Consolidated Financial Statements and Supplementary Information

City of Hope and Affiliates

Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

City of Hope and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2013 and 2012

Contents

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Building a better working world

Report of Independent Auditors

The Board of Directors of
City of Hope

We have audited the accompanying consolidated financial statements of City of Hope and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Hope and Affiliates at September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 20, 2013

City of Hope and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	September 30	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 129,384**	$ 78,509
Investments	**551,941**	473,396
Self-insurance trust funds	**3,558**	3,585
Bond trust funds	**–**	6,487
Patient accounts receivable, less allowances for uncollectible accounts of $8,513 in 2013 and $12,557 in 2012	**164,038**	130,961
Grants and other receivables	**34,211**	35,923
Donor-restricted unconditional promises to give, net	**19,545**	12,938
Due from third-party payors	**–**	194
Prepaid and other	**16,023**	17,873
Total current assets	**918,700**	759,866
Property and equipment, net	**632,118**	600,226
Other assets:		
Investments	**354,404**	8,421
Board-designated assets	**592,755**	523,640
Bond trust funds	**32,532**	12,320
Donor-restricted assets:		
Investments	**253,504**	149,502
Unconditional promises to give, net	**44,368**	28,958
Contributions receivable from annuity and split-interest obligations, net	**9,118**	10,989
Other	**2,643**	726
Intangible assets	**6,521**	7,772
Goodwill	**30,137**	30,137
Other long-term assets	**24,144**	21,455
Total other assets	**1,350,126**	793,920
Total assets	**$ 2,900,944**	$ 2,154,012

	September 30	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 77,590**	$ 75,761
Accrued salaries, wages and employee benefits	**56,087**	54,039
Long-term debt, current portion	**65,828**	9,593
Deferred revenue	**10,166**	18,549
Due to third-party payors	**4,885**	–
Other	**386**	368
Total current liabilities	**214,942**	158,310
Long-term debt, net of current portion	**611,486**	239,631
Annuity and split-interest agreement obligations	**17,345**	18,133
Other	**33,404**	37,687
Total liabilities	**877,177**	453,761
Net assets:		
Unrestricted	**1,711,386**	1,445,433
Temporarily restricted	**169,054**	117,148
Permanently restricted	**143,327**	137,670
Total net assets	**2,023,767**	1,700,251
Total liabilities and net assets	**$ 2,900,944**	$ 2,154,012

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Activities
(In Thousands)

Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions (including $26,621 of contributions from special events)	$ 55,843	$ 68,106	$ 5,121	$ 129,070
Special event participation revenue	5,818	–	–	5,818
Less: cost of direct benefits to donors	(6,580)	–	–	(6,580)
Contributions and net revenues from special events	55,081	68,106	5,121	128,308
Net patient service revenues	777,694	–	–	777,694
Research grants	81,797	–	–	81,797
Investment income	62,618	6,509	638	69,765
Net unrealized gain on investments	59,722	8,416	–	68,138
Royalty income	248,522	–	–	248,522
Other	17,479	68	–	17,547
Total revenues	1,302,913	83,099	5,759	1,391,771
Net assets released from restrictions	31,295	(31,193)	(102)	–
Total revenues and other increases	1,334,208	51,906	5,657	1,391,771
Expenses:				
Program services:				
Patient care	559,406	–	–	559,406
Research	288,446	–	–	288,446
Public information and education	17,860	–	–	17,860
Total program services	865,712	–	–	865,712
Supporting services:				
Administrative and general	179,884	–	–	179,884
Fund-raising	22,659	–	–	22,659
Total supporting services	202,543	–	–	202,543
Total expenses	1,068,255	–	–	1,068,255
Changes in net assets	265,953	51,906	5,657	323,516
Net assets, beginning of year	1,445,433	117,148	137,670	1,700,251
Net assets, end of year	$ 1,711,386	$ 169,054	$ 143,327	$ 2,023,767

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 Cash Flows

(In Thousands)

