CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

CITY OF HOPE AND AFFILIATES
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

City of Hope and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2012 and 2011

Contents

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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, 2012 and 2011, 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, 2012 and 2011, 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 21, 2012

City of Hope and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	September 30	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	**$ 78,509**	$ 80,585
Investments	**473,396**	372,169
Self-insurance trust funds	**3,585**	3,848
Bond trust funds	**6,487**	6,494
Patient accounts receivable, less allowances for uncollectible accounts of $12,557 in 2012 and $5,254 in 2011	**130,961**	113,265
Grants and other receivables	**34,990**	11,836
Donor-restricted unconditional promises to give, net	**12,938**	14,716
Due from third-party payors	**194**	2,208
Prepaid and other	**17,873**	18,766
Total current assets	**758,933**	623,887
Property, plant and equipment, net	**600,226**	580,747
Other assets:		
Investments	**8,421**	6,422
Board-designated assets	**523,640**	445,215
Bond trust funds	**12,320**	12,320
Donor-restricted assets:		
Investments	**149,502**	136,979
Unconditional promises to give, net	**28,958**	25,421
Contributions receivable from annuity and split-interest obligations, net	**10,989**	12,766
Other	**726**	578
Intangible assets	**7,772**	9,022
Goodwill	**30,137**	30,137
Other long-term assets	**22,388**	16,658
Total other assets	**794,853**	695,518
Total assets	**$ 2,154,012**	$ 1,900,152

	September 30	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 75,761**	$ 75,237
Accrued salaries, wages and employee benefits	**54,039**	49,396
Long-term debt, current portion	**9,593**	8,661
Deferred revenue	**18,549**	37,407
Other	**368**	524
Total current liabilities	**158,310**	171,225
Long-term debt, net of current portion	**239,631**	246,843
Annuity and split-interest agreement obligations	**18,133**	18,339
Other	**37,687**	29,492
Total liabilities	**453,761**	465,899
Net assets:		
Unrestricted	**1,445,433**	1,205,422
Temporarily restricted	**117,148**	97,783
Permanently restricted	**137,670**	131,048
Total net assets	**1,700,251**	1,434,253
Total liabilities and net assets	**$ 2,154,012**	$ 1,900,152

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Activities

(In Thousands)

Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions (including $20,477 of contributions from special events)	$ 53,387	$ 36,258	$ 5,898	$ 95,543
Special event participation revenue	4,848	–	–	4,848
Less: cost of direct benefits to donors	(5,032)	–	–	(5,032)
Contributions and net revenues from special events	53,203	36,258	5,898	95,359
Net patient service revenues	737,359	–	–	737,359
Research grants	77,198	–	–	77,198
Investment income	47,395	(113)	400	47,682
Net unrealized gain on investments	75,336	14,153	–	89,489
Royalty income	224,604	–	–	224,604
Other	11,278	73	–	11,351
Total revenues	1,226,373	50,371	6,298	1,283,042
Net assets released from restrictions	30,682	(31,006)	324	–
Total revenues and other increases	1,257,055	19,365	6,622	1,283,042
Expenses:				
Program services:				
Patient care	519,077	–	–	519,077
Research	287,474	–	–	287,474
Public information and education	12,698	–	–	12,698
Total program services	819,249	–	–	819,249
Supporting services:				
Administrative and general	174,815	–	–	174,815
Fund-raising	22,980	–	–	22,980
Total supporting services	197,795	–	–	197,795
Total expenses	1,017,044	–	–	1,017,044
Changes in net assets	240,011	19,365	6,622	265,998
Net assets, beginning of year	1,205,422	97,783	131,048	1,434,253
Net assets, end of year	$ 1,445,433	$ 117,148	$ 137,670	$ 1,700,251

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	602,884	–	–	602,884
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	925,945	20,737	11,554	958,236
Net assets released from restrictions	32,121	(32,365)	244	–
Total revenues and other increases (decreases)	958,066	(11,628)	11,798	958,236
Expenses:				
Program services:				
Patient care	447,408	–	–	447,408
Research	263,355	–	–	263,355
Public information and education	10,886	–	–	10,886
Total program services	721,649	–	–	721,649
Supporting services:				
Administrative and general	158,681	–	–	158,681
Fund-raising	20,798	–	–	20,798
Total supporting services	179,479	–	–	179,479
Total expenses	901,128	–	–	901,128
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 Cash Flows
(In Thousands)

	Year Ended September 30	
	2012	**2011**
Operating activities		
Changes in net assets	**$ 265,998**	$ 57,108
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**56,118**	49,064
Net loss (gain) on sale of contributed real property held for sale	**106**	(429)
Loss on disposal of fixed assets	**646**	68
Net (increase) decrease in trading investments	**(132,328)**	32,661
Net unrealized (gain) loss on investments	**(89,489)**	54,392
Change in value of interest rate swap agreement	**93**	220
Contribution proceeds restricted for endowment	**(11,352)**	(22,415)
Changes in assets and liabilities:		
Patient accounts receivable, net	**(17,696)**	(14,083)
Grants and other receivables	**(23,154)**	7,256
Unconditional promises to give, net	**(1,759)**	12,432
Contributions receivable from split-interest agreements	**1,777**	568
Contributed real property held for sale	**(2,673)**	(987)
Other assets	**(3,200)**	(12,710)
Accounts payable and accrued liabilities	**524**	18,843
Accrued salaries, wages and employee benefits	**4,643**	(657)
Annuity and split-interest agreement obligations	**(206)**	(884)
Other liabilities	**(11,041)**	25,420
Net cash provided by operating activities	**37,007**	205,867
Investing activities		
Decrease in notes receivable	**71**	2,191
Additions to property, plant and equipment	**(72,495)**	(76,814)
Proceeds from sale of contributed real property held for sale	**2,539**	1,942
Proceeds from sale of property, plant and equipment	**70**	–
Acquisition of other long-term assets (Note 7)	**–**	(49,096)
Net increase in alternative investments	**27,913**	(245,219)
Net cash used in investing activities	**(41,902)**	(366,996)
Financing activities		
Repayments of line of credit	**(1,757)**	(966)
Proceeds from line of credit	**1,757**	966
Principal payments on long-term debt	**(8,533)**	(8,238)
Contribution proceeds restricted for endowment	**11,352**	22,415
Net cash provided by financing activities	**2,819**	14,177
Net decrease in cash and cash equivalents	**(2,076)**	(146,952)
Cash and cash equivalents, beginning of year	**80,585**	227,537
Cash and cash equivalents, end of year	**$ 78,509**	$ 80,585
Supplemental disclosure of cash flow information:		
Interest paid during the year (net of capitalized interest)	**$ 12,652**	$ 13,320
Supplemental disclosure of non-cash financing activity:		
Capital lease obligation	**$ 2,253**	$ –

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 186-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, that was formed in 2011 that was organized as part of a coordinated health care system to provide teaching, education and research services in support of the Center and the Institute, as well as an extensive range of medical care and treatment through outpatient clinic facilities operated by the Foundation. In April 2012, the Foundation applied to the Internal Revenue Service (IRS) for recognition of status as an organization described under Section 501(c)(3) of the Internal Revenue Code. City of Hope is the sole corporate member of the Foundation.

The Institute, also located in Duarte, California, is a California nonprofit public benefit corporation that owns and operates a number of major research facilities on City of Hope's main campus and conducts basic scientific research in support of and in conjunction with the patient care activities of the Center and the Foundation. 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.

1. Organization (continued)

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.

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

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, 2012, was approximately 54%. Three of the six agreements will expire within one year of September 30, 2012, 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.

2. Summary of Significant Accounting Policies (continued)

Contributions

All contributions are considered available for the program services of City of Hope and for distribution to the Center and the Institute, 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.

