30 (amounts in thousands):

	2011	2010
Unconditional promises to give	**$ 52,863**	$ 68,798
Less:		
Discounts	**(2,679)**	(4,138)
Allowance for uncollectible promises to give	**(10,047)**	(12,091)
Total unconditional promises to give, net	**40,137**	52,569
Less current portion	**14,716**	16,569
	$ 25,421	$ 36,000

The allowances for uncollectible promises to give have been determined based on the City of Hope's historical collection experience.

At September 30, 2011, future discounted cash flows anticipated from unconditional promises to give, net of allowance for uncollectible promises to give, are as follows (amounts in thousands):

2012	$ 14,716
2013	6,284
2014	9,749
2015	1,328
2016	245
Thereafter	7,815
	$ 40,137

Split-Interest Agreements

City of Hope receives contributions from various types of split-interest agreements in which City of Hope is the trustee, co-trustee or a financial institution is the trustee, including charitable gift annuities, charitable remainder annuity trusts and charitable remainder unitrusts.

Under a charitable gift annuity arrangement, City of Hope recognizes the agreement in the period in which the contract is executed. The assets from the donor are recognized at fair value, and the liabilities to the donor or beneficiaries designated by the donor are recognized at the present

2. Summary of Significant Accounting Policies (continued)

value of the estimated future payments to be distributed by City of Hope to such beneficiaries. These assets and liabilities are recorded by City of Hope as temporarily restricted. The amount of the temporarily restricted contribution revenue is the difference between these assets and liabilities.

There are certain mandated requirements set by certain state law regarding gift annuity reserves, sometimes where the not-for-profit entity is located or sometimes where the gift annuity donor resides. As of September 30, 2011, City of Hope has state mandated reserves above the actuarial annuity reserves in the amount of $235,000. Additionally, City of Hope has voluntary reserves in the amount of $2,758,000 that are to protect the reserve fund against unexpected actuarial losses. These voluntary reserves are included in unrestricted investments and net assets in the accompanying consolidated statements of financial position.

Under a charitable remainder annuity trust arrangement and a charitable remainder unitrust arrangement in which City of Hope is not a trustee or is a co-trustee, City of Hope recognizes a long-term receivable and temporarily restricted contribution revenue in the period the agreement is executed and received. The receivable and the contribution revenue are recorded at the present value of the estimated future benefits to be received when the trust assets are expected to be distributed. Trust distributions received are recorded as a reduction in receivables, while adjustments to the receivables to reflect amortization of the discount and changes in actuarial assumptions during the term of the trust are recorded as temporarily restricted contributions in the accompanying consolidated statements of activities.

The receivables are estimated to be collected over the next 29 years and have an average remaining life of 12.2 years. The present values of the estimated benefits to be received as of September 30, 2011, were calculated using a discount rate of 2.0% and are as follows (amounts in thousands):

2012	$ 243
2013	134
2014	407
2015	1,889
2016	977
Thereafter	9,116
Contributions receivable from annuity and split-interest agreements, net	$ 12,766

2. Summary of Significant Accounting Policies (continued)

Under a charitable remainder annuity trust arrangement and a charitable remainder unitrust arrangement in which City of Hope is the trustee, City of Hope records the assets contributed to the trust by the donor at fair value when received and the liabilities to the donor or beneficiaries designated by the donor at the present value of the estimated future payments to be distributed by City of Hope to designated beneficiaries. The assets and liabilities are recorded as temporarily restricted by City of Hope. The amount of the temporarily restricted contribution revenue is the difference between the assets and liabilities and is recognized upon receipt of the assets by City of Hope.

Contribution revenue from split-interest agreements was $910,000 and $440,000 in 2011 and 2010, respectively. In addition, the effect of changes in liabilities included in contribution revenue in the accompanying consolidated statements of activities was a gain of $628,000 in 2011 and a loss of $2,868,000 in 2010. Consolidated changes in liabilities result from changes in fair values of the associated assets and changes in the mortality of the designated beneficiaries.

In-Kind Contributions

In-kind contributions are reflected as contributions at their estimated fair market value on the date of the donation. City of Hope reports gifts of land, buildings, equipment and other nonmonetary contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how and how long the donated assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, City of Hope reports expirations of donor restrictions as net assets released from restrictions when the donated or acquired long-lived assets are placed in service.

Supplies Inventory

Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventories consist of materials, pharmaceuticals and medical supplies for use in program services at the Affiliates and are included in prepaid and other current assets in the consolidated statements of financial position. Total inventories were $7,111,000 and $6,433,000 at September 30, 2011 and 2010, respectively.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost when purchased or at fair market value on date of donation. When property, plant and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is included in other revenues. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

The Affiliated Group provides for depreciation and amortization using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 to 40 years
Equipment and furniture	5 to 20 years

Leasehold improvements are amortized on a straight-line basis over the term of the lease or estimated useful life, whichever is shorter.

A summary of the cost and accumulated depreciation and amortization of property, plant and equipment at September 30 is as follows (amounts in thousands):

	2011	2010
Land	**$ 12,476**	$ 12,476
Buildings and improvements	**544,828**	481,753
Equipment and furniture	**347,814**	347,413
Capitalized software	**45,638**	30,357
Construction in progress	**56,029**	80,429
Total property, plant and equipment	**1,006,785**	952,428
Accumulated depreciation and amortization	**(426,038)**	(409,613)
Property, plant and equipment, net	**$ 580,747**	$ 542,815

The Affiliated Group reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. The Affiliated Group considers assets to be impaired and writes them down to fair value if expected associated undiscounted cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. The Affiliated Group has determined that no long-lived assets are impaired at September 30, 2011.

2. Summary of Significant Accounting Policies (continued)

Software Development Costs

All software development costs incurred in the planning stage of developing the software are expensed as incurred, as are internal and external training costs and maintenance costs. Internal and external costs, excluding general and administrative costs and overhead costs, incurred during the applicable development stage of internally used software are capitalized. Such costs include external direct costs of materials and services consumed in developing or obtaining the software, payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the software. Development changes that result in appropriate functionality to the software, which enable it to perform tasks better than it was previously capable of performing, are also capitalized.

Capitalized internally used software development costs are amortized on a straight-line basis over an estimated useful life of five years. Amortization begins when all substantial testing of the software is completed and the software is ready for its intended use.

Software development costs included in construction in progress totaled $5,912,000 and $9,833,000 at September 30, 2011 and 2010, respectively.

Capitalized Interest

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized by the Affiliates as a component of the cost of acquiring those assets, net of investment income earned from the tax-exempt borrowed proceeds. Interest cost capitalized totaled $672,000 and $946,000 in 2011 and 2010, respectively. No investment income was capitalized in 2011. Investment income capitalized in 2010 totaled $11,000.

Deferred Revenue

City of Hope is the recipient of the proceeds of various fund-raising events and other fund-raising activities. City of Hope receives cash during the year for these fund-raising events and defers recognition of the revenue received in advance of fund-raising events held by certain Auxiliaries subsequent to the fiscal year-end. The Affiliates also defer recognition of certain unexpended grant monies received from various research grants and clinical trial agreements prior to the expenditures of funds for such research.

2. Summary of Significant Accounting Policies (continued)

The following is a summary of deferred revenue as of September 30 (amounts in thousands):

	2011	2010
Fund-raising events and other efforts	**$ 1,191**	$ 1,444
Unexpended grants/agreements	**15,641**	15,032
Hospital provider fee (a)	**20,575**	–
Total deferred revenue	**$ 37,407**	$ 16,476

(a) The Hospital Provider Fee is discussed in Note 3.

Income Taxes

The Affiliated Group is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and is exempt from California state franchise and income tax under Section 23701d of the California Revenue and Taxation Code.

GenBasix and OMSI are subject to income taxes. Since these entities have accumulated net operating losses, no provision for income taxes has been included in the accompanying consolidated financial statements. A valuation allowance has been established for the deferred tax benefit resulting from these operating losses.

Financial Accounting Standards Board, Accounting Standard Codification (FASB ASC) 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. The guidance contained in FASB ASC 740 is applicable to pass-through entities and tax-exempt organizations. City of Hope has no significant uncertain tax position or tax liability for tax benefits, interest or penalties accrued at September 30, 2011 and 2010.

Workers' Compensation Program

The Affiliated Group has elected to self-insure its workers' compensation liability. Reinsurance has been obtained for this program to cover claims that exceed $250,000 between 1991 and 2002, $500,000 in 2003 and $1,000,000 per individual claim beginning in 2004. The Affiliates have recorded an estimated liability of $9,895,000 and $8,400,000 as of September 30, 2011 and

2. Summary of Significant Accounting Policies (continued)

2010, respectively, for the self-insured portion of employee claims covered under this program. The estimated current portion of the liability is included in accrued salaries, wages and benefits, and the estimated long-term portion of the liability is included in other long-term liabilities in the consolidated statements of financial position. Accruals for uninsured claims and claims incurred but not reported are estimated by an actuary based on prior claims experience. Such accruals were recorded using a 4% discount factor. Workers' compensation expense charged to the Affiliated Group's operations totaled $4,437,000 and $4,626,000 in 2011 and 2010, respectively.

Professional Liability Insurance

City of Hope and the Affiliated Group maintain professional liability insurance under a claims-made program, which provides coverage for claims arising out of incidents that have occurred between November 1, 1997 to September 30, 2011, with limits up to $50,000,000 and, a deductible of $100,000. Accruals for uninsured claims and claims incurred but not reported are estimated by an actuary based on prior claims experience. Such accruals were recorded using a 4% discount factor. City of Hope and the Affiliated Group have recorded an estimated liability of $350,000 as of September 30, 2011 and 2010, for the self-insured portion of professional liability claims and is included in other current liabilities in the consolidated statements of financial position. The professional liability insurance expense charged to the Affiliated Group's operations amounted to $736,000 and $1,133,000 in 2011 and 2010, respectively.

Retirement Plans

The City of Hope, the Center and the Institute participate in the City of Hope Defined Contribution Plan (the Plan). The Plan was established in 1989 to provide benefits to eligible employees as defined in the plan document and covers substantially all employees. For eligible employees, employer contributions were made monthly through August 2011 and bi-weekly thereafter. Contributions range between 2% and 10%, depending on years of service, and are calculated on monthly base salary up to and above the monthly Social Security Taxable wage base, not to exceed the maximum covered compensation of $245,000. Employees are eligible upon the completion of one year of service. They may direct these contributions into various funds offered through the Plan.

The Center and the Institute also participate in the City of Hope Research Staff Organization Tax Deferred Annuity Plan (the RSO TDA Plan) that was established in 1983 to provide benefits to eligible members of the City of Hope Research Staff Organization (RSO) as defined in the plan document. Contributions of 15% of each participant's monthly base salary through August 2011

2. Summary of Significant Accounting Policies (continued)

and bi-weekly beginning in September were made up to a defined maximum base salary of $245,000 annually. The participants have the ability to direct these contributions into various funds offered through the RSO TDA Plan.