	Year Ended September 30 2013	2012
Operating activities		
Changes in net assets	**$ 323,516**	$ 265,998
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**58,937**	56,118
Net (gain) loss on sale of contributed real property held for sale	**(47)**	106
(Gain) loss on disposal of fixed assets	**(644)**	646
Net increase in trading investments	**(450,625)**	(132,328)
Net unrealized gain on investments	**(68,138)**	(89,489)
Change in value of interest rate swap agreement	**(8,379)**	93
Contribution proceeds restricted for endowment	**(11,263)**	(17,602)
Changes in assets and liabilities:		
Patient accounts receivable, net	**(33,077)**	(17,696)
Grants and other receivables	**2,895**	(23,154)
Unconditional promises to give, net	**(22,017)**	(1,759)
Contributions receivable from split-interest agreements	**1,871**	1,777
Contributed real property held for sale	**(612)**	(2,673)
Other assets	**(3,251)**	(3,200)
Accounts payable and accrued liabilities	**1,829**	524
Accrued salaries, wages and employee benefits	**2,048**	4,643
Annuity and split-interest agreement obligations	**(788)**	(206)
Other liabilities	**958**	(11,041)
Net cash (used in) provided by operating activities	**(206,787)**	30,757
Investing activities		
Decrease in notes receivable	**380**	71
Additions to property, plant and equipment	**(86,663)**	(72,495)
Proceeds from sale of contributed real property held for sale	**1,012**	2,539
Proceeds from sale of property, plant and equipment	**–**	70
Net increase in alternative investments	**(92,582)**	27,913
Net cash used in investing activities	**(177,853)**	(41,902)
Financing activities		
Repayments of line of credit	**(37)**	(1,757)
Proceeds from line of credit	**37**	1,757
Repayment of long-term debt	**(238,024)**	–
Proceeds from long-term debt borrowings	**674,947**	–
Principal payments on long-term debt	**(10,931)**	(8,533)
Payment for swap termination	**(1,740)**	–
Contribution proceeds restricted for endowment	**11,263**	17,602
Net cash provided by financing activities	**435,515**	9,069
Net increase (decrease) in cash and cash equivalents	**50,875**	(2,076)
Cash and cash equivalents, beginning of year	**78,509**	80,585
Cash and cash equivalents, end of year	**$ 129,384**	$ 78,509
Supplemental disclosure of cash flow information:		
Interest paid during the year (net of capitalized interest)	**$ 9,157**	$ 12,652
Supplemental disclosure of non-cash financing activity:		
Capital lease obligation	**$ 2,140**	$ 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. The Foundation 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 providing an extensive range of medical care and treatment through outpatient clinic facilities operated by the Foundation. The Foundation received recognition of status as an organization described under Section 501(c)(3) of the Internal Revenue Code in November 2012. 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, was inactive in 2013 and 2012.

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, was inactive in 2013 and 2012.

In October 2013, the City of Hope Board of Directors approved to dissolve GenBasix and OMSI. The process of dissolution will be completed during fiscal year 2014.

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, 2013, was approximately 54%. Two of the six agreements will expire within one year of September 30, 2013, 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 the consolidated 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.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Contributions

All contributions are considered available for the program services of City of Hope and for distribution to the Center and the Institute, 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, 2013 and 2012, valid will and trust agreement amounts that became measurable totaled $26,195,000 and $20,447,000, respectively, and are included in contributions in the accompanying consolidated statements of activities.

2. Summary of Significant Accounting Policies (continued)

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 during the year of gift receipt. The rates used in 2013 and 2012 were 1.73% and 0.7%, respectively.

City of Hope reports conditional promises to give as contribution revenue when the conditions stipulated by the donor are met, so the conditional promises become unconditional. There are no conditional promises to give as of September 30, 2013.

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):

	2013	**2012**
Unconditional promises to give	**$ 81,254**	$ 53,777
Less:		
Discounts	**(2,394)**	(2,019)
Allowance for uncollectible promises to give	**(14,947)**	(9,862)
Total unconditional promises to give, net	**63,913**	41,896
Less current portion	**(19,545)**	(12,938)
	$ 44,368	$ 28,958

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

2. Summary of Significant Accounting Policies (continued)

At September 30, 2013, future cash flows anticipated from unconditional promises to give, are as follows (amounts in thousands):

2014	$	24,304
2015		14,902
2016		13,603
2017		12,517
2018		7,513
Thereafter		8,415
		81,254
Discounts		(2,394)
Allowance for uncollectible promises to give		(14,947)
	$	63,913

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 or 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, 2013, City of Hope has state mandated reserves above the actuarial annuity reserves in the amount of $362,000. Additionally, City of Hope has voluntary reserves in the amount of $4,624,000 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.