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, a stipulated time restriction ends, or a 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 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, 2012 and 2011, valid will and trust agreement amounts that became measurable totaled $20,447,000 and $24,340,000, 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. 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. These rates were 0.7% and 0.9% for 2012 and 2011, respectively.

2. Summary of Significant Accounting Policies (continued)

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, 2012.

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):

	2012	**2011**
Unconditional promises to give	**$ 53,777**	$ 52,863
Less:		
Discounts	**(2,019)**	(2,679)
Allowance for uncollectible promises to give	**(9,862)**	(10,047)
Total unconditional promises to give, net	**41,896**	40,137
Less current portion	**12,938**	14,716
	$ 28,958	$ 25,421

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

At September 30, 2012, future cash flows anticipated from unconditional promises to give, are as follows (amounts in thousands):

2013	$ 16,108
2014	19,602
2015	3,910
2016	2,352
2017	1,320
Thereafter	10,485
	53,777
Discounts	(2,019)
Allowance for uncollectible promises to give	(9,862)
	$ 41,896

2. Summary of Significant Accounting Policies (continued)

Split-Interest Obligations

City of Hope receives contributions from various types of split-interest obligations, including charitable gift annuities, charitable remainder annuity trusts and charitable remainder unitrusts. City of Hope may be named as the trustee, as a co-trustee or a financial institution may be named as the trustee.

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 designated by the donor to various beneficiaries are recognized at the present value of the estimated future payments to be distributed by City of Hope to such beneficiaries. The amount of the temporarily restricted contribution revenue is the difference between these assets and liabilities.

Some states have laws that mandate requirements regarding gift annuity reserves. These laws can be based on where the nonprofit entity is located or where the gift annuity donor resides. As of September 30, 2012, City of Hope has state mandated reserves above the actuarial annuity reserves in the amount of $371,000. Additionally, City of Hope has voluntary reserves in the amount of $3,475,000 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. 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 as of September 30, 2012, totaling $10,989,000, are to be collected over the next 29 years and have an average remaining life of 12.2 years.

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 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 obligations was $1,663,000 and $910,000 in 2012 and 2011, respectively. In addition, the effect of changes in liabilities included in contribution revenue in the accompanying consolidated statements of activities was a gain of $796,000 and $628,000 in 2012 and 2011, respectively. 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 $8,332,000 and $7,111,000 at September 30, 2012 and 2011, 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 the date of the 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.

Leases which have been capitalized are amortized over the life of the lease, which approximates the expected useful life of the assets. Capital lease amortization is included with depreciation and amortization expense.

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

	2012	2011
Land	**$ 12,637**	$ 12,476
Buildings and improvements	**565,770**	544,828
Equipment and furniture	**363,074**	337,723
Capitalized software	**61,019**	55,729
Construction in progress	**76,681**	56,029
Total property, plant and equipment	**1,079,181**	1,006,785
Accumulated depreciation and amortization	**(478,955)**	(426,038)
Property, plant and equipment, net	**$ 600,226**	$ 580,747

2. Summary of Significant Accounting Policies (continued)

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, 2012.

Goodwill

Goodwill consists of costs in excess of the fair value of tangible assets of acquired entities. The Affiliated Group tests the carrying value of goodwill for impairment at the reporting unit level on an annual basis, or more frequently if significant indicators of impairment exist. The Affiliated Group primarily uses the income approach to valuation that includes the discounted cash flow method to determine the fair value of its reporting units.

The Affiliated Group has elected an annual measurement date of July 1, and upon completion of the annual impairment assessment in 2012, the Affiliated Group determined that no impairment was indicated as the estimated fair value of the reporting unit with goodwill exceeded its respective carrying value.

The Affiliated Group adopted Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which amended Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, during fiscal year 2011. The amendments 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. The Affiliated Group performed a quantitative assessment in 2012.

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 significant enhanced 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.

Unamortized software development costs included within property and equipment totaled $22,054,000 and $27,584,000 as of September 30, 2012 and 2011, respectively. Total amortization expense related to capitalized software development costs was $9,577,000 and $7,683,000 for the year ended September 30, 2012 and 2011, respectively. Software development costs included in construction in progress totaled $23,060,000 and $5,912,000 at September 30, 2012 and 2011, 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. Total interest cost incurred totaled $12,516,000 and $12,542,000 in 2012 and 2011, respectively. Interest cost capitalized totaled $269,000 and $672,000 in 2012 and 2011, respectively. No investment income was capitalized in 2012 and 2011.

2. Summary of Significant Accounting Policies (continued)

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.

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

	2012	**2011**
Fund-raising events and other efforts	**$ 2,251**	$ 1,191
Unexpended grants/agreements	**16,298**	15,641
Hospital provider fee (a)	**–**	20,575
Total deferred revenue	**$ 18,549**	$ 37,407

(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. The Foundation's exemption from taxation is pending IRS approval.

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.

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,

2. Summary of Significant Accounting Policies (continued)

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 positions or tax liability for tax benefits, interest or penalties accrued at September 30, 2012 and 2011.

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 $15,682,000 and $9,895,000 as of September 30, 2012 and 2011, respectively. The estimated current portion of the liability, totaling $2,886,000, 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. The estimated liability was recorded using a 1% discount factor as of September 30, 2012. Workers' compensation expense charged to the Affiliated Group's operations totaled $6,218,000 and $4,437,000 in 2012 and 2011, respectively.

On October 1, 2011, the Affiliated Group adopted 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. As a result of the adoption, the Affiliated Group recorded insurance recoveries and liabilities totaling $3,474,000, which have been reflected in the accompanying consolidated statements of financial position as of September 30, 2012.

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, 2012, 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 1% discount factor. City of Hope and the Affiliated Group have recorded an estimated liability of

2. Summary of Significant Accounting Policies (continued)

$722,000 and $350,000, respectively, and is included in other current and long-term liabilities in the consolidated statements of financial position. The professional liability insurance expense charged to the Affiliated Group's operations amounted to $1,421,000 and $736,000 in 2012 and 2011, respectively.

On October 1, 2011, the Affiliated Group adopted 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. As a result of the adoption, the Affiliated Group recorded insurance recoveries and liabilities totaling $372,000 which have been reflected in the accompanying consolidated statements of financial position as of September 30, 2012.

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 bi-weekly base salary up to and above the annual Social Security Taxable wage base, not to exceed the maximum covered compensation of $250,000 in 2012. Employees are eligible upon the completion of one year of service in which they have worked at least 1,000 hours. They may direct these contributions into various funds offered through the Plan. The Foundation was added as a participating employer in January 2012, honoring prior years of service for eligibility, contributions and vesting for each Foundation employee entering the plan on January 1, 2012.

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. Employer contributions of 15% of each participant's bi-weekly eligible salary are made up to a defined annual maximum base salary of $250,000 in 2012. The participants have the ability to direct these contributions into various funds offered through the RSO TDA Plan.

2. Summary of Significant Accounting Policies (continued)

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, made 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 was 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 in 2011) totaled $16,421,000 and $14,787,000 in 2012 and 2011, respectively.

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.

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, at age 65, or if they leave involuntarily. 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 $669,000 and $562,000 in 2012 and 2011, respectively.

2. Summary of Significant Accounting Policies (continued)

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. Patient service revenues, net of contractual allowances and discounts for the year ended September 30 are as follows (amounts in thousands):

	2012	2011
Medicare	**$ 134,964**	$ 110,315
Medi-Cal	**115,879**	90,605
Managed care	**406,478**	371,356
Indemnity, self-pay and other	**10,628**	9,316
Net patient service revenues	**$ 667,949**	$ 581,592

The Foundation also 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. Patient service revenues, net of contractual allowances and discounts for the year ended September 30, 2012 and the four months ended September 30, 2011 are as follows (amounts in thousands):

	2012	2011
Medicare	**$ 16,274**	$ 5,053
Medi-Cal	**5,559**	1,769
Managed care	**46,691**	14,288
Indemnity, self-pay and other	**886**	182
Net patient service revenues	**$ 69,410**	$ 21,292

2. Summary of Significant Accounting Policies (continued)

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 2009. However, the Center has filed appeals to re-open previously audited cost reports for years 1999 through 2009 and, if successful, will record the appeals as net patient service revenues in the period realized. Medicare audits of the 2009 cost report was finalized during 2012. The Medicare cost report for 2010 is expected to be audited and audit results are expected during fiscal year 2013. The cost report for 2011 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 year 2012, the Center recorded $607,000 of additional net patient service revenues as a result of a successful appeal of the Medicare 1996 cost report and finalization with the fiscal intermediary of the Medicare 2009 cost report. Also included in this amount are revised estimates of amounts due to Medicare for 2011, which include a tentative settlement for 2011.