Additionally, the Affiliated Group offers eligible employees participation in a City of Hope Tax Deferred Annuity Plan (the TDA Plan) that was established in 1972. The TDA Plan covers substantially all employees and is entirely employee funded. Participants elect to have pre-tax compensation contributed to the TDA Plan up to the amount allowable under the plan document and current regulatory limits. Participants direct the investment of these contributions to various funds that are offered through the TDA Plan. The Foundation became a participating employer under the TDA Plan as of June 1, 2011. The TDA Plan was offered to Foundation employees as of this date.

The Foundation, an affiliated employer under the TDA Plan, will make a one-time contribution to the TDA Plan for eligible employees who were employed on June 1, 2011, and also employed on the last business day of the 2011 plan year, December 31, 2011. The amount of contribution to the employee's TDA Plan account is equal to 20% of the employee's eligible pension compensation earned from June 1, 2011 through December 31, 2011.

Contribution expense for the Plans defined above (including an estimate for the one-time contribution to the TDA Plan) totaled $14,787,000 and $12,896,000 in 2011 and 2010, respectively.

Beginning on January 1, 2012, the Foundation employees will participate in the City of Hope Defined Contribution Plan. The Plan will honor prior years of service for eligibility, contribution and vesting for each Foundation employee entering the Plan on January 1, 2012. All other Plan terms such as contributions and distributions will apply.

The Affiliates also offer a top hat plan through a Deferred Compensation Plan (the 457(b) Plan). The 457(b) Plan was established in 2002, and participation is available to a select group of management. Participants elect to have pre-tax compensation contributed to the 457(b) Plan up to the amount allowable under the plan document and current regulatory limits. Participants direct the investment of these contributions to various funds offered through the 457(b) Plan.

2. Summary of Significant Accounting Policies (continued)

On January 1, 2006, the 2006 Executive Supplemental Accumulation Plan was established. This plan provides each designated executive with deferred compensation equal to 10% of the executive's base salary (net of City of Hope contributions to the participant's defined contribution plan). A participant becomes fully vested upon completion of three plan years of service or at age 65. There is the possibility of substantial forfeiture should the participant leave voluntarily or involuntarily for cause prior to fully vesting. Contribution expense for the supplemental accumulation plan totaled $562,000 and $570,000 in 2011 and 2010, respectively.

Net Patient Service Revenues

Net patient service revenues are reported at net realizable amounts from third-party payors and others for services rendered. The allowances for contractual discounts and uncollectible accounts have been determined based on historical collection data.

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Estimated retroactive adjustments under the Medicare and Medicaid programs are also reflected in net patient service revenues.

The Foundation has agreements with third-party payors that provide for payment to the Foundation. Payment arrangements include prospectively determined rates per discharge, discounted charges, case rates and specialized fee schedules.

The Center is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. The Center believes that it is in compliance with all applicable laws and regulations, and it is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Medicare reimburses the Center for cost-reimbursable items at an interim rate, and final settlements are determined after an audit of the Center's related annual cost reports by the Medicare fiscal intermediary. Estimated provisions to approximate the full expected settlements after review by the intermediary are included in the accompanying consolidated financial statements. The Center's Medicare cost reports have been audited through 2008. However, the

2. Summary of Significant Accounting Policies (continued)

Center has filed appeals to re-open previously audited cost reports for years 1996 through 2008 and, if successful, will record the appeals as net patient service revenues in the period realized. Medicare audits of cost reports were finalized during 2010 for years 2007 and 2008. The Medicare cost report for 2009 is currently under audit, with audit results expected during 2012. The cost report for 2010 has been filed but has not yet been audited.

Expected settlement amounts are included in due from third-party payors in the consolidated statements of financial position. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from this review.

During fiscal 2011, the Center recorded $3,703,801 of additional net patient service revenues as a result of successful appeals of the Medicare 1997 and 1998 cost reports, finalization with the fiscal intermediary of the Medicare 2007 and 2008 cost reports. Also included in this amount are revised estimates of amounts due to Medicare for 2009 and 2010, which includes a tentative settlement for 2010.

The SB1732 program permits certain health care facilities that meet specific criteria to receive supplemental reimbursement for a portion of debt service for qualified capital projects. The Center has received SB1732 funding for capital projects completed prior to 1998 and has determined it is eligible to receive SB1732 funds related to the construction of a new hospital facility completed in fiscal year 2005. In fiscal years 2011 and 2010, the Center recognized $2,207,000 and $2,412,000, respectively, in SB1732 program revenue, which has been included in net patient service revenues. Of these amounts, $916,000 has not been received and is included in other assets at September 30, 2011.

Performance Indicator

Management considers excess of revenues and other increases over expenses to be the performance indicator. Excess of revenues and other increases over expenses includes all changes in net assets except for gains and losses on interest rate swap agreements that are designated as cash flow hedges, and fund balance transfers.

2. Summary of Significant Accounting Policies (continued)

Derivative and Hedging Instruments

The Affiliated Group is required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as effective hedges are adjusted to fair value in the consolidated statements of activities, above the operating indicator. If the derivative is an effective hedge, changes in the fair values of the derivatives are recognized as a change in unrestricted net assets until the hedged item is recognized in the operating indicator. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized as an expense in the consolidated statements of activities, above the operating indicator.

At September 30, 2011, the Affiliated Group's derivative instruments were limited to interest rate swap agreements with a notional amount totaling $77,320,000 (see Note 6). The Affiliated Group enters into interest rate cap and swap agreements to manage its interest rate risk.

Indigent and Subsidized Care

Patients who meet clinical criteria and financial eligibility may be accepted for treatment at no cost or at reduced rates. Most patients who are uninsured are classified as either indigent, subsidized or uncompensated care pursuant to established policies of the Center and the Foundation. Additionally, the Center and the Foundation accepts patients who are covered by the Medi-Cal program of the state of California and the Medicaid programs of other states. These indigent care programs typically reimburse amounts substantially less than customary charges for the services and below the cost of providing the services.

Royalties

Royalty revenue is recognized when received. The Affiliated Group receives royalties from Genentech based on Genentech's revenues in the previous quarter from sales of its own drugs, as well as from royalties and other amounts paid by its licensees. The Affiliated Group does not receive information from Genentech or its licensees regarding the amount of royalty revenue owed to the Affiliated Group until the amounts are actually received by the Affiliated Group, usually one quarter in arrears, which is after City of Hope releases its quarterly results. During 2011 and 2010, the Affiliated Group received and recognized royalty revenue totaling $200,391,000 and $202,564,000, respectively, primarily from sales of drugs by Genentech and other licensees of monoclonal antibodies, including Rituxan, Herceptin, Avastin, Simulect, Reopro, Remicade and others using technology developed at the Institute (see Note 8).

2. Summary of Significant Accounting Policies (continued)

In the first quarter of fiscal year 2011, the U.S. Food and Drug Administration (FDA) recommended removing the breast cancer indication from the label for Avastin based on a finding that it does not provide sufficient benefits to outweigh the risks to breast cancer patients. A public hearing was conducted in June 2011, before the FDA's Oncologic Drugs Advisory Committee. Following the hearing, the Committee restated the recommendation. On November 18, 2011, the FDA Commissioner agreed and announced the final decision to revoke the breast cancer indication. The decision will have an impact on future sales; however, the actual impact to royalty revenues is uncertain at this time. The decision does not affect the FDA's approvals for the use of Avastin for treating colon, kidney, brain and lung cancer.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Fair value is established based on quoted prices from recognized security exchanges. Management determines the appropriate classification as trading or other-than-trading of all equity and debt securities at the date of purchase and reevaluates such designations at each balance sheet date. City of Hope determined that all investments held at September 30, 2011 and 2010, are designated as trading securities, as the investments are externally managed without restrictions within the guidelines of the City of Hope's investment policy. Accordingly, the change in unrealized gains and losses on investments is reported above the performance indicator in the consolidated statements of activities.

Investment income or loss on equity and debt securities included in temporarily restricted and permanently restricted net assets (including realized gains and losses on investments, interest and dividends) is reported in unrestricted revenues and other increases unless the income or loss is restricted by donor or by law.

The Affiliated Group's classification of alternative investments includes limited partnerships and limited liability companies that seek to limit the effect of downward market swings on the portfolio and are not restricted to any particular asset class. Some alternative investments invest in other similar partnerships or funds and employ a "fund of funds" strategy. Some alternative investments have specific industry focus in their investment assets. At the investment manager's direction, these alternative investments may invest in both registered and nonregistered securities in the U.S. and globally, with exposure to both emerging and developed markets. These entities employ a range of investment strategies, including, but not limited to, long/short

2. Summary of Significant Accounting Policies (continued)

equity positions, derivatives, forward and futures contracts, and currency hedges. As of September 30, 2011, the Affiliated Group has outstanding unfunded private equity and private real asset commitments totaling $70,860,000.

The Affiliated Group accounts for its ownership interests in the alternative investments under the equity method of accounting, which approximates fair value, in the accompanying consolidated statements of financial position and its share of earnings in investment income in the consolidated statements of activities. The Affiliated Group's ownership interest in these funds ranges from less than 1% to 22.4% as of September 30, 2011. As of September 30, 2011 and 2010, these alternative investments comprised approximately 27.2% and 17%, respectively, of the Affiliated Group's total assets. The Affiliated Group's ownership interests in certain alternative investments have redemption clauses that range between monthly, quarterly and annually with various notice requirements between 30 days to as long as one year.

Fair Value of Financial Instruments

The consolidated statements of financial position include the following financial instruments: cash and cash equivalents, short- and long-term investments, other receivables, accounts payable and accrued liabilities, estimated amounts due to third-party payors and long-term debt. The Affiliated Group considers the carrying amounts of current assets and liabilities (except for investment securities which are carried at market value as described in "investments" above) in the consolidated statements of financial position to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The carrying amount of tax-exempt and taxable long-term financing for the Affiliated Group was $255,504,000, which has a fair value of $258,752,000 at September 30, 2011, based on current market rates of debt with similar risks and maturities.

City of Hope has adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. As defined by FASB ASC 820, fair value is based on 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. In order to increase consistency and comparability

2. Summary of Significant Accounting Policies (continued)

in fair value measurements, a fair value hierarchy was established that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

a) *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b) *Cost approach*. Amount that would be required to replace the service capacity of an asset (replacement cost).

c) *Income approach*. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

In determining fair value, City of Hope utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value. The fair value of annuity and split-interest agreements has been determined using present value techniques based on mortality tables and discount rates that are consistent with IRS published rates and the American Council on Gift Annuities. The fair value of pledges considers credit risk, which is estimated based on management's estimates of the collectability of pledges receivable.

2. Summary of Significant Accounting Policies (continued)

City of Hope received restricted pledges and contributions for the year ended September 30, 2011, amounting to $33,832,000, that were subject to fair value measurement in accordance with FASB ASC 820. The restricted contributions were measured based on the actual cash received and pledge receivables were measured using discounted cash flow projections as outlined in the income valuation approach. Approximately $5,396,000 of the restricted contributions received in 2011 were recorded as unconditional promises to give as of September 30, 2011.

City of Hope uses interest rate swaps to manage interest rate risk associated with floating-rate debt. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

City of Hope incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, City of Hope considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although City of Hope has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2011, City of Hope has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, City of Hope has determined that its derivative valuations in their entirety are classified as Level 2 in the fair value hierarchy.

2. Summary of Significant Accounting Policies (continued)

City of Hope's assets and liabilities, measured at fair value on a recurring basis as of September 30, 2011 and 2010, aggregated by the level in the fair value hierarchy, are included in cash and cash equivalents, investments, annuity and split-interest agreement obligations and other long-term liabilities in the consolidated statements of position and are as follows (amounts in thousands):

2011	Level 1	Level 2	Level 3	Total	Valuation Technique (a,b,c)
Assets					
U.S. government and agency obligations	$ –	$ 28,944	$ –	$ 28,944	a, b
Corporate obligations	–	30,021	–	30,021	a, b
International obligations	–	86	–	86	a, b
Marketable securities	374,446	–	–	374,446	a
Municipal obligations	–	6,708	–	6,708	a
Alternative investments	–	–	516,592	516,592	a
Cash and cash equivalents	107,235	–	–	107,235	
Total assets	$ 481,681	$ 65,759	$ 516,592	$ 1,064,032	
Liabilities					
Annuity and split-interest obligations	$ –	$ –	$ (18,339)	$ (18,339)	c
Derivative financial instruments	–	(12,592)	–	(12,592)	a, b
Total liabilities	$ –	$ (12,592)	$ (18,339)	$ (30,931)	

2. Summary of Significant Accounting Policies (continued)

2010	Level 1	Level 2	Level 3	Total	Valuation Technique (a,b,c)
Assets					
U.S. government and agency obligations	$ –	$ 20,410	$ –	$ 20,410	a, b
Corporate obligations	–	30,521	–	30,521	a, b
International obligations	–	1,637	–	1,637	a, b
Marketable securities	395,292	–	–	395,292	a
Municipal obligations	–	6,452	–	6,452	a
Alternative investments	–	–	302,124	302,124	a
Cash and cash equivalents	296,383	–	–	296,383	
Total assets	$ 691,676	$ 59,020	$ 302,124	$ 1,052,819	
Liabilities					
Annuity and split interest obligations	$ –	$ –	$ (19,223)	$ (19,223)	c
Derivative financial instruments	–	(12,373)	–	(12,373)	a, b
Total liabilities	$ –	$ (12,373)	$ (19,223)	$ (31,596)	

Entities are permitted to choose to measure many financial instruments and certain other items at fair value. Management chose not to measure any financial instruments and certain other items at fair value that are not already required to be reported at fair value.

The table below sets forth a summary of changes in fair value of the Level 3 assets and liabilities for the year ended September 30, 2011 (amounts in thousands):

	Assets	Liabilities
Beginning balance at September 30, 2010	**$ 302,124**	**$ 19,223**
Additions	**234,974**	**537**
Investment activity, adjustments, maturities	**10,245**	**1,215**
Distributions	**–**	**(2,093)**
Change in fair value	**(30,751)**	**(543)**
Ending balance at September 30, 2011	**$ 516,592**	**$ 18,339**

2. Summary of Significant Accounting Policies (continued)

Allocation of Joint Costs

City of Hope accounts for joint costs in accordance with FASB ASC 958, *Not-for-Profit Entities*, which specifies criteria for costs to be reported as fund-raising costs. City of Hope allocated total joint costs to the following functional expense categories for the years ended September 30, 2011 and 2010, as follows (amounts in thousands):

	2011	2010
Fund-raising expense	**$ 7,997**	$ 6,922
Administrative and general expense	**3,304**	2,866
Public information and education expense	**2,243**	2,037
Total joint costs	**$ 13,544**	$ 11,825

Adoption of Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment,* which amends ASC Topic 350, *Intangibles – Goodwill and Other*. The amendments in this update allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. As permitted by the guidance, the Affiliated Group has early adopted the provisions of ASU 2011-08. The Affiliated Group has determined that it is more likely than not that the fair value exceeds the carrying amount and will not conduct the two-step impairment test for fiscal year 2011.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition – Milestone Method* (ASU 2010-17), which amends FASB ASC 605, *Revenue Recognition*, to provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events, such as successful completion of phases in a drug study or achieving a specific result from the research or development efforts. An entity

2. Summary of Significant Accounting Policies (continued)

often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. Previously, authoritative guidance on the use of the milestone method did not exist. The adoption of ASU 2010-17 did not have a material impact on the Affiliated Group's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which codified FASB Statement of Financial Accounting Standards No. 164. The key provisions of ASU 2010-07 are as follows:

> Provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. ASU 2010-07 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition, (b) applies the carryover method in accounting for a merger, (c) applies the acquisition method in accounting for an acquisition and (d) determines what information to disclose with respect to the nature and financial effects of a merger or an acquisition.
>
> Requires the adoption of accounting provisions for goodwill and indefinite-lived intangible assets in Topic ASC 350, *Intangibles – Goodwill and Other*, in which goodwill and indefinite-lived assets are no longer amortized; rather they are now subject to an impairment test at least annually, as well as a transitional impairment test upon adoption.

This accounting standard also established new guidance governing the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries by requiring that noncontrolling interests (previously referred to as minority interests) be reported as a separate component of the appropriate class of net assets. The adoption of ASU 2010-07 provisions for acquisitions and noncontrolling interests, which were effective for the Affiliated Group October 1, 2010, did not have a material impact on the Affiliated Group's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The standard also requires enhanced disclosures of policies for recognizing patient service revenue and assessing provisions for bad debts. The adoption of ASU 2011-07 is effective for the Affiliated Group beginning October 1, 2011, and the Affiliated Group is currently evaluating the effect of this guidance on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amended ASC No. 820, *Fair Value Measurement*, to change the wording used to describe many of the requirements in the U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 is effective for the Affiliated Group October 1, 2011. The adoption of ASU 2011-04 is not expected to have a material impact on the Affiliated Group's consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Healthcare Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective for the Affiliated Group beginning October 1, 2011, and the Affiliated Group is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2010, the FASB issued ASU 2010-23, *Healthcare Entities (Topic 954), Measuring Charity Care for Disclosures*, which requires that cost be used as a measurement for charity care disclosure purposes and that cost can be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. The adoption of ASU 2010-23 is not expected to have a material impact on the Affiliated Group's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain 2010 amounts have been reclassified in the consolidated financial statements to conform to the 2011 presentation.

Subsequent Events

City of Hope has evaluated subsequent events occurring between the end of the most recent fiscal year and December 23, 2011, the date the financial statements were issued.

3. California Hospital Provider Fee Program

The California Hospital Fee Program (the Program) was signed into law by the Governor of California and became effective on January 1, 2010. Amending legislation, to conform to changes requested by the Centers for Medicare & Medicaid Services (CMS) during the approval process, was signed into law by the Governor of California and became effective September 8, 2010. The primary legislation (AB 1383) and amending legislation (AB 1653) contains two components. The Quality Assurance Fee Act governs the "hospital fee" or "Quality Assurance Fee" (QA Fee) paid by participating hospitals. The Medi-Cal Hospital Provider Stabilization Act governs supplemental Medi-Cal payments (Supplemental Payments) made to providers from the fund. Hospital participation is mandatory, with limited exceptions. On January 20, 2011, CMS gave final approval of the program.

During the year ended September 30, 2011, the Center made payments to the California Department of Health Care Services (DHCS) for the QA Fee in the amount of $9,308,000 and received $46,392,000 in Supplemental Payments, which were recorded as program expenses and an increase to net patient service revenues in the accompanying consolidated statements of activities, respectively. The payments and receipts pertained to the approved period from April 1, 2009 through December 31, 2010.

The Center also entered into an Enforceable Pledge Agreement with the California Health Foundation and Trust (CHFT), agreeing to make contributions to the CHFT based on a pre-described calculation methodology. These funds will be used by CHFT to support charitable activities at various independent hospitals and hospital/health systems in California, including measures to alleviate distortions, interruptions and disparities potentially resulting from short-

3. California Hospital Provider Fee Program (continued)

term changes in government health care reimbursement programs, including the hospital fee to be imposed on hospitals under the Program. During 2011, the Center made payments totaling $2,718,000 under the CHFT pledge agreement, which have also been included as a component of program service expense in the accompanying consolidated statements of activities.

On May 9, 2011, CMS completed its preliminary review of the major components for a six-month extension of the Program for the period January 1, 2011 through June 30, 2011. While this extension is pending final CMS approval, the Center received payments in the amount of $20,575,000 and paid $3,595,000 in QA Fees, which have been recorded as deferred revenue and prepaid expense, respectively, in the accompanying consolidated statements of financial position. If final CMS approval is not ultimately obtained for the six-month extension, the fees assessed and payments made would be returned and recouped, respectively.

4. Cash and Investments

The Affiliated Group pools some of its cash and investments into accounts for investment purposes. Pooled balances as well as certain trust account assets are reflected in investments, donor-restricted assets and board-designated investments in the consolidated statements of financial position.

4. Cash and Investments (continued)

Cash and investments at September 30 are as follows (amounts in thousands):

	2011	2010
U.S. government and agency obligations	**$ 28,944**	$ 20,410
Corporate obligations	**30,021**	30,521
International obligations	**86**	1,637
Alternative investments:		
Equity commingled funds[(1)]	**441,588**	262,987
Other	**75,004**	39,137
Marketable securities	**374,447**	395,292
Municipal obligations	**6,707**	6,452
Cash and cash equivalents	**107,235**	296,383
	$ 1,064,032	$ 1,052,819

(1) City of Hope's classification of equity commingled funds includes investments in commingled fund vehicles that invest primarily in marketable equity securities. The equity commingled funds include the amounts as of September 30, 2011 and 2010, of $253,873,000 and $148,989,000, respectively, that can be liquidated at least monthly, subject to certain notice requirements. City of Hope's classification of other alternative investments includes limited partnership funds invested in real estate and natural resources, private equity funds and offshore funds.

Net realized capital gains and losses on sales of investments and equity interests in earnings of alternative investments are reported as investment income in the consolidated statements of activities. For the years ended September 30, 2011 and 2010, net realized capital gains totaled $17,593,000 and $17,138,000, respectively.