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

2. Summary of Significant Accounting Policies (continued)

facility completed in fiscal year 2005. In fiscal years 2012 and 2011, the Center recognized $2,375,000 and $2,207,000, respectively, in SB1732 program revenue, which has been included in net patient service revenues. Of these amounts, $933,000 has not been received and is included in other assets at September 30, 2012.

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.

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 for these costs. The residual amount of cost in excess of payments has been included as a component of the Center's community benefit.

2. Summary of Significant Accounting Policies (continued)

The following is a summary of the Affiliates' estimated Patient Charity Care and Support of Governmental Health Care Programs – Medi-Cal and Medicare expense, at cost, in terms of service to the indigent for the years ended September 30 (amounts in thousands):

		2012		2011
Patient Charity Care				
Estimated cost of Patient Charity Care	**$**	**2,202**	$	2,531
Estimated cost of services to Medi-Cal patients not covered under the Governmental Health Care Programs		**4,398**		4,325
		6,600		6,856
Support of Governmental Health Care Programs				
Estimated unreimbursed cost of the Medi-Cal Program		**56,665**		49,051
Estimated unreimbursed cost of the Medicare Program		**56,395**		51,660
Total estimated patient charity care and unreimbursed costs to governmental health programs	**$**	**113,060**	$	100,711

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, and utilities).

See footnote 9 for disclosure of benefits for the broader community.

Performance Indicator

Management considers changes in net assets to be the performance indicator.

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

2. Summary of Significant Accounting Policies (continued)

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, 2012, the Affiliated Group's derivative instruments consisted of interest rate swap agreements with a notional amount totaling $74,392,000 (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 accept 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.

Royalty Income

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 2012 and 2011, the Affiliated Group received and recognized royalty revenue totaling $224,604,000 and $200,391,000, 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).

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

2. Summary of Significant Accounting Policies (continued)

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, 2012 and 2011, 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 equity positions, derivatives, forward and futures contracts, and currency hedges. As of September 30, 2012, the Affiliated Group has outstanding unfunded private equity and private real asset commitments totaling $77,698,000.

The Affiliated Group accounts for its ownership interests in the alternative investments under the equity method of accounting, under which the net asset value is used as a practical expedient to 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 1.0% to 24.2% as of September 30, 2012. As of September 30, 2012 and 2011, these alternative investments comprised approximately 26.0% and 27.2%, 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.

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, 2012 and 2011, as follows (amounts in thousands):

	2012	2011
Fund-raising expense	**$ 7,186**	$ 7,997
Administrative and general expense	**2,766**	3,304
Public information and education expense	**2,822**	2,243
Total joint costs	**$ 12,774**	$ 13,544

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. City of Hope did not adopt this standard because its policies include the evaluation of a patient's ability to pay.

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 did not have a material impact on the Affiliated Group's 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

2. Summary of Significant Accounting Policies (continued)

wording used to describe many of the requirements in U.S. generally accepted accounting principles (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, 2012 and is not expected to have a material impact on the Affiliated Group's consolidated financial statements.

Reclassifications and Cash Flow Adjustments

Certain 2011 amounts have been reclassified in the consolidated financial statements to conform to the 2012 presentation. In 2011, unrealized losses totaling $30.8 million were improperly included in cash flows from investing activities instead of cash flows from operating activities. Although management has concluded this classification error was not material to prior period financial statements, the Affiliated Group has adjusted the prior period amount from cash used in investing activities to cash provided by operating activities in the 2011 consolidated statement of cash flows to conform to the current period presentation. This adjustment has increased cash flows from operating activities as previously reported by $30.8 million with a corresponding reduction to cash flows from investing activities.

Subsequent Events

City of Hope has evaluated subsequent events occurring between the end of the most recent fiscal year and December 21, 2012, 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) contain 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. Some of these payments will be made directly by the state, while others will be made by the Medi-Cal managed care plans, which will receive increased rates from the state in amounts equal to the Supplemental Payments. Hospital participation is mandatory, with limited exceptions. On January 20, 2011, CMS gave final approval of the program.

3. California Hospital Provider Fee Program (continued)

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 (21-Month Program).

Also, during the year ended September 30, 2011, 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 predescribed 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-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 from January 1, 2011 through June 30, 2011 (Six-Month Program). In fiscal year 2011 while this extension was pending final CMS approval, the Center received Supplemental Payments in the amount of $20,575,000 and paid $3,150,000 in QA Fees and $445,000 in CHFT payments, which were recorded as deferred revenue and prepaid expense, respectively, in the accompanying consolidated statements of financial position as of September 30, 2011.

On December 29, 2011, CMS approved the Six-Month Program. During fiscal year 2012, the Center reversed the prepaid expenses and deferred revenues recorded as of September 30, 2011 and recognized $3,654,000 in QA Fees and CHFT payments and $21,271,000 in Supplemental Payments, which were recorded as program expenses and an increase to net patient service revenues in the accompanying consolidated statements of activates, respectively, during the year ended September 30, 2012.

CMS approved a 30-month extension of the Program (30-Month Program) for the period July 1, 2011 through December 31, 2013. The legislation governing the 30-Month Program was amended to allow for the fee-for-service portion to be administered separately from the managed

3. California Hospital Provider Fee Program (continued)

care portion. In June 2012, CMS approved the fee-for-service portion of the 30-Month Program. Accordingly, during the year ended September 30, 2012, the Center recorded $41,620,000 in Supplemental Payments (including amounts recorded as receivable noted in the paragraph below) and $10,557,000 in QA Fees (including amounts recorded as payable noted in the paragraph below) as an increase to net patient service revenues and a component of program service expenses, respectively, in the accompanying consolidated statement of activities related to the July 1, 2011 through September 30, 2012 period of the approved fee-for-service portion of the 30-Month Program.

The Center recorded $6,467,000 in accounts payable and accrued liabilities for the 30-Month Program QA Fee owed for the period related to the July 1, 2011 through September 30, 2012, portion of the 30-Month Program that was not paid as of September 30, 2012, in the consolidated balance sheets as of September 30, 2012. Additionally, the Center recorded $24,365,000 in grants and other receivables for the 30-Month Program Supplemental Payment revenue due for the period related to the July 1, 2011 through September 30, 2012, portion of the 30-Month Program that was not received as of September 30, 2012, in the consolidated balance sheets as of September 30, 2012. Additionally, the Center made payments to the CHFT in the amount of $1,472,000 as of September 30, 2012, which have been recorded as prepaid expenses in the accompanying consolidated statements of financial position, pending the approval of the managed care component of the program.

4. 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 fair 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 $249,224,000, which has a fair value of $251,092,000 at September 30, 2012, based on current market rates of debt with similar risks and maturities.

4. Fair Value of Financial Instruments (continued)

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 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 obligations has been determined using present value techniques based on mortality

4. Fair Value of Financial Instruments (continued)

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.

City of Hope received restricted pledges and contributions for the year ended September 30, 2012, amounting to $42,156,000, 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 $17,644,000 of the restricted contributions received in 2012 were recorded as unconditional promises to give as of September 30, 2012.

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 of 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, 2012, 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.

4. Fair Value of Financial Instruments (continued)

City of Hope's assets and liabilities, measured at fair value on a recurring basis as of September 30, 2012 and 2011, aggregated by the level in the fair value hierarchy, are included in cash equivalents, investments, annuity and split-interest obligations and other long-term liabilities in the consolidated statements of position and are as follows (amounts in thousands):

2012	Level 1	Level 2	Level 3	Total	Valuation Technique (a,b,c)
Assets					
U.S. government and agency obligations	$ –	$ 68,514	$ –	$ 68,514	a,b
Corporate obligations	–	47,228	–	47,228	a,b
International obligations	–	81	–	81	a,b
Marketable securities	466,958	–	–	466,958	a
Municipal obligations	–	6,914	–	6,914	a
Alternative investments	–	–	560,995	560,995	a
Cash equivalents	74,854	–	–	74,854	
Total assets	$ 541,812	$ 122,737	$ 560,995	$ 1,225,544	
Liabilities					
Annuity and split-interest obligations	$ –	$ –	$ 18,133	$ 18,133	c
Derivative financial instruments	–	12,686	–	12,686	a,b
Total liabilities	$ –	$ 12,686	$ 18,133	$ 30,819	

4. Fair Value of Financial Instruments (continued)

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 equivalents	84,473	–	–	84,473	
Total assets	$ 458,919	$ 65,759	$ 516,592	$ 1,041,270	
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	

City of Hope's alternative investments include equity and fixed income commingled funds that invest primarily in marketable securities. These commingled funds include $283,140,000 and $253,873,000 of marketable securities as of September 30, 2012 and 2011, respectively, that, subject to certain notice requirements, can be liquidated at least monthly. City of Hope's classification of other alternative investments include limited partnership funds invested in real estate and natural resources, private equity funds and offshore funds.

Entities are permitted to choose to measure 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.

4. Fair Value of Financial Instruments (continued)

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, 2012 (amounts in thousands):

	Assets	Liabilities
Beginning balance at September 30, 2011	$ 516,592	$ 18,339
Additions	78,428	375
Investment activity, adjustments, maturities	14,975	56
Distributions	(121,316)	(1,523)
Change in fair value	72,316	886
Ending balance at September 30, 2012	$ 560,995	$ 18,133

The following reconciles fair value amounts to the statements of financial position at September 30 (amounts in thousands):

	2012	2011
Cash and cash equivalents	**$ 78,509**	$ 80,585
Investments, current	**473,396**	372,169
Self-insurance trust funds	**3,585**	3,848
Bond trust funds, current	**6,487**	6,494
Investments, other	**8,421**	6,422
Board-designated assets	**523,640**	445,215
Bond trust funds, other	**12,320**	12,320
Donor-restricted investments, other	**149,502**	136,979
	1,255,860	1,064,032
Less: Cash not carried at fair value	**(30,316)**	(22,762)
Investments at fair value	**$ 1,225,544**	$ 1,041,270

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.

4. Fair Value of Financial Instruments (continued)

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, 2012 and 2011, net realized capital gains totaled $31,301,000 and $17,593,000, respectively.

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, 2012, 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):

	2012	2011
The Center, 4.5% to 5.25% fixed rate Tax-Exempt Certificates of Participation Series 1999A, originally $169,930, issued through the City of Duarte, with varying maturities annually on April 1, 2006 through April 1, 2031. Interest payable semiannually on April 1 and October 1. (**Series 1999 Certificates**)	**$ 145,895**	$ 150,355
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**)	**47,718**	48,801

6. Long-Term Debt (continued)

	2012	2011
The Institute, tax-exempt note payable, originally $12,650, refinanced in 2007 with equal monthly principal payments of $35 starting December 1, 2006 through June 1, 2016, with all unpaid principal due and payable in full on July 1, 2016. (**Tax-Exempt Note Payable**)	**$ 1,615**	$ 2,037
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**)	**8,039**	8,217
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**)	**21,220**	21,895
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**)	**17,020**	18,265
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**)	**6,760**	7,240

6. Long-Term Debt (continued)

	2012	2011
The Center, Capital Lease Obligation	**$ 2,253**	$ –
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	**64**	182
	250,584	256,992
Less: current portion	**(9,593)**	(8,661)
Unamortized discount	**(1,360)**	(1,488)
	$ 239,631	$ 246,843

Long-term debt maturities at September 30, 2012, are as follows (amounts in thousands):

2013	$ 9,593
2014	9,698
2015	10,038
2016	10,174
2017	16,685
Thereafter	194,396
	$ 250,584

Series 1999 Certificates – The Center, through the City of Duarte, issued $169,930,000 Certificates of Participation, Series 1999A and $18,330,000 Certificates of Participation, Series 1999B (repaid in full during fiscal year 2006). 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 outstanding Series 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 Series 1999 Certificates accrue interest at fixed rates between 4.5% and 5.25%.

6. Long-Term Debt (continued)

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 was secured by the remaining proceeds in the construction account; upon completion of construction, the note is now 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, $556,000 in 2012 and $543,000 in 2011, are reflected within program and supporting services expenses in the accompanying consolidating statements of activities. The effect of counterparty payments on expense totaled $1,810,000 in 2012 and $1,871,000 in 2011.

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, $(47,000) in 2012 and $(51,000) in 2011, are reflected within program and supporting services expenses in the accompanying consolidating statements of activities. 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% (1.14608% at September 30, 2012). The effect on counterparty payments on expense was $62,000 in 2012 and $78,000 in 2011.

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 $(135,000) in 2012 and $(64,000) in 2011 are reflected within program and supporting services expenses in the accompanying

6. Long-Term Debt (continued)

consolidating statements of activities. 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% (1.22825% at September 30, 2012). The effect of counterparty payments on expense totaled $448,000 in 2012 and $462,000 in 2011.

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 was not designated as a cash flow hedge, so the changes in the fair value of the swap, $(281,000) in 2012 and $(208,000) in 2011, are reflected within program and supporting services expenses in the accompanying consolidating statements of activities. The effect of counterparty payments on expense totaled $617,000 and $661,000 in 2012 and 2011, respectively.

The Center had a Letter of Credit facility to provide credit enhancement for the Series 2006B and Series 2006C Tax-Exempt Certificates described above that was set to expire on May 25, 2012. On February 2, 2012, the Center, the Letter of Credit provider and the bank agreed to an early termination of the Letter of Credit. No new facility was obtained.

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, 2012 and 2011.

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.

6. Long-Term Debt (continued)

Under the terms of the Series 1999 and Series 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, 2012 and 2011, project funds have been entirely depleted for intended projects.

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):

	2012	**2011**
Reserve account	**$ 12,320**	$ 12,320
Interest account	**3,947**	4,064
Principal account	**2,540**	2,430
	$ 18,807	$ 18,814

7. 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.

On May 31, 2011, in furtherance of the decision to develop the Foundation, following lengthy negotiations, City of Hope acquired substantially all of the assets of California Cancer Specialist Medical Group, Inc. (CCSMG), the medical group that employed more than 90% of the physicians on the Center's medical staff, for a cash purchase price of $43,500,000. In connection with the acquisition of CCSMG, the Foundation acquired approximately $0.5 million of prepaid expenses and inventory, $9.6 million of fixed assets and leasehold improvements, and $33.4 million of intangible assets, including goodwill. Additional goodwill was recorded subsequent to the transaction date related to contractual obligations defined in the purchase agreement totaling $0.8 million.

On the same date and as part of the closing of the Foundation transaction, City of Hope acquired substantially all of the assets of Oncology Specialists of COH, P.C. (OSCOH), another medical group that employed physicians on the Center's medical staff, for a purchase price of $5.6 million. In connection with the acquisition of OSCOH, the Foundation acquired approximately $0.2 million in net accounts receivable and $5.4 million of goodwill.