4. Cash and Investments (continued)

Participation in the pools and ownership of other cash and investments at fair value, except for alternative investments that are accounted for using the equity method at September 30 is as follows (amounts in thousands):

	2011	2010
Unrestricted:		
Cash and cash equivalents	**$ 80,585**	$ 227,537
Investments	**321,881**	153,571
Board-designated assets:		
Cash and cash equivalents	**1,650**	38,946
Investments	**443,565**	428,940
Self-insurance trust funds:		
Cash and cash equivalents	**1,431**	868
Investments	**2,417**	2,735
Bond trust funds:		
Cash and cash equivalents	**14,411**	7,505
Investments	**4,403**	11,314
	870,343	871,416
Temporarily restricted:		
Donor-restricted assets:		
Cash and cash equivalents	**7,678**	11,815
Investments	**69,661**	71,352
	77,339	83,167
Permanently restricted:		
Donor-restricted assets:		
Cash and cash equivalents	**1,480**	9,712
Investments	**114,870**	88,524
	116,350	98,236
Total (including $463,096 and $440,584 at September 30, 2011 and 2010, respectively, in current assets)	**$ 1,064,032**	$ 1,052,819

Board-designated assets are funds established by the Board of Directors for future research, program services and capital expenditures of the Affiliates and to fund depreciation of the Center.

5. Line of Credit

The Affiliated Group maintains unsecured revolving bank lines of credit of $2,500,000 for City of Hope, $20,000,000 for the Center and $2,500,000 for the Institute, all of which expire in April 2013. Interest is charged at the London Interbank Offered Rate (LIBOR) plus 0.75%. As of September 30, 2011, there was no outstanding balance on the lines of credit.

6. Long-Term Debt

The following is a summary of the Affiliated Group's long-term debt at September 30 (amounts in thousands):

	2011	**2010**
The Center, 4.5% to 5.25% fixed rate Tax-Exempt Certificates of Participation Series 1999A, originally $169,930, issued through the City of Duarte, with varying maturities annually on April 1, 2006 through April 1, 2031. Interest payable semiannually on April 1 and October 1. (**Series 1999 Certificates**)	**$ 150,355**	$ 154,600
The Institute, note payable, originally $50,000, tax-exempt financing through California Enterprise Development Authority. Monthly interest through July 1, 2010. Monthly principal and interest starting August 1, 2010 through June 1, 2019, with all unpaid principal due and payable July 1, 2019. (**2007 Note Payable**)	**48,801**	49,830
The Institute, tax-exempt note payable, originally $12,650, refinanced in 2007 with equal monthly principal payments of $35 starting December 1, 2006 through June 1, 2016, with all unpaid principal due and payable in full on July 1, 2016. (**Tax-Exempt Note Payable**)	**2,037**	2,458
The Institute, taxable note payable, originally $10,000, refinanced in 2007 with varying monthly principal payments between $10 and $20 starting January 2007 through November 2016, with all unpaid principal due and payable in full on December 1, 2016. (**Taxable Note Payable**)	**8,217**	8,382

6. Long-Term Debt (continued)

	2011	2010
The Center, 4.97752%, Tax-Exempt Certificates Series 2006A, originally $25,000, issued through ABAG Finance Authority for Nonprofit Corporations and a bank, with monthly principal and interest from July 2006 through June 2031. (**Series 2006 Bonds**)	**$ 21,895**	$ 22,555
The Center, Tax-Exempt Certificates Series 2006B, originally $25,000, variable rate debt, issued through ABAG Finance Authority for Nonprofit Corporations and a bank, with monthly principal and interest payments starting July 2006 through June 2031. (**Series 2006 Bonds**)	**18,265**	19,526
The Center, 4.56978%, Tax-Exempt Certificates Series 2006C, originally $10,000, issued through ABAG Finance Authority for Nonprofit Corporations and a bank, with monthly principal and interest payments starting July 2006 through June 2031. (**Series 2006 Bonds**)	**7,240**	7,720
City of Hope, note payable with monthly payments of principal and interest of $11 at a fixed interest rate of 10.5% through April 2013.	**182**	289
	256,992	265,360
Less: current portion	**(8,661)**	(8,368)
Unamortized discount	**(1,488)**	(1,618)
	$ 246,843	$ 255,374

6. Long-Term Debt (continued)

Long-term debt maturities at September 30, 2011, are as follows (amounts in thousands):

2012	$ 8,661
2013	8,897
2014	9,142
2015	9,466
2016	9,745
Thereafter	211,081
	$ 256,992

Series 1999 Certificates – The Center issued $169,930,000 Certificates of Participation, Series 1999A and $18,330,000 Certificates of Participation, Series 1999B through the City of Duarte. The proceeds from the sale of the Series 1999 Certificates were used to finance the purchase of certain equipment, construct the first phase of a new main hospital building, renovate certain existing buildings, advance-refund the outstanding 1993 Certificates, provide a portion of the monies needed to fund the Reserve Account and finance certain issuance costs. The Certificates are collateralized by the Center's gross revenues and certain buildings and properties. The City of Hope is a guarantor of the Series 1999 Certificates (but the Institute is not). The 1999 Certificates accrue interest at fixed rates between 4.5% and 5.25%.

2007 Note Payable – The Institute borrowed $50,000,000 through the California Enterprise Development Authority, which was then funded by Wells Fargo Bank, NA. The purpose of the financing was for construction of the Arnold and Mabel Beckman Center for Cancer Immunotherapeutics and Tumor Immunology and other projects as determined. Through the construction period, the note is secured by the remaining proceeds in the construction account; upon completion of construction, the note is collateralized by certain buildings and property. Interest accrues at 70% of one-month LIBOR when LIBOR is less than 7% and 81% of one-month LIBOR when LIBOR is greater than 7%, subject to an interest rate collar on $25,000,000 with an effective rate between 3.7% and 5.67%. The collar was terminated in May 2008. Effective May 2008, the Institute synthetically converted the entire borrowing to a 4.3875% fixed rate through a fixed rate swap agreement. The swap was not designated as a cash flow hedge, so the changes in fair value, $543,000 in 2011 and $2,392,000 in 2010, are reflected in the accompanying consolidating statements of functional expenses. The effect of counterparty payments on interest expense totaled $1,871,000 in 2011 and $1,875,000 in 2010.

6. Long-Term Debt (continued)

Tax-Exempt Note Payable – In April 2000, the Institute borrowed $12,650,000 from a bank to finance a research facility and various equipment installed in this facility. The note is collateralized by the Institute's property and other certain buildings and properties. On September 7, 2006, the Institute entered into a swap agreement to synthetically convert the variable rate (64% of one-month LIBOR plus 1.25%) to a 4.56% fixed rate for the outstanding notional amount on the swap's effective date. The swap was not designated as a cash flow hedge, so the changes in the fair value, $(51,000) in 2011 and $(117) in 2010, are reflected in the accompanying consolidating statements of functional expenses. On December 1, 2006, the Institute refinanced the $4,040,000 remaining balance to extend the maturity date to July 1, 2016, and changed the interest rate to 64% of LIBOR plus 1%. The effect on counterparty payments on interest expense was $78,000 in 2011 and $91,000 in 2010.

Taxable Note Payable – In February 2004, the Institute borrowed $10,000,000 variable rate debt from a bank, the proceeds of which were used to refinance a portion of the Tax-Exempt Note Payable and to repay bridge financing initially used to purchase a research facility. The note is collateralized by certain real property of the Institute. On September 7, 2006, the Institute entered into a swap agreement to synthetically convert the variable rate (one-month LIBOR plus 1.25%) to a 6.7% fixed rate for the notional amount then outstanding. The swap was not designated as a cash flow hedge, so the changes in the fair value of the swap of $(64,000) in 2011 and $386,000 in 2010 are reflected in the accompanying consolidating statements of functional expenses. On December 1, 2006, the Institute refinanced the $8,900,000 outstanding to extend the maturity date to December 1, 2016, and changed the interest rate to LIBOR plus 1% (1.231%) at September 30, 2011). The effect of counterparty payments on interest expense totaled $462,000 in 2011 and $466,000 in 2010.

Series 2006 Bonds – In May 2006, the Center issued $25,000,000 of Series 2006A, $25,000,000 of Series 2006B and $10,000,000 of Series 2006C private placement revenue bonds through a bank. The purpose of these issues was to complete funding of the Helford Clinical Research Hospital and to provide funding for other building construction and renovations. The bonds were issued with parity to the Series 1999 Certificates and collateralized by certain gross revenues and certain buildings and properties of the Center and guaranteed by the City of Hope. All are subject to variable rates equal to 64.72% of one-month LIBOR plus 0.96488%. Concurrent with the issuance, the Center entered into a variable rate swap contract to synthetically convert the Series 2006B issue to a fixed rate of 4.61%. This swap has been designated as a cash flow hedge; as a result, changes in the fair value of the swap, $(208,000) in 2011 and $385,000 in 2010, were recorded as changes to unrestricted net assets. The impact of payments to the counterparty increased interest expense by $661,000 and $698,000 in 2011 and 2010, respectively.

6. Long-Term Debt (continued)

The Center has a Letter of Credit facility in the amount of $25,960,000 to provide credit enhancement for the Series 2006B and Series 2006C Tax-Exempt Certificates described above. The Letter of Credit expires on May 25, 2012, and is collateralized by a deed of trust on the City of Hope National Medical Center campus and a guarantee by the City of Hope. As of September 30, 2011, there are no outstanding amounts drawn on the Letter of Credit.

Under the Series 2006 Bonds and Series 1999 Certificates, the Center must maintain certain financial ratios and is limited as to the amount of future borrowings. Similarly, under the 2007 Note Payable, the Institute must comply with certain financial covenants. The Center and Institute were in compliance with their respective covenants at September 30, 2011 and 2010.

The estimated fair values of the interest rate swap instruments have been determined using available market information and valuation methodologies, primarily discounted cash flows. The contracts provide for periodic net cash settlements.

Under the terms of the 1999 and 2006 Certificates trust agreement, the Center is required to make mandatory deposits to the trustee through June 2031 and maintain the following accounts:

a. Reserve Account – Funds in this account may be used and withdrawn by the trustee solely for the purpose of making up any deficiency in the Principal Account or the Interest Account.

b. Interest Account – Funds are required to be deposited in equal monthly amounts into this account approximating the next interest payment due. The trustee withdraws the funds from this account for the sole purpose of paying the interest component of the Certificates.

c. Principal Account – Funds are required to be deposited in equal monthly amounts into this account for the purpose of paying the annual principal payment due. The trustee withdraws the funds from this account for the sole purpose of paying the principal component of the Certificates.

d. Project Account – Funds from this account are used and withdrawn by the trustee to pay the costs for the completion of intended projects. As of September 30, 2011 and 2010, project funds have been entirely depleted for intended projects.

6. Long-Term Debt (continued)

These accounts are under the control of the trustee and are invested in government securities, corporate obligations and other permitted instruments. The fair market values of cash and cash equivalents and investment balances in these accounts at September 30 are as follows (amounts in thousands):

	2011	2010
Reserve account	**$ 12,320**	$ 12,320
Interest account	**4,064**	4,177
Principal account	**2,430**	2,322
	$ 18,814	$ 18,819

7. Formation of the City of Hope Medical Foundation

The Board of Directors of City of Hope authorized its management to develop a nonprofit medical foundation (the Foundation) to help move the Center towards a more integrated health care delivery system, to continue to enhance the quality of the clinical care provided to its patients and the research it conducts and to respond to the recent passage of federal health care reform legislation.

City of Hope sought to form the Foundation in collaboration with the medical group that employed more than 90% of the physicians on the Center's medical staff, California Cancer Specialists Medical Group, Inc. (CCSMG), and to arrange for CCSMG to provide clinical services as well as teaching, administrative and research services (TAR Services) to the Foundation once it was formed. On May 4, 2010, CCSMG filed a lawsuit against City of Hope in a Los Angeles Superior Court challenging City of Hope's plan to form the Foundation on a variety of grounds. On May 17, 2010, City of Hope filed a cross-complaint.

On October 22, 2010, the court conducted a hearing on CCSMG's motion for a preliminary injunction, filed August 27, 2010. In that motion, CCSMG sought a preliminary injunction restraining City of Hope and its co-defendant Oncology Specialists of COH, P.C. (OSCOH), a competitor of CCSMG, from (i) recruiting any physician under contract with or who is being recruited by CCSMG, based on CCSMG's claim that City of Hope and OSCOH are interfering with CCSMG's prospective economic relations, and (ii) violating the prohibition against the corporate practice of medicine through its relationship with OSCOH. At the conclusion of the hearing, the Court denied CCSMG's motion, ruling that CCSMG failed to show it is likely to succeed on the merits of its corporate practice and interference claims at a future trial, and that it failed to show it will suffer irreparable harm unless the injunction is issued, or that the balance of

7. Formation of the City of Hope Medical Foundation (continued)

harm weighs in favor of granting the injunction. On November 15, 2010, CCSMG appealed. On December 2, 2010, the Court of Appeal issued a "summary dismissal" of CCSMG's petition for writ of mandate and request for immediate injunction.

In late November 2010, City of Hope, CCSMG and OSCOH began negotiations regarding a resolution of the disputes among them and began working together to create the Foundation, and in December reached an agreement in principle as reflected in a letter of intent. On March 25, 2011, City of Hope and the Foundation signed an agreement to acquire substantially all of the assets of CCSMG. CCSMG's shareholders approved the sale on April 25, 2011. The Foundation also negotiated a definitive agreement for the acquisition of substantially all of the assets of OSCOH. On May 31, 2011, the parties closed the medical foundation transaction, with City of Hope acquiring substantially all of the assets of CCSMG for a cash purchase price of $43,500,000. In connection with the acquisition of CCSMG, the Foundation acquired approximately $518,000 of prepaid expenses and inventory, $9,626,000 of fixed assets and leasehold improvements, intangible assets of $7,160,000 for trade-name and $2,280,000 for electronic medical records, and $23,916,000 of goodwill. Additional goodwill was recorded subsequent to the transaction date related to contractual obligations defined in the purchase agreements totaling $840,000.

On the same date and as part of the closing of the CCSMG transaction, City of Hope acquired substantially all of the assets of OSCOH for a purchase price of $5,600,000. In connection with the acquisition of OSCOH the Foundation acquired approximately $208,000 in net accounts receivable and $5,392,000 of goodwill.

City of Hope believes the fair values assigned to the CCSMG and OSCOH assets acquired were based on reasonable assumptions.

The Foundation has recorded $417,000 related to amortization expense for intangible assets acquired through the purchase, excluding goodwill, as of September 31, 2011. Intangible assets, excluding goodwill, are amortized on a straight-line basis between seven and ten years. Future amortization of these intangibles is reflected below (amounts in thousands):

2012	$ 1,251
2013	1,251
2014	1,251
2015	1,251
2016	1,251
Thereafter	2,767
	$ 9,022

7. Formation of the City of Hope Medical Foundation (continued)

Upon closing, most physicians employed by CCSMG and OSCOH joined together in a new medical group, City of Hope Medical Group, which signed a long-term professional services agreement with the Foundation to provide clinical, teaching, administrative and research services to the City of Hope entities. As part of the transaction, City of Hope, CCSMG and OSCOH entered into a settlement agreement and mutual release, and on June 7, 2011, pursuant to the parties' request, the litigation pending between them was dismissed with prejudice.

All costs incurred during 2011 and 2010 in furtherance of creating the framework for and planning for a nonprofit foundation have been expensed as incurred and are included as a component of administrative and general expenses in the accompanying consolidated statements of activities.

The results of the operations of the Foundation included in the accompanying consolidated statements of activities are for the four months ended September 30, 2011, which is from the acquisition date, May 31, 2011, through the end of the fiscal year.

8. Commitments and Contingencies

Leases

The Affiliated Group has noncancelable operating leases for office space and equipment that expire on various dates through 2023. As of September 30, 2011, future minimum lease payments required under these operating leases are as follows (amounts in thousands):

2012	$ 7,995
2013	7,906
2014	6,199
2015	2,368
2016	2,211
Thereafter	9,977
	$ 36,656

Lease expense for the leases shown above and other rental agreements totaled $9,412,000 and $8,459,000 in 2011 and 2010, respectively.

8. Commitments and Contingencies (continued)

Litigation and Administrative Actions

The Affiliated Group from time to time is subject to claims arising in the ordinary course of business. In the opinion of management, with the exception of the matters discussed below, the ultimate resolution of legal proceedings and other claims will not have a material adverse effect on the consolidated financial position, statements of activities or cash flows of the Affiliated Group.

City of Hope has been engaged in various proceedings involving challenges to the validity of U.S. Patent No. 6,331,415 issued December 18, 2001, entitled “Methods of Producing Immunoglobulins, Vectors and Transformed Host Cells for Use Therein” (Cabilly II), which City of Hope co-owns with Genentech. Cabilly II accounts for a substantial portion of City of Hope royalty revenue. The proceedings include merged reexamination requests filed by two third parties in 2005 before the U.S. Patent & Trademark Office (PTO), which were resolved favorably for City of Hope and Genentech on May 19, 2009, when the PTO issued a Reexamination Certificate confirming the patentability of all claims of the Cabilly patent, with certain amendments to claims 21–32 that do not affect the commercial importance of the patent, and suits filed in federal courts by, respectively, Centocor Inc., GlaxoGroup Limited and SmithKline Beecham Corporation and Human Genome Sciences, Inc.

On May 20, 2008, Centocor Inc. sued Genentech and City of Hope in the U.S. District Court for the Central District of California challenging, among other things, the validity of the Cabilly II patent. On September 19, 2008, Genentech and City of Hope answered the complaint and filed counterclaims against Centocor, including counterclaims alleging that Centocor was infringing the Cabilly II patent. In addition, Genentech (but not City of Hope) asserted additional counterclaims alleging that various Centocor products infringe certain patents owned by Genentech only. On April 30, 2010, the parties settled the case and it was dismissed. City of Hope made no payment in connection with the settlement.

On October 8, 2009, Glaxo Group Limited and SmithKline Beecham Corporation (jointly, Glaxo) sued Genentech and City of Hope in the U.S. District Court for the Southern District of Florida challenging Cabilly II. On December 16, 2009, Genentech and City of Hope filed a motion to dismiss or, in the alternative, transfer the action to the U.S. District Court for the Central District of California. On February 17, 2010, the due date of Glaxo’s response to the transfer motion, Glaxo dismissed its complaint without prejudice and re-filed the complaint in the U.S. District Court for the Northern District of California. On March 10, 2010, Genentech and City of Hope filed an answer and counterclaim and a motion to transfer the action to the

8. Commitments and Contingencies (continued)

U.S. District Court for the Central District of California. On April 12, 2010, the Court granted the motion to transfer, and the case is now pending in the Central District of California. On February 14, 2011, the Court conducted a Markman hearing, and on February 23, 2011, the Court issued a Claim Construction Order. On March 21, 2011, Genentech and City of Hope filed an amended answer and counterclaim which, among other things, added as counter-defendants Lonza Biologics PLC and Lonza Biologics Inc., (jointly, Lonza), which are involved in the manufacture of Arzerra, Glaxo's accused antibody drug. Fact discovery in the Glaxo case is complete, and expert discovery is underway.

On January 25, 2011, Human Genome Sciences (HGS) sued Genentech and City of Hope in the U.S. District Court of Delaware challenging Cabilly II (HGS I). HGS is Glaxo's co-development partner of the antibody drug Bynlysta. HGS filed suit after Genentech and City of Hope gave notice to Glaxo in the California action of their intention to add HGS as a new defendant and to add Bynlysta as an accused product. On February 10, 2011, Genentech and City of Hope filed a motion to dismiss or, in the alternative, to transfer HGS I to the Central District of California or stay.

On February 18, 2011, HGS filed another suit against Genentech, but not City of Hope, alleging violations of the Sherman Act and related state claims in connection with the settlement of an interference proceeding and subsequent patent prosecution activity before the PTO in connection with Cabilly II (HGS II). HGS is seeking, among other things, an order enjoining Genentech from enforcing Cabilly II against HGS. On March 15, 2011, Genentech filed a motion to dismiss or stay HGS II, and a motion to consolidate HGS II with HGS I so that it could be transferred to the Central District as well.

On April 12, 2011, the PTO issued a new Cabilly patent, U.S. Patent No. 7,923,221 entitled "Methods of Making Antibody Heavy and Light Chains Having Specificity for a Desired Antigen" (Cabilly III). Genentech and City of Hope are also co-owners of Cabilly III. The application for Cabilly III, filed April 13, 1995, was a continuation of application No. 07/205,419 filed on June 10, 1988, now the Cabilly II patent, which is a continuation of application No. 06/483,457, filed on April 8, 1983, issued as Patent No. 4,816,567 (Cabilly I). Cabilly I expired in 2006. Cabilly III is subject to a terminal disclaimer and has the same expiration date as Cabilly II. Also on April 12, 2011, Genentech and City of Hope sued Glaxo, Lonza and HGS in the U.S. District Court for the Central District of California for infringing Cabilly III in connection with the manufacture and sale of Arzerra and Bynlysta. Later the same day, HGS filed suit against Genentech and City of Hope in Delaware challenging the validity of Cabilly III (HGS III). On April 21, 2011, Genentech and City of Hope filed a motion to dismiss,

8. Commitments and Contingencies (continued)

stay or transfer HGS III to the Central District. In addition, on April 22, 2011, HGS filed a motion for leave to amend the complaint in HGS I to add to that case HGSs challenge to Cabilly III. City of Hope and Genentech filed an opposition to this motion. On May 18, 2011, the Court conducted a hearing on all motions. On July 18, 2011, the Court in Delaware granted Genentech and City of Hope's motions to transfer HGS I, HGS II and HGS III to the Central District of California. All other motions were denied without prejudice to renew in the Central District. On September 19, 2011, the Court in the Central District of California conducted a hearing on several motions in the pending cases, and on September 26, 2011, issued an order staying HGS II and the litigation regarding Cabilly III until further order of the Court. On November 21, 2011, the Court also agreed to stay HGS I and to continue the stay of the cases involving Cabilly III until ruling on anticipated summary judgment motions in the Glaxo case.