Upon closing, most physicians employed by CCSMG and OSCOH joined together in a new medical group, City of Hope Medical Group (COHMG). The Foundation has entered into a five-year professional services agreement with the COHMG for its physicians to provide exclusively to the Foundation both patient care services and academic services, such as teaching, administrative and research services, to the Foundation. As part of City of Hope's goal of creating greater integration and coordination of City of Hope's patient care, research and education services, the Foundation provides for or arranges for the provision of certain patient care and on-call coverage services and teaching, administrative and research services for the operations and activities of the Center pursuant to several agreements between the Foundation and the Center. The professional fees associated with the contract between the Foundation and the Center are eliminated in consolidation.

7. City of Hope Medical Foundation (continued)

In addition, in furtherance of the goal of achieving greater clinical integration between the Center and the COHMG physicians, the Foundation and the Center have entered into a contract for the Foundation to manage and operate the Center's Geri and Richard Brawerman Center for Ambulatory Care.

Pursuant to the professional services agreement, COHMG assigns to the Foundation the right to bill and collect for professional services rendered by COHMG physicians and other professional employees, and the Foundation contracts directly with payors in connection with the provision of patient care services. Accordingly, net patient service revenues for the Foundation include amounts for services provided by COHMG physicians on behalf of the Foundation. Professional fees incurred by the Foundation substantially include the professional fees negotiated with COHMG for physician services.

The Foundation has recorded $1,251,000 related to amortization expense for intangible assets acquired through the purchase, excluding goodwill, during the year ended September 30, 2012. Intangible assets, excluding goodwill, are amortized on a straight-line basis between seven and 10 years. Future amortization of these intangibles is reflected below (amounts in thousands):

2013	$ 1,251
2014	1,251
2015	1,251
2016	1,251
2017	1,251
Thereafter	1,517
	$ 7,772

The results of the operations of the Foundation included in the accompanying consolidated statements of activities are for the year ended September 30, 2012 and the four months ended September 30, 2011, from the acquisition date of May 31, 2011 through September 30, 2011.

During 2012, the Foundation performed the goodwill impairment analysis under ASC 350. The Foundation has elected an annual measurement date of July 1. For the measurement date of July 1, 2012, the Foundation performed a Step-One analysis that calculated the fair value of the reporting unit. The Step-One analysis is used to identify if a potential impairment of a reporting unit exists by comparing the carrying value of the reporting unit, including goodwill, to the fair

7. City of Hope Medical Foundation (continued)

value of the reporting unit. The Foundation primarily used the income and discounted cash flow approach for its valuation and other generally accepted valuation methodologies to determine the fair value of the reporting unit. It was determined that the fair value of the reporting unit exceeds the carrying value of the reporting unit as of July 1, 2012 and no impairment was necessary.

8. Commitments and Contingencies

Leases

The Foundation has an operating lease agreement for the facility that houses the Foundation's South Pasadena Cancer Center. Subsequent to September 30, 2012, the City of Hope entered into an agreement to purchase this facility for a total purchase price of $8,400,000. The purchase was completed in December 2012. Due to the subsequent purchase, the future minimum lease payments associated with the original operating lease have been removed from the future lease payments presented below, to the extent the payments extended beyond December 2012.

The Affiliated Group has noncancelable operating leases for office space and equipment that expire on various dates through 2023. As of September 30, 2012, future minimum lease payments required under these operating leases are as follows (amounts in thousands):

2013	$ 7,046
2014	5,913
2015	2,840
2016	2,417
2017	1,716
Thereafter	15,750
	$ 35,682

Lease expense for the leases shown above and other rental agreements totaled $9,994,000 and $9,412,000 in 2012 and 2011, 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.

Before agreement was reached among City of Hope, CCSMG and OSCOH with respect to the Foundation as described in Note 7, CCSMG filed a lawsuit against City of Hope in the Los Angeles Superior Court on May 4, 2010, challenging City of Hope's plan to form the Foundation on a variety of grounds. On October 22, 2010, CCSMG's motion for a preliminary injunction was denied, and on December 2, 2010, CCSMG's appeal from that ruling was summarily denied. As part of the Foundation transaction, the parties entered into a settlement agreement and mutual release, and on June 7, 2011, the litigation was dismissed with prejudice.

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, MedImmune, Inc., Centocor Inc., GlaxoGroup Limited and SmithKline Beecham Corporation and Human Genome Sciences, Inc. The suits filed by MedImmune, Inc. and Centocor, Inc. were settled in 2008 and 2010, respectively. City of Hope made no payment in connection with either settlement.

On October 8, 2009, GlaxoGroup Limited and SmithKline Beecham Corporation (jointly, Glaxo) sued Genentech and City of Hope challenging the validity of Cabilly II and seeking a declaratory judgment that its antibody drug Arzerra does not infringe the patent. On March 21, 2011, Genentech and City of Hope filed an amended answer and counterclaim for infringement and adding as counter-defendants Lonza Biologics PLC and Lonza Biologics Inc., (jointly, Lonza), which are involved in the manufacture of Arzerra.

8. Commitments and Contingencies (continued)

On January 25, 2011, Human Genome Sciences (HGS) sued Genentech and City of Hope in the U.S. District Court for the District of Delaware challenging Cabilly II (HGS Challenge 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 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 Challenge II). HGS is seeking, among other things, an order enjoining Genentech from enforcing Cabilly II against HGS.

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 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 Challenge III). On July 18, 2011, the Court in Delaware granted Genentech's and City of Hope's motions to transfer HGS Challenges I, II and III to the Central District of California. On August 15, 2011, Genentech and City of Hope filed an answer and counterclaim for infringement in HGS Challenge I, and on September 9, 2011, HGS filed its answer and counterclaims. On September 26, 2011, the Court in the Central District of California issued an order staying HGS Challenge II and the litigation regarding Cabilly III until further order of the Court. On October 3, 2011, Genentech and City of Hope moved to dismiss HGS' inequitable conduct and unclean hands allegations and affirmative defenses in HGS Challenge I, and on December 9, 2011, the Court granted that motion without prejudice to replead. That same day, the Court stayed HGS Challenge I while the Glaxo case proceeded. On April 3, 2012, at the parties' request, the Glaxo case was dismissed as to Arzerra, but not as to Bynlysta, pursuant to a settlement agreement among the parties. City of Hope made no payment in connection with the settlement. With settlement of the Glaxo case, activity in HGS Challenge I resumed. On May 29, 2012, HGS filed

8. Commitments and Contingencies (continued)

its first amended answer and counterclaims. On July 2, 2012, Genentech and City of Hope filed a motion to dismiss HGS' inequitable conduct counterclaim and affirmative defense. HGS filed an opposition to the motion. On August 3, 2012, Glaxo announced that it had completed its acquisition of HGS. On August 21, 2012, HGS withdrew its inequitable conduct counterclaims and affirmative defense. Discovery is under way in HGS Challenges I and III. HGS Challenge II remains stayed.

If the Cabilly II or Cabilly III patents are ultimately declared invalid or unenforceable, royalties under the Cabilly patents could be significantly reduced or eliminated in the future. On December 18, 2012, pursuant to a settlement agreement between and among Genentech, City of Hope, Glaxo and HGS, the parties filed joint stipulations requesting dismissal of these pending cases. City of Hope made no payment in connection with the settlement. As part of the settlement, Genentech granted Glaxo a license under the Cabilly II and III patents in connection with the manufacture, use and sale of Bynlysta. As of December 21, 2012, the proposed orders dismissing the cases are awaiting approval by the Court.

On August 12, 2008, Roberto Crea, PhD (Crea), who formerly worked at City of Hope, filed a complaint 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. 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. On November 4, 2010, the Court entered judgment and dismissed Crea's action in its entirety. Crea appealed. Oral argument on the appeal was conducted on March 6, 2012 and on March 7, 2012, the Federal Circuit Court of Appeal issued a unanimous order upholding summary judgment in favor of City of Hope. The time for further appeal has passed, and this matter is now concluded.