The final outcome of the cases involving Glaxo, Lonza and HGS cannot be determined at this time. If the Cabilly II or Cabilly III patents are ultimately declared invalid or unenforceable, royalties under the Cabilly patents in the future could be significantly reduced or eliminated.

On August 12, 2008, Roberto Crea, PhD (Crea), who formerly worked at City of Hope, filed a complaint in the Los Angeles Superior Court against City of Hope, City of Hope National Medical Center and the Beckman Research Institute of the City of Hope. Crea claimed he was entitled to share in certain revenues that City of Hope received from Genentech. Crea's complaint asserted causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, negligence, conversion, fraudulent concealment, constructive fraud, declaratory relief and accounting. On October 1, 2008, City of Hope removed the case to the United States District Court for the Central District of California. Crea opposed removal and sought remand to state court. At a hearing on June 8, 2009, the court denied Crea's renewed motion for remand. City of Hope filed a motion to dismiss the complaint, which was later converted to a motion for summary judgment at the Court's direction. The Court conducted a hearing on the motion on July 16, 2009. On October 4, 2010, the court issued a Statement of Decision, ruling, among other things, that all of Crea's causes of action were time-barred by the statutes of limitations. On November 4, 2010, the Court entered judgment and dismissed Crea's action in its entirety. On November 29, 2010, Crea filed a notice of appeal to the Federal Circuit Court of Appeal. On March 23, 2011, Crea filed his appeal brief with the Court of Appeal. On July 1, 2011, City of Hope filed its brief. A hearing on the appeal is expected to be conducted in the first calendar quarter of 2012.

8. Commitments and Contingencies (continued)

Although Crea has not specified the exact amount that he claims he is owed, Crea alleges that he is entitled to share in the royalties that Genentech has paid to City of Hope over the years. A claim by Crea to even a small percentage of the revenues could amount to a material claim. No amounts have been accrued related to the Crea matter as of September 30, 2011 and 2010.

Health Care Regulations

The Center is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Federal laws prohibit submission of claims for reimbursement to the Medicare and Medicaid programs for services not rendered in accordance with applicable rules, laws and regulations. Any overpayments received must be refunded to the government payor. Violation of these laws can result in substantial civil and criminal penalties and fines, including treble damages and mandatory penalties of up to $11,000 per claim, as well as possible debarment from future participation in government health care programs. Management believes that the Center is presently in compliance with fraud and abuse laws as well as other applicable government laws and regulations. While no material regulatory inquiries about past or present conduct have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Commitments and Contingencies

The Affiliated Group has identified underpayments and overpayments for certain classes of employees in its City of Hope Defined Contribution Plan related to prior years. Based on the information currently available, management's best estimate of the underpayments, including an assumed rate of return on investment related to the underpayments, totals approximately $3,600,000 as of September 30, 2011, and is accrued.

In September 2011, City of Hope filed a Voluntary Correction Plan with the United States Department of Labor citing the causes of the underpayments and overpayments, what corrective actions are being taken to remediate the calculations resulting in the underpayments, and outlining a plan of corrective action to make whole those participants whose contributions were affected by the underpayments. (Those participants who received an overpayment will not be asked to repay the overpaid amount). The DOL responded on October 28, 2011, that it has received City of Hope's filing, and an agent will be assigned to work with City of Hope related

8. Commitments and Contingencies (continued)

to this issue no sooner than six (6) months from the date of its acknowledgement. While the final resolution of the exposure remains unknown at this time, any changes to City of Hope's estimate is not expected to have a material impact on the financial position of the results of operations or cash flows of the City of Hope.

Capital Commitments

As of September 30, 2011, the Affiliates have committed to spend approximately $30,755,000 through 2012 for the construction of several new buildings, campus renovations and a clinical information system.

9. Community Benefit Expense

City of Hope supports a variety of programs and services, which provide a direct benefit to its patients, as well as to the broader community. The primary categories of community benefit are as follows:

- Patient Charity Care
- Support of Governmental Health Care Programs – Medi-Cal and Medicare
- Benefits for the Broader Community – Clinical Research
- Benefits for the Broader Community – Support of Basic Science Research

Patient Charity Care

The Center and the Foundation approve charity care for patients meeting financial eligibility and clinical criteria at the time of admission or provision of service. A patient is classified as a charity patient by reference to certain established policies of the Center and the Foundation. Essentially, these policies define charity care as those medically necessary services that are provided but are never expected to result in cash receipts. Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources or who are uninsured or underinsured. In addition to traditional charity care, the Patient Charity Care category also includes deductibles and co-payment amounts pertaining to patients covered by the Medi-Cal program when the patient is unable to pay. Also, certain medically necessary services may be provided to Medi-Cal patients, which are not reimbursed by the Medi-Cal program. The cost related to these services has been separately identified and included in the Patient Charity Care category below.

9. Community Benefit Expense (continued)

Support of Governmental Health Care Programs – Medi-Cal and Medicare

The Center and the Foundation accept all patients who meet clinical criteria and are covered by governmental subsidized programs – primarily Medi-Cal and Medicare. These programs typically remit payments substantially less than charges and below the cost of providing the services. The Center and the Foundation have estimated the costs of treating these patients less payments received to these costs. The residual amount of cost in excess of payments has been included as a component of the Center's community benefit.

Benefits for the Broader Community

The Affiliates support a variety of clinical and basic science research activities focused on finding cures and treatments for cancer and other life-threatening diseases for which grant and other extramural funding is not available. The cost of these institutionally funded research efforts is considered a benefit to the broader community. In addition, the cost of providing public information and education is also considered a community benefit.

The following is a summary of the Affiliate's estimated community benefit expense, at cost, in terms of service to the indigent and benefits to the broader community for the years ended September 30 (amounts in thousands):

	2011	2010
Patient Charity Care		
Estimated cost of Patient Charity Care	**$ 2,531**	$ 2,497
Estimated cost of services to Medi-Cal patients not covered under the Governmental Health Care Programs	**4,325**	5,326
	6,856	7,823
Support of Governmental Health Care Programs		
Estimated unreimbursed cost of the Medi-Cal Program	**49,051**	37,219
Estimated unreimbursed cost of the Medicare Program	**51,660**	37,012
	100,711	74,231
Benefits for the broader community – Support for Research		
Estimated institutionally supported research costs, net of grants received of $77,829 and $66,431 in 2011 and 2010, respectively		
Medical Center	**41,200**	33,900
Beckman Research Institute	**90,100**	94,500
	131,300	128,400
Total estimated community benefit expense, at cost	**$ 238,867**	$ 210,454

9. Community Benefit Expense (continued)

The cost amounts for both Patient Charity Care and the Medi-Cal and Medicare patient populations represent total direct and indirect cost calculated at the medical procedure level and pertaining specifically to the respective Charity, Medi-Cal and Medicare patient populations.

Procedure-level cost includes the direct costs, such as labor and supplies, involved in providing the specific service, as well as an applicable allocation of departmental overhead (e.g., departmental management) and institutional overhead (e.g., administration, depreciation, utilities, etc.).

10. Donor-Restricted Endowments

FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was enacted in California on September 30, 2008, with an effective date of January 1, 2009. The net asset classification provisions of FASB ASC 958 were adopted by City of Hope in 2009 when UPMIFA was enacted into law in California. FASB ASC 958 also contains disclosure provisions, which are included below.

Endowment: The City of Hope's endowment includes all permanently and certain temporarily restricted as well as unrestricted net assets which contain donor-restricted funds as well as board-designated funds.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires City of Hope to retain as a fund of perpetual duration. Deficiencies of this nature are reported in the unrestricted net assets unless the income from such endowment funds is restricted as to use, in which case such amounts are reflected in temporarily restricted net assets. As of September 30, 2011 and 2010, there were immaterial deficiencies of this nature.

Return Objectives and Risk Parameters: City of Hope's financial objective is to achieve a long-term rate of return that will enhance and preserve the real (inflation-adjusted) purchasing power of the corpus without subjecting the investment portfolio to large investment losses. Assets are invested in a manner that is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

10. Donor-Restricted Endowments (continued)

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, City of Hope relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). City of Hope targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Interpretation of Relevant Law: City of Hope has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, City of Hope classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the donor's restriction is met, at which time it is classified as unrestricted.

Effective January 1, 2009, the state of California adopted UPMIFA, which added certain prudent spending measures to UMIFA. In accordance with UPMIFA, City of Hope considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and appreciation of investments

(6) Other resources of the City of Hope

(7) The investment policies of City of Hope

10. Donor-Restricted Endowments (continued)

The endowment net asset composition by type of fund as of September 30, 2011 and 2010, consists of the following (amounts in thousands):

	2011			
	Unrestricted Board Designated	**Temporarily Unrestricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ (9,658)**	**$ –**	**$ 116,350**	**$ 106,692**
Temporarily restricted donor funds	**–**	**2,043**	**–**	**2,043**
Board-designated funds	**454,873**	**–**	**–**	**454,873**
Total funds at September 30, 2011	**$ 445,215**	**$ 2,043**	**$ 116,350**	**$ 563,608**

	2010			
	Unrestricted Board Designated	**Temporarily Unrestricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (3,712)	$ –	$ 98,236	$ 94,524
Temporarily restricted donor funds	–	5,931	–	5,931
Board-designated funds	471,598	–	–	471,598
Total funds at September 30, 2010	$ 467,886	$ 5,931	$ 98,236	$ 572,053

The changes in endowment net assets for the years ended September 30, 2011 and 2010, are as follows (amounts in thousands):

	2011			
	Unrestricted Board Designated	**Temporary Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, October 1, 2010	**$ 467,886**	**$ 5,931**	**$ 98,236**	**$ 572,053**
Contributions and additions	**–**	**–**	**17,867**	**17,867**
Investment returns:				
Investment income	**8,070**	**1,426**	**247**	**9,743**
Net depreciation – realized and unrealized	**(30,645)**	**(2,433)**	**–**	**(33,078)**
Appropriation of endowment assets for expenditure	**(96)**	**(2,881)**	**–**	**(2,977)**
Endowment net assets, September 30, 2011	**$ 445,215**	**$ 2,043**	**$ 116,350**	**$ 563,608**

10. Donor-Restricted Endowments (continued)

	2010			
	Unrestricted Board Designated	Temporary Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2009	$ 434,257	$ 3,166	$ 78,158	$ 515,581
Contributions and additions	–	–	19,895	19,895
Investment returns:				
Investment income	9,015	1,851	183	11,049
Net appreciation – realized and unrealized	24,960	4,459	–	29,419
Appropriation of endowment assets for expenditure	(346)	(3,545)	–	(3,891)
Endowment net assets, September 30, 2010	$ 467,886	$ 5,931	$ 98,236	$ 572,053

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30 (amounts in thousands):

	2011	2010
Time restricted under annuity and split-interest agreements and other	**$ 39,506**	$ 48,113
Patient care	**655**	577
Health education	**3,462**	4,669
Research	**52,593**	50,166
Medical equipment and buildings	**1,567**	5,886
Total temporarily restricted net assets	**$ 97,783**	$ 109,411

As of September 30, 2011 and 2010, $56,710,000 and $55,411,000, respectively, of temporarily restricted net asset investments are included in current investments, since these funds are restricted for patient care, health education and research, and are expected to be spent in the following year.