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

8. Commitments and Contingencies (continued)

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 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, 2012 and 2011, and is included in accrued salaries, wages and employee benefits in the accompanying consolidated statements of financial position.

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 Department of Labor responded on October 28, 2011, that it has received City of Hope’s filing, and an agent has been assigned to work with City of Hope. While the final resolution of the exposure remains unknown at this time, any changes to City of Hope’s estimate are not expected to have a material impact on the consolidated financial position, or the results of operations or cash flows of the City of Hope.

Capital Commitments

As of September 30, 2012, the Affiliates have committed to spend approximately $31,939,000 through 2013 for the construction of a new building and building renovations, multiple campus facility renovations, the purchase of a leased building and various information technology projects, including a clinical information system and an enterprise resource planning system.

8. Commitments and Contingencies (continued)

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

9. Community Benefit Expense (Unaudited)

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 Affiliates' 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):

	2012	**2011**
Benefits for the broader community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of $77,198 and $77,829 in 2012 and 2011, respectively		
Center	**$ 50,292**	$ 41,200
Institute	**119,064**	90,100
Total estimated benefits for the broader community, at cost	**$ 169,356**	$ 131,300

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, 2012 and 2011, 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.

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

10. Donor-Restricted Endowments (continued)

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, 2012 and 2011, consists of the following (amounts in thousands):

	2012			
	Unrestricted Board Designated	**Temporarily Unrestricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ (4,289)**	**$ –**	**$ 129,129**	**$ 124,840**
Temporarily restricted donor funds	**–**	**12,116**	**–**	**12,116**
Board-designated funds	**527,929**	**–**	**–**	**527,929**
Total funds at September 30, 2012	**$ 523,640**	**$ 12,116**	**$ 129,129**	**$ 664,885**

	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

The changes in endowment net assets for the years ended September 30, 2012 and 2011, are as follows (amounts in thousands):

	2012			
	Unrestricted Board Designated	**Temporary Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, October 1, 2011	**$ 445,215**	**$ 2,043**	**$ 116,350**	**$ 563,608**
Contributions and additions	**–**	**–**	**12,378**	**12,378**
Investment returns:				
Investment income	**6,942**	**1,403**	**401**	**8,746**
Net depreciation – realized and unrealized	**71,566**	**11,529**	**–**	**83,095**
Appropriation of endowment assets for expenditure	**(83)**	**(2,859)**	**–**	**(2,942)**
Endowment net assets, September 30, 2012	**$ 523,640**	**$ 12,116**	**$ 129,129**	**$ 664,885**

10. Donor-Restricted Endowments (continued)

	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 appreciation – 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

11. Restricted Net Assets

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

	2012	**2011**
Time restricted under annuity and split-interest obligations and other	**$ 46,222**	$ 39,506
Patient care	**4,758**	2,128
Education	**2,893**	1,794
Research	**62,188**	52,788
Medical equipment and buildings	**1,087**	1,567
Total temporarily restricted net assets	**$ 117,148**	$ 97,783

As of September 30, 2012 and 2011, $69,839,000 and $56,710,000, respectively, of temporarily restricted net asset investments are included in current investments, since these funds are restricted for patient care, 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):

	2012	2011
Time restricted under annuity and split-interest obligations and other	**$ 3,833**	$ 4,334
Patient care	**614**	86
Education	**1,405**	636
Research	**18,234**	14,748
Medical equipment and buildings	**6,920**	12,561
Total temporarily restricted net assets released to operations	**$ 31,006**	$ 32,365

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):

	2012	2011
Time restricted under annuity and split-interest obligations and other	**$ 11,285**	$ 16,883
Patient care	**14,161**	13,600
Education	**16,701**	15,408
Research	**92,013**	81,647
Medical equipment and buildings	**3,510**	3,510
Total permanently restricted net assets	**$ 137,670**	$ 131,048

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

	2012	**2011**
Medicare	**31%**	30%
Medi-Cal	**17**	20
Other third-party payors and patients	**52**	50
	100%	100%

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

The Foundation's mix of gross revenues from patients and third-party payors for the year ended September 30, 2012 and the four months ended September 30, 2011, is as follows:

	2012	**2011**
Medicare	**31%**	30%
Medi-Cal	**15**	16
Other third-party payors and patients	**54**	54
	100%	100%

13. Subsequent Events

In November 2012, the California Health Facilities Financing Authority issued $234,635,000 of Series 2012A Fixed Rate Revenue Bonds, $32,500,000 of Series 2012B and $32,500,000 of Series 2012C Variable Rate Revenue Bonds on behalf of City of Hope. The proceeds from the sale of the Series 2012A, 2012B, and 2012C Revenue Bonds will be used to advance refund the Series 1999 Certificates, the Series 2006 Bonds and the 2007 Note Payable and to finance certain assets purchased under a reimbursement resolution, new construction and renovation of various facilities.

Additionally, as part of a separate transaction, the Institute refunded both the Tax-Exempt and Taxable Notes Payable totaling $9,654,000 as of September 30, 2012, through the use of operating cash.

Supplementary Information

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Report of Independent Auditors
on Supplementary Information

The Board of Directors of
City of Hope

We have audited the consolidated financial statements of City of Hope and Affiliates as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 21, 2012 which contained an unqualified opinion on those consolidated financial statements. Our audits were performed 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, 2012 and 2011, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Ernst & Young LLP

December 21, 2012

City of Hope and Affiliates

Consolidating Statements of Financial Position

September 30, 2012 and 2011

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2012	2011
Assets								
Current assets:								
Cash and cash equivalents	$ 40,379	$ 27,230	$ 1,160	$ 9,740	$ 78,509	$ –	$ 78,509	$ 80,585
Investments	324,751	54,368	–	94,277	473,396	–	473,396	372,169
Self-insurance trust funds	–	3,585	–	–	3,585	–	3,585	3,848
Bond trust funds	–	6,487	–	–	6,487	–	6,487	6,494
Patient accounts receivable, net	–	118,189	12,772	–	130,961	–	130,961	113,265
Due from affiliates	9,581	4,407	–	2,389	16,377	(16,377)	–	–
Grants and other receivables	4,639	25,955	248	4,148	34,990	–	34,990	11,836
Donor-restricted unconditional promises to give, net	12,938	–	–	–	12,938	–	12,938	14,716
Due from third-party payors	–	194	–	–	194	–	194	2,208
Prepaid and other	1,430	15,116	612	715	17,873	–	17,873	18,766
Total current assets	393,718	255,531	14,792	111,269	775,310	(16,377)	758,933	623,887
Property, plant and equipment, net	8,361	353,623	7,082	231,160	600,226	–	600,226	580,747
Other assets:								
Investments	8,421	–	–	–	8,421	–	8,421	6,422
Board-designated assets	44,249	39,347	–	440,044	523,640	–	523,640	445,215
Bond trust funds	–	12,320	–	–	12,320	–	12,320	12,320
Donor-restricted assets:								
Investments	135,659	–	–	13,843	149,502	–	149,502	136,979
Unconditional promises to give, net	28,958	–	–	–	28,958	–	28,958	25,421
Contributions receivable from annuity and split-interest obligations, net	10,989	–	–	–	10,989	–	10,989	12,766
Other	726	–	–	–	726	–	726	578
Intangible assets	–	–	7,772	–	7,772	–	7,772	9,022
Goodwill	–	–	30,137	–	30,137	–	30,137	30,137
Other long-term assets	2,613	13,568	3,518	2,689	22,388	–	22,388	16,658
Total other assets	231,615	65,235	41,427	456,576	794,853	–	794,853	695,518
Total assets	$ 633,694	$ 674,389	$ 63,301	$ 799,005	$ 2,170,389	$ (16,377)	$ 2,154,012	$ 1,900,152