11. Restricted Net Assets (continued)

Net assets were released from donor restrictions by satisfying the restricted purposes in the years ended September 30 (amounts in thousands):

	2011	2010
Time restricted under annuity and split-interest agreements and other	**$ 4,334**	$ 2,507
Patient care	**12**	–
Health education	**682**	2,114
Research	**14,776**	14,093
Medical equipment and buildings	**12,561**	19,098
Total temporarily restricted net assets released to operations	**$ 32,365**	$ 37,812

Permanently restricted net assets are restricted investments to be held in perpetuity, the income from which is expendable to support the following purposes as of September 30 (amounts in thousands):

	2011	2010
Time restricted under annuity and split-interest agreements and other	**$ 16,883**	$ 22,998
Patient care	**6,887**	6,843
Health education	**22,121**	20,237
Research	**81,647**	65,662
Medical equipment and buildings	**3,510**	3,510
Total permanently restricted net assets	**$ 131,048**	$ 119,250

12. Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements.

The mix of gross revenues from patients and third-party payors for the years ended September 30 is as follows:

	2011	2010
Medicare	**30%**	28%
Medi-Cal	**20**	19
Other third-party payors and patients	**50**	53
	100%	100%

The Foundation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements.

The mix of gross revenues from patients and third-party payors for the four months ended September 30, 2011, is as follows:

	2011
Medicare	**30%**
Medi-Cal	**16**
Other third-party payors and patients	**54**
	100%

Supplementary Information

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Report of Independent Auditors
on Supplementary Information

The Board of Directors of
City of Hope

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating statements of financial position as of September 30, 2011 and 2010, the consolidating statements of activities, cash flows and functional expenses, and the statements of functional expenses for City of Hope, City of Hope National Medical Center, City of Hope Medical Foundation and Beckman Research Institute of the City of Hope for the years then ended are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements of City of Hope and Affiliates. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst & Young LLP

December 23, 2011

City of Hope and Affiliates

Consolidating Statements of Financial Position

September 30, 2011 and 2010

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2011	2010
Assets								
Current assets:								
Cash and cash equivalents	$ 38,068	$ 29,744	$ 2,640	$ 10,133	$ 80,585	$ –	$ 80,585	$ 227,537
Investments	236,545	49,626	–	85,998	372,169	–	372,169	202,945
Self-insurance trust fund investments	–	3,848	–	–	3,848	–	3,848	3,603
Bond trust fund investments	–	6,494	–	–	6,494	–	6,494	6,499
Patient accounts receivable, net	–	103,196	10,069	–	113,265	–	113,265	99,182
Due from affiliates	8,931	7,459	1,879	388	18,657	(18,657)	–	–
Grants and other receivables	5,723	1,505	402	4,206	11,836	–	11,836	19,092
Donor-restricted unconditional promises to give, net	14,716	–	–	–	14,716	–	14,716	16,569
Due from third-party payors	–	2,208	–	–	2,208	–	2,208	1,387
Prepaid and other	1,108	16,049	769	840	18,766	–	18,766	11,704
Total current assets	305,091	220,129	15,759	101,565	642,544	(18,657)	623,887	588,518
Property, plant and equipment, net	9,353	335,053	8,869	227,472	580,747	–	580,747	542,815
Other assets:								
Investments	6,422	–	–	–	6,422	–	6,422	6,037
Board-designated investments	31,196	34,199	–	379,820	445,215	–	445,215	467,886
Bond trust funds	–	12,320	–	–	12,320	–	12,320	12,320
Donor-restricted assets:								
Investments	123,281	–	–	13,698	136,979	–	136,979	125,991
Unconditional promises to give, net	25,421	–	–	–	25,421	–	25,421	36,000
Contributions receivable from annuity and split-interest agreements, net	12,766	–	–	–	12,766	–	12,766	13,334
Other	578	–	–	–	578	–	578	578
Intangible assets	–	–	9,022	–	9,022	–	9,022	–
Goodwill	–	–	30,137	–	30,137	–	30,137	–
Other long-term assets	2,502	8,076	3,518	2,562	16,658	–	16,658	15,189
Total other assets	202,166	54,595	42,677	396,080	695,518	–	695,518	677,335
Total assets	$ 516,610	$ 609,777	$ 67,305	$ 725,117	$ 1,918,809	$ (18,657)	$ 1,900,152	$ 1,808,668

City of Hope and Affiliates

Consolidating Statements of Financial Position (continued)

September 30, 2011 and 2010

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2011	2010
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued liabilities	$ 1,631	$ 53,966	$ 9,382	$ 10,258	$ 75,237	$ –	$ 75,237	$ 56,394
Accrued salaries, wages and employee benefits	2,923	35,207	1,174	10,092	49,396	–	49,396	50,053
Long-term debt, current portion	118	6,860	–	1,683	8,661	–	8,661	8,368
Deferred revenue	1,191	28,311	–	7,905	37,407	–	37,407	16,476
Due to affiliates	2,417	1,749	9,562	4,929	18,657	(18,657)	–	–
Other	466	58	–	–	524	–	524	634
Total current liabilities	8,746	126,151	20,118	34,867	189,882	(18,657)	171,225	131,925
Long-term debt, net	64	189,407	–	57,372	246,843	–	246,843	255,374
Annuity and split-interest agreement obligations	18,339	–	–	–	18,339	–	18,339	19,223
Other	189	17,628	121	11,554	29,492	–	29,492	25,001
Total liabilities	27,338	333,186	20,239	103,793	484,556	(18,657)	465,899	431,523
Net assets:								
Unrestricted	274,377	276,591	47,066	607,388	1,205,422	–	1,205,422	1,148,484
Temporarily restricted	97,524	–	–	259	97,783	–	97,783	109,411
Permanently restricted	117,371	–	–	13,677	131,048	–	131,048	119,250
Total net assets	489,272	276,591	47,066	621,324	1,434,253	–	1,434,253	1,377,145
Total liabilities and net assets	$ 516,610	$ 609,777	$ 67,305	$ 725,117	$ 1,918,809	$ (18,657)	$ 1,900,152	$ 1,808,668

City of Hope and Affiliates

Consolidating Statements of Activities

Years Ended September 30, 2011 and 2010

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2011 Total	2010
Revenues:							
Contributions (including $23,240 and 24,200 in contributions from special events in 2011 and 2010, respectively)	$ 83,920	$ –	$ –	$ –	$ –	$ 83,920	$ 106,477
Special event participation revenue	4,305	–	–	–	–	4,305	4,340
Less: cost of direct benefits to donor	(5,869)	–	–	–	–	(5,869)	(4,416)
Contributions and net revenues from special events	82,356	–	–	–	–	82,356	106,401
Net patient service revenues	–	579,803	21,292	–	–	601,095	521,343
Research grants	–	6,262	–	71,567	–	77,829	66,431
Investment income	11,314	4,571	–	19,862	–	35,747	36,082
Net unrealized (loss) gain on investments	(20,734)	(4,515)	–	(29,143)	–	(54,392)	21,888
Royalty income	197,456	80	–	2,855	–	200,391	202,564
Professional fees revenue	–	–	13,401	–	(13,401)	–	–
Other	1,073	9,470	403	2,475	–	13,421	11,220
Total revenues	271,465	595,671	35,096	67,616	(13,401)	956,447	965,929
Expenses:							
Program services:							
Patient care	–	420,972	21,799	–	(3,787)	438,984	391,459
Research	–	59,633	5,324	212,303	(5,273)	271,987	245,504
Public information and education	2,978	7,908	531	–	(531)	10,886	13,427
Total program services	2,978	488,513	27,654	212,303	(9,591)	721,857	650,390
Supporting services:							
Administrative and general	16,435	107,308	9,472	27,487	(3,810)	156,892	129,598
Fund raising	20,225	235	–	338	–	20,798	20,044
Total supporting services	36,660	107,543	9,472	27,825	(3,810)	177,690	149,642
Total expenses	39,638	596,056	37,126	240,128	(13,401)	899,547	800,032
Excess (deficit) of revenues and other increases over expenses	231,827	(385)	(2,030)	(172,512)	–	56,900	165,897
Loss on interest rate swap agreement	–	208	–	–	–	208	(385)
Distributions (to) from affiliates	(173,639)	16,743	–	156,896	–	–	–
Changes in net assets	58,188	16,566	(2,030)	(15,616)	–	57,108	165,512
Net assets, beginning of year	480,180	260,025	–	636,940	–	1,377,145	1,211,633
Net asset transfer	(49,096)	–	49,096	–	–	–	–
Net assets, end of year	$ 489,272	$ 276,591	$ 47,066	$ 621,324	$ –	$ 1,434,253	$ 1,377,145

City of Hope and Affiliates

Consolidating Statements of Cash Flows

Years Ended September 30, 2011 and 2010

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2011	2010
Operating activities							
Changes in net assets	$ 58,188	$ 16,566	$ (2,030)	$ (15,616)	$ –	$ 57,108	$ 165,512
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:							
Depreciation and amortization	865	34,226	1,262	12,711	–	49,064	43,635
Net gain on sale of contributed real property held for sale	(429)	–	–	–	–	(429)	(26)
Loss on disposal of fixed assets	9	29	–	30	–	68	332
Net (increase) decrease in trading investments	(34,286)	(14,624)	–	50,820	–	1,910	116,017
Net unrealized loss (gain) on investments	20,734	4,515	–	29,143	–	54,392	(21,888)
Net asset transfer	(49,096)	–	49,096	–	–	–	–
Change in value of interest rate swap agreement	–	(208)	–	428	–	220	3,163
Contribution proceeds restricted for long-term investment	(22,415)	–	–	–	–	(22,415)	(24,943)
Change in assets and liabilities:							
Patient accounts receivable, net	–	(4,014)	(10,069)	–	–	(14,083)	5,897
Grants and other receivables	7,742	277	(402)	(361)	–	7,256	(122)
Unconditional promises to give, net	12,432	–	–	–	–	12,432	(8,949)
Other assets	(8,786)	(8,985)	(6,272)	587	10,586	(12,870)	(3,460)
Accounts payable and accrued liabilities	(490)	11,037	9,382	(1,086)	–	18,843	(2,763)
Accrued salaries, wages and employee benefits	(375)	(964)	1,174	(492)	–	(657)	9,836
Other liabilities	(3,410)	26,009	9,683	3,724	(10,586)	25,420	3,320
Total adjustments	(77,505)	47,298	53,854	95,504	–	119,151	120,049
Net cash (used in) provided by operating activities	(19,317)	63,864	51,824	79,888	–	176,259	285,561

City of Hope and Affiliates

Consolidating Statements of Cash Flows (continued)

Years Ended September 30, 2011 and 2010

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2011	2010
Investing activities							
Decrease (increase) in notes receivable	$ 513	$ (144)	$ –	$ 1,822	$ –	$ 2,191	$ (153)
Additions to property, plant and equipment	(2,571)	(54,700)	(88)	(19,455)	–	(76,814)	(79,055)
Proceeds from sale of contributed real property held for sale	1,942	–	–	–	–	1,942	3,013
Proceeds from sale of property, plant and equipment	–	–	–	–	–	–	496
Acquisition of other long-term assets (see Note 7)	–	–	(49,096)	–	–	(49,096)	–
Net increase in alternative investments	(108,990)	(11,063)	–	(94,415)	–	(214,468)	(138,321)
Decrease in contributions receivable from split-interest agreements	568	–	–	–	–	568	2,049
Decrease in annuity and split-interest agreement obligations	(884)	–	–	–	–	(884)	(475)
Increase in contributed real property held for sale	(987)	–	–	–	–	(987)	(2,645)
Net cash used in investing activities	(110,409)	(65,907)	(49,184)	(112,048)	–	(337,548)	(215,091)
Financing activities							
Repayments of line of credit	–	(966)	–	–	–	(966)	(75)
Proceeds from line of credit	–	966	–	–	–	966	75
Principal payments on long-term debt	(107)	(6,516)	–	(1,615)	–	(8,238)	(7,353)
Contribution proceeds restricted for long-term investment	22,415	–	–	–	–	22,415	24,943
Net cash provided by (used in) financing activities	22,308	(6,516)	–	(1,615)	–	14,177	17,590
Net (decrease) increase in cash and cash equivalents	(107,418)	(8,559)	2,640	(33,775)	–	(147,112)	88,060
Cash and cash equivalents, beginning of year	145,486	38,303	–	43,748	–	227,537	139,477
Cash and cash equivalents, end of year	$ 38,068	$ 29,744	$ 2,640	$ 9,973	$ –	$ 80,425	$ 227,537
Supplemental disclosure of cash flow information:							
Interest paid during the year	$ 25	$ 10,395	$ –	$ 2,900	$ –	$ 13,320	$ 12,740

City of Hope and Affiliates

Consolidating Statements of Functional Expenses

Year Ended September 30, 2011

(In Thousands)

Account Title	Program Services: Patient Care	Program Services: Research	Program Services: Public Information and Education	Program Services: Total Program Services	Supporting Services: Administrative and General	Supporting Services: Fund-Raising	Supporting Services: Total Supporting Services	Eliminations	Total
Salaries, wages and employee benefits	$ 182,929	$ 107,101	$ 5,772	$ 295,802	$ 70,515	$ 10,908	$ 81,423	$ –	$ 377,225
Purchased services	32,619	20,312	3,103	56,034	35,699	5,036	40,735	–	96,769
Professional fees	25,573	32,509	531	58,613	30,790	–	30,790	(13,401)	76,002
Supplies	132,440	21,400	840	154,680	4,988	2,472	7,460	–	162,140
Equipment rental and maintenance	7,812	3,289	35	11,136	4,799	24	4,823	–	15,959
Interest	8,720	3,797	–	12,517	25	–	25	–	12,542
Change in fair value of swap agreement	–	428	–	428	–	–	–	–	428
Depreciation and amortization	28,993	15,653	587	45,233	3,290	541	3,831	–	49,064
Occupancy	8,794	4,103	362	13,259	4,698	1,006	5,704	–	18,963
Patent	–	61,970	–	61,970	3	–	3	–	61,973
Hospital provider fee	12,018	–	–	12,018	–	–	–	–	12,018
Bad debt	–	–	–	–	1,783	–	1,783	–	1,783
Other	2,873	6,698	187	9,758	4,112	811	4,923	–	14,681
Total functional expenses	$ 442,771	$ 277,260	$ 11,417	$ 731,448	$ 160,702	$ 20,798	$ 181,500	$ (13,401)	$ 899,547

City of Hope and Affiliates

Consolidating Statements of Functional Expenses

Year Ended September 30, 2010

(In Thousands)

	Program Services				Supporting Services			
Account Title	**Patient Care**	**Research**	**Public Information and Education**	**Total Program Services**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**Total**
Salaries, wages and employee benefits	$ 174,030	$ 96,330	$ 7,466	$ 277,826	$ 63,281	$ 10,716	$ 73,997	$ 351,823
Purchased services	29,455	12,483	3,812	45,750	28,154	4,074	32,228	77,978
Professional fees	6,596	23,265	–	29,861	18,559	–	18,559	48,420
Supplies	123,091	21,716	484	145,291	3,926	2,962	6,888	152,179
Equipment rental and maintenance	8,442	2,450	106	10,998	5,910	62	5,972	16,970
Interest	9,359	3,370	–	12,729	36	–	36	12,765
Change in fair value of interest rate swap agreement	–	2,778	–	2,778	–	–	–	2,778
Depreciation and amortization	29,113	11,669	835	41,617	1,838	179	2,017	43,634
Occupancy	8,249	4,079	453	12,781	3,452	1,059	4,511	17,292
Patent	–	62,511	–	62,511	100	–	100	62,611
Other	3,124	4,853	271	8,248	4,342	992	5,334	13,582
Total functional expenses	$ 391,459	$ 245,504	$ 13,427	$ 650,390	$ 129,598	$ 20,044	$ 149,642	$ 800,032

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope

Years Ended September 30, 2011 and 2010

(In Thousands)

Account Title	Program Services: Public Information and Education	Supporting Services: Administrative and General	Supporting Services: Fund-Raising	Supporting Services: Total Supporting Services	2011 Total	2010 Total
Salaries, wages and employee benefits	$ 2,042	$ 8,519	$ 10,440	$ 18,959	$ 21,001	$ 20,113
Purchased services	272	4,383	5,017	9,400	9,672	7,224
Professional fees	–	610	–	610	610	627
Supplies	245	932	2,467	3,399	3,644	3,824
Equipment rental and maintenance	3	256	20	276	279	378
Interest	–	25	–	25	25	36
Depreciation and amortization	93	290	482	772	865	254
Occupancy	212	750	990	1,740	1,952	2,009
Patent	–	3	–	3	3	100
Other	111	667	809	1,476	1,587	1,797
Total functional expenses – 2011	$ 2,978	$ 16,435	$ 20,225	$ 36,660	$ 39,638	$ 36,362
Total functional expenses – 2010	$ 2,807	$ 11,713	$ 21,842	$ 33,555		

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope National Medical Center

Years Ended September 30, 2011 and 2010

(In Thousands)

	Program Services				Supporting Services				
Account Title	**Patient Care**	**Research**	**Public Information and Education**	**Total Program Services**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**2011 Total**	**2010 Total**
Salaries, wages and employee benefits	$ 182,398	$ 23,853	$ 3,730	$ 209,981	$ 42,383	$ 189	$ 42,572	$ 252,553	$ 236,979
Purchased services	32,579	3,952	2,831	39,362	24,909	7	24,916	64,278	55,846
Professional fees	7,027	21,080	–	28,107	25,555	–	25,555	53,662	43,746
Supplies	130,938	1,888	595	133,421	2,921	2	2,923	136,344	129,306
Equipment rental and maintenance	7,708	388	32	8,128	3,424	2	3,426	11,554	12,745
Interest	8,720	1,141	–	9,861	–	–	–	9,861	10,164
Depreciation and amortization	28,473	3,727	494	32,694	1,505	27	1,532	34,226	34,080
Occupancy	8,283	1,075	150	9,508	2,855	8	2,863	12,371	11,291
Patent	–	118	–	118	–	–	–	118	268
Hospital provider fee	12,018	–	–	12,018	–	–	–	12,018	–
Bad debt	–	–	–	–	1,286	–	1,286	1,286	–
Other	2,828	2,411	76	5,315	2,470	–	2,470	7,785	7,550
Total functional expenses – 2011	$ 420,972	$ 59,633	$ 7,908	$ 488,513	$ 107,308	$ 235	$ 107,543	$ 596,056	$ 541,975
Total functional expenses – 2010	$ 391,459	$ 48,830	$ 10,350	$ 450,639	$ 90,809	$ 527	$ 91,336		

City of Hope and Affiliates

Statement of Functional Expenses – City of Hope Medical Foundation

Year Ended September 30, 2011

(In Thousands)

	Program Services				Supporting Services	
Account Title	**Patient Care**	**Research**	**Public Information and Education**	**Total Program Services**	**Administrative and General**	**2011 Total**
Salaries, wages and employee benefits	$ 531	$ 46	$ –	$ 577	$ 3,195	$ 3,772
Purchased services	40	2	–	42	658	700
Professional fees	18,546	5,273	531	24,350	3,997	28,347
Supplies	1,502	–	–	1,502	114	1,616
Equipment rental and maintenance	104	–	–	104	71	175
Interest	–	–	–	–	–	–
Depreciation and amortization	520	1	–	521	741	1,262
Occupancy	511	2	–	513	167	680
Bad debt	–	–	–	–	497	497
Other	45	–	–	45	32	77
Total functional expenses – 2011	$ 21,799	$ 5,324	$ 531	$ 27,654	$ 9,472	$ 37,126

City of Hope and Affiliates

Statements of Functional Expenses – Beckman Research Institute of the City of Hope

Years Ended September 30, 2011 and 2010

(In Thousands)

Account Title	Program Services: Research	Supporting Services: Administrative and General	Supporting Services: Fund-Raising	Supporting Services: Total Supporting Services	2011 Total	2010 Total
Salaries, wages and employee benefits	$ 83,202	$ 16,418	$ 279	$ 16,697	$ 99,899	$ 94,730
Purchased services	16,358	5,749	12	5,761	22,119	14,909
Professional fees	6,156	628	–	628	6,784	4,047
Supplies	19,512	1,021	3	1,024	20,536	19,086
Equipment rental and maintenance	2,901	1,048	2	1,050	3,951	3,847
Interest	2,656	–	–	–	2,656	2,436
Change in fair value of interest rate swap agreement	428	–	–	–	428	2,778
Depreciation and amortization	11,925	754	32	786	12,711	9,301
Occupancy	3,026	926	8	934	3,960	3,992
Patent	61,852	–	–	–	61,852	62,243
Other	4,287	943	2	945	5,232	4,326
Total functional expenses – 2011	$ 212,303	$ 27,487	$ 338	$ 27,825	$ 240,128	$ 221,695
Total functional expenses – 2010	$ 196,674	$ 24,871	$ 150	$ 25,021		

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