City of Hope and Affiliates

Consolidating Statements of Financial Position (continued)

September 30, 2012 and 2011

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2012	2011
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued liabilities	$ 1,919	$ 58,009	$ 7,647	$ 8,186	$ 75,761	$ –	$ 75,761	$ 75,237
Accrued salaries, wages and employee benefits	3,559	38,836	667	10,977	54,039	–	54,039	49,396
Long-term debt, current portion	64	7,776	–	1,753	9,593	–	9,593	8,661
Deferred revenue	2,251	7,956	–	8,342	18,549	–	18,549	37,407
Due to affiliates	3,210	393	10,115	2,659	16,377	(16,377)	–	–
Other	350	18	–	–	368	–	368	524
Total current liabilities	11,353	112,988	18,429	31,917	174,687	(16,377)	158,310	171,225
Long-term debt, net of current portion	–	184,012	–	55,619	239,631	–	239,631	246,843
Annuity and split-interest agreement obligations	18,133	–	–	–	18,133	–	18,133	18,339
Other	332	24,623	328	12,404	37,687	–	37,687	29,492
Total liabilities	29,818	321,623	18,757	99,940	470,138	(16,377)	453,761	465,899
Net assets:								
Unrestricted	364,264	352,766	44,544	683,859	1,445,433	–	1,445,433	1,205,422
Temporarily restricted	115,664	–	–	1,484	117,148	–	117,148	97,783
Permanently restricted	123,948	–	–	13,722	137,670	–	137,670	131,048
Total net assets	603,876	352,766	44,544	699,065	1,700,251	–	1,700,251	1,434,253
Total liabilities and net assets	$ 633,694	$ 674,389	$ 63,301	$ 799,005	$ 2,170,389	$ (16,377)	$ 2,154,012	$ 1,900,152

City of Hope and Affiliates

Consolidating Statements of Activities

Years Ended September 30, 2012 and 2011

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2012 Total	2011
Revenues:							
Contributions (including $20,477 and $23,240 in contributions from special events in 2012 and 2011, respectively)	$ 95,518	$ –	$ –	$ 25	$ –	$ 95,543	$ 83,920
Special event participation revenue	4,848	–	–	–	–	4,848	4,305
Less: cost of direct benefits to donor	(5,032)	–	–	–	–	(5,032)	(5,869)
Contributions and net revenues from special events	95,334	–	–	25	–	95,359	82,356
Net patient service revenues	–	667,949	69,410	–	–	737,359	602,884
Research grants	–	4,598	–	72,600	–	77,198	77,829
Investment income	17,285	2,830	54	27,513	–	47,682	35,747
Net unrealized gain (loss) on investments	36,246	7,804	–	45,439	–	89,489	(54,392)
Royalty income	220,140	45	–	4,419	–	224,604	200,391
Professional fees revenue	–	–	44,910	–	(44,910)	–	–
Other	800	9,422	693	436	–	11,351	13,421
Total revenues	369,805	692,648	115,067	150,432	(44,910)	1,283,042	958,236
Expenses:							
Program services:							
Patient care	–	459,981	78,149	–	(19,053)	519,077	447,408
Research	–	54,627	13,970	230,156	(11,279)	287,474	263,355
Public information and education	3,874	8,824	876	–	(876)	12,698	10,886
Total program services	3,874	523,432	92,995	230,156	(31,208)	819,249	721,649
Supporting services:							
Administrative and general	17,947	113,923	24,594	32,053	(13,702)	174,815	158,681
Fund-raising	22,355	307	–	318	–	22,980	20,798
Total supporting services	40,302	114,230	24,594	32,371	(13,702)	197,795	179,479
Total expenses	44,176	637,662	117,589	262,527	(44,910)	1,017,044	901,128
Excess (deficit) of revenues and other increases over expenses	325,629	54,986	(2,522)	(112,095)	–	265,998	57,108
Distributions (to) from affiliates	(211,025)	21,189	–	189,836	–	–	–
Changes in net assets	114,604	76,175	(2,522)	77,741	–	265,998	57,108
Net assets, beginning of year	489,272	276,591	47,066	621,324	–	1,434,253	1,377,145
Net assets, end of year	$ 603,876	$ 352,766	$ 44,544	$ 699,065	$ –	$ 1,700,251	$ 1,434,253

City of Hope and Affiliates

Consolidating Statements of Cash Flows

Years Ended September 30, 2012 and 2011

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2012	2011
Operating activities							
Changes in net assets	$ 114,604	$ 76,175	$ (2,522)	$ 77,741	$ –	$ 265,998	$ 57,108
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	1,829	37,533	3,154	13,602	–	56,118	49,064
Net loss (gain) on sale of contributed real property held for sale	106	–	–	–	–	106	(429)
Loss on disposal of fixed assets	–	592	–	54	–	646	68
Net (increase) decrease in trading investments	(85,971)	(4,269)	–	(42,088)	–	(132,328)	32,661
Net unrealized (gain) loss on investments	(36,246)	(7,804)	–	(45,439)	–	(89,489)	54,392
Change in value of interest rate swap agreement	–	(281)	–	374	–	93	220
Contribution proceeds restricted for endowment	(11,352)	–	–	–	–	(11,352)	(22,415)
Changes in assets and liabilities:							
Patient accounts receivable, net	–	(14,993)	(2,703)	–	–	(17,696)	(14,083)
Grants and other receivables	1,084	(24,450)	154	58	–	(23,154)	7,256
Unconditional promises to give, net	(1,759)	–	–	–	–	(1,759)	12,432
Contributions receivable from split-interest agreements	1,777	–	–	–	–	1,777	568
Contributed real property held for sale	(2,673)	–	–	–	–	(2,673)	(987)
Other assets	(1,203)	273	2,036	(2,026)	(2,280)	(3,200)	(12,710)
Accounts payable and accrued liabilities	288	4,043	(1,735)	(2,072)	–	524	18,843
Accrued salaries, wages and employee benefits	636	3,629	(507)	885	–	4,643	(657)
Annuity and split-interest agreement obligations	(206)	–	–	–	–	(206)	(884)
Other liabilities	1,880	(14,604)	760	(1,357)	2,280	(11,041)	25,420
Cash provided by (used in) operating activities	(17,206)	55,844	(1,363)	(268)	–	37,007	205,867

City of Hope and Affiliates

Consolidating Statements of Cash Flows (continued)

Years Ended September 30, 2012 and 2011

(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2012	2011
Investing activities							
Decrease in notes receivable	$ –	$ 71	$ –	$ –	$ –	$ 71	$ 2,191
Additions to property, plant and equipment	(837)	(54,172)	(117)	(17,369)	–	(72,495)	(76,814)
Proceeds from sale of contributed real property held for sale	2,539	–	–	–	–	2,539	1,942
Proceeds from sale of property, plant and equipment	–	22	–	48	–	70	–
Acquisition of other long-term assets (Note 7)	–	–	–	–	–	–	(49,096)
Decrease (increase) in alternative investments	6,581	2,453	–	18,879	–	27,913	(245,219)
Cash provided by (used in) investing activities	8,283	(51,626)	(117)	1,558	–	(41,902)	(366,996)
Financing activities							
Repayments of line of credit	–	(1,757)	–	–	–	(1,757)	(966)
Proceeds from line of credit	–	1,757	–	–	–	1,757	966
Principal payments on long-term debt	(118)	(6,732)	–	(1,683)	–	(8,533)	(8,238)
Contribution proceeds restricted for endowment	11,352	–	–	–	–	11,352	22,415
Net cash provided by (used in) financing activities	11,234	(6,732)	–	(1,683)	–	2,819	14,177
Net increase (decrease) in cash and cash equivalents	2,311	(2,514)	(1,480)	(393)	–	(2,076)	(146,952)
Cash and cash equivalents, beginning of year	38,068	29,744	2,640	10,133	–	80,585	227,537
Cash and cash equivalents, end of year	$ 40,379	$ 27,230	$ 1,160	$ 9,740	$ –	$ 78,509	$ 80,585
Supplemental disclosure of cash flow information:							
Interest paid during the year (net of capitalized interest)	$ 14	$ 9,801	$ –	$ 2,837	$ –	$ 12,652	$ 13,320
Supplemental disclosure of non-cash financing activity:							
Capital lease obligation	$ –	$ 2,253	$ –	$ –	$ –	$ 2,253	$ –

City of Hope and Affiliates

Consolidating Statements of Functional Expenses

Year Ended September 30, 2012

(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**	**Eliminations**	**Total**
Salaries, wages and employee benefits	$ 201,544	$ 116,695	$ 6,100	$ 324,339	$ 82,069	$ 12,121	$ 94,190	$ –	$ 418,529
Purchased services	32,288	23,604	4,767	60,659	53,495	5,434	58,929	–	119,588
Professional fees	85,294	29,916	876	116,086	21,543	–	21,543	(44,910)	92,719
Supplies	143,137	22,240	343	165,720	4,718	2,558	7,276	–	172,996
Equipment rental and maintenance	8,406	3,749	72	12,227	4,396	7	4,403	–	16,630
Interest	8,533	3,697	–	12,230	286	–	286	–	12,516
Change in fair value of swap agreement	(247)	304	–	57	36	–	36	–	93
Depreciation and amortization	33,337	16,993	738	51,068	4,017	1,033	5,050	–	56,118
Occupancy	7,836	5,573	355	13,764	6,282	998	7,280	–	21,044
Patent	39	69,529	–	69,568	50	–	50	–	69,618
Hospital provider fee	14,211	–	–	14,211	–	–	–	–	14,211
Bad debt	–	–	–	–	6,377	–	6,377	–	6,377
Other	3,752	6,453	323	10,528	5,248	829	6,077	–	16,605
Total functional expenses	$ 538,130	$ 298,753	$ 13,574	$ 850,457	$ 188,517	$ 22,980	$ 211,497	$ (44,910)	$ 1,017,044

City of Hope and Affiliates

Consolidating Statements of Functional Expenses

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**	**Fund-Raising**	**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	34,181	23,901	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	(184)	404	–	220	–	–	–	–	220
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	–	–	–	–	3,572	–	3,572	–	3,572
Other	2,873	6,698	187	9,758	4,112	811	4,923	–	14,681
Total functional expenses	$ 451,195	$ 268,628	$ 11,417	$ 731,240	$ 162,491	$ 20,798	$ 183,289	$ (13,401)	$ 901,128

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope

Years Ended September 30, 2012 and 2011

(In Thousands)

	Program Services	Supporting Services				
Account Title	**Public Information and Education**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**2012 Total**	**2011 Total**
Salaries, wages and employee benefits	$ 2,573	$ 9,366	$ 11,554	$ 20,920	$ 23,493	$ 21,001
Purchased services	566	4,599	5,421	10,020	10,586	9,672
Professional fees	–	619	–	619	619	610
Supplies	135	872	2,556	3,428	3,563	3,644
Equipment rental and maintenance	1	239	5	244	245	279
Interest	–	14	–	14	14	25
Depreciation and amortization	220	606	1,003	1,609	1,829	865
Occupancy	232	765	988	1,753	1,985	1,952
Patent	–	50	–	50	50	3
Other	147	817	828	1,645	1,792	1,587
Total functional expenses – 2012	$ 3,874	$ 17,947	$ 22,355	$ 40,302	$ 44,176	$ 39,638
Total functional expenses – 2011	$ 2,978	$ 16,435	$ 20,225	$ 36,660		

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope National Medical Center

Years Ended September 30, 2012 and 2011

(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**	**2012 Total**	**2011 Total**
Salaries, wages and employee benefits	$ 199,697	$ 27,864	$ 3,527	$ 231,088	$ 43,881	$ 300	$ 44,181	$ 275,269	$ 252,553
Purchased services	31,816	4,418	4,201	40,435	39,550	1	39,551	79,986	64,278
Professional fees	20,582	11,279	–	31,861	12,632	–	12,632	44,493	53,662
Supplies	136,014	2,769	208	138,991	2,148	–	2,148	141,139	136,344
Equipment rental and maintenance	8,096	365	71	8,532	2,869	–	2,869	11,401	11,554
Interest	8,533	1,177	–	9,710	–	–	–	9,710	9,861
Change in fair value of interest swap agreement	(247)	(34)	–	(281)	–	–	–	(281)	(208)
Depreciation and amortization	31,066	4,286	518	35,870	1,658	5	1,663	37,533	34,226
Occupancy	6,883	938	123	7,944	3,133	1	3,134	11,078	12,371
Patent	39	7	–	46	–	–	–	46	118
Hospital provider fee	14,211	–	–	14,211	–	–	–	14,211	12,018
Bad debt	–	–	–	–	4,935	–	4,935	4,935	3,075
Other	3,291	1,558	176	5,025	3,117	–	3,117	8,142	7,785
Total functional expenses – 2012	$ 459,981	$ 54,627	$ 8,824	$ 523,432	$ 113,923	$ 307	$ 114,230	$ 637,662	$ 597,637
Total functional expenses – 2011	$ 429,396	$ 51,001	$ 7,908	$ 488,305	$ 109,097	$ 235	$ 109,332		

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope Medical Foundation

Years Ended September 30, 2012 and 2011

(In Thousands)

	Program Services				Supporting Services		
Account Title	**Patient Care**	**Research**	**Public Information and Education**	**Total Program Services**	**Administrative and General**	**2012 Total**	**2011 Total**
Salaries, wages and employee benefits	$ 1,847	$ 146	$ –	$ 1,993	$ 9,844	$ 11,837	$ 3,772
Purchased services	472	1	–	473	2,549	3,022	700
Professional fees	64,712	13,811	876	79,399	7,858	87,257	28,347
Supplies	7,123	–	–	7,123	366	7,489	1,616
Equipment rental and maintenance	310	1	–	311	256	567	175
Depreciation and amortization	2,271	–	–	2,271	883	3,154	1,262
Occupancy	953	5	–	958	1,121	2,079	680
Bad debt	–	–	–	–	1,442	1,442	497
Other	461	6	–	467	275	742	77
Total functional expenses – 2012	$ 78,149	$ 13,970	$ 876	$ 92,995	$ 24,594	$ 117,589	$ 37,126
Total functional expenses – 2011	$ 21,799	$ 5,324	$ 531	$ 27,654	$ 9,472		

City of Hope and Affiliates

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

Years Ended September 30, 2012 and 2011

(In Thousands)

	Program Services	Supporting Services				
Account Title	**Research**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**2012 Total**	**2011 Total**
Salaries, wages and employee benefits	$ 88,685	$ 18,978	$ 267	$ 19,245	$ 107,930	$ 99,899
Purchased services	19,185	6,797	12	6,809	25,994	22,119
Professional fees	4,826	434	–	434	5,260	6,784
Supplies	19,471	1,332	2	1,334	20,805	20,536
Equipment rental and maintenance	3,383	1,032	2	1,034	4,417	3,951
Interest	2,520	272	–	272	2,792	2,656
Change in fair value of interest rate swap agreement	338	36	–	36	374	428
Depreciation and amortization	12,707	870	25	895	13,602	12,711
Occupancy	4,630	1,263	9	1,272	5,902	3,960
Patent	69,522	–	–	–	69,522	61,852
Other	4,889	1,039	1	1,040	5,929	5,232
Total functional expenses – 2012	$ 230,156	$ 32,053	$ 318	$ 32,371	$ 262,527	$ 240,128
Total functional expenses – 2011	$ 212,303	$ 27,487	$ 338	$ 27,825		

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