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 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, 2013, totaling $9,118,000, are to be collected over the next 28 years and have an average remaining life of 12.1 years.

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 $1,687,000 and $1,663,000 in 2013 and 2012, respectively. In addition, the effect of changes in liabilities included in contribution revenue in the accompanying consolidated statements of activities was a gain of $1,174,000 and a loss of $796,000 in 2013 and 2012, 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

2. Summary of Significant Accounting Policies (continued)

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 $9,614,000 and $8,332,000 at September 30, 2013 and 2012, respectively.

Property and Equipment

Property and equipment is stated at cost when purchased or at fair market value on the date of the donation. When property 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 10 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.

2. Summary of Significant Accounting Policies (continued)

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

	2013	2012
Land	**$ 15,223**	$ 12,637
Buildings and improvements	**601,794**	565,770
Equipment and furniture	**397,926**	363,074
Capitalized software	**75,098**	61,019
Construction in progress	**73,782**	76,681
Total property and equipment	**1,163,823**	1,079,181
Accumulated depreciation and amortization	**(531,705)**	(478,955)
Property and equipment, net	**$ 632,118**	$ 600,226

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, 2013.

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 quantitative impairment assessment in 2013, 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.

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 $15,709,000 and $22,054,000 as of September 30, 2013 and 2012, respectively. Total amortization expense related to capitalized software development costs was $9,736,000 and $9,577,000 for the years ended September 30, 2013 and 2012, respectively. Software development costs included in construction in progress totaled $51,379,000 and $23,060,000 at September 30, 2013 and 2012, 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 $13,936,000 and $12,516,000 in 2013 and 2012, respectively. Interest cost capitalized totaled $1,222,000 and $269,000 in 2013 and 2012, respectively.

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):

	2013	2012
Fund-raising events and other efforts	**$ 946**	$ 2,251
Unexpended grants/agreements	**9,220**	16,298
Total deferred revenue	**$ 10,166**	$ 18,549

Income Taxes

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

GenBasix and OMSI are subject to income taxes. Since these entities have accumulated net operating losses, no provision for income taxes has been included in the accompanying consolidated financial statements.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. The guidance contained in FASB ASC 740 is applicable to pass-through entities and tax-exempt organizations. City of Hope has no significant uncertain tax positions or tax liability for tax benefits, interest or penalties accrued at September 30, 2013 and 2012.

2. Summary of Significant Accounting Policies (continued)

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 $16,937,000 and $15,682,000 as of September 30, 2013 and 2012, respectively. The estimated current portion of the liability, totaling $3,116,000, 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, 2013. Workers' compensation expense charged to the Affiliated Group's operations totaled $5,038,000 and $6,218,000 in 2013 and 2012, respectively.

Accounting Standards Update (ASU) 2010-24, *Healthcare Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, clarifies that a health care entity should not net insurance recoveries against a related claim liability. The Affiliated Group recorded insurance recoveries totaling $3,510,000 and $3,474,000, which have been reflected in the accompanying consolidated statements of financial position in other assets as of September 30, 2013 and 2012, respectively.

Professional Liability Insurance

City of Hope and the Affiliated Group maintain professional liability insurance under a claims-made program, which provides coverage for claims arising out of incidents that have occurred between November 1, 1997 to September 30, 2013, 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 $1,044,000 and $722,000 as of September 30, 2013 and 2012, 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 $1,165,000 and $1,421,000 in 2013 and 2012, respectively.

The Affiliated Group recorded insurance recoveries totaling $346,000 and $372,000 which have been reflected in the accompanying consolidated statements of financial position in other assets as of September 30, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

Retirement Plans

The City of Hope, the Center, the Foundation, 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 $255,000 in 2013. 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 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 $255,000 in 2013. The participants have the ability to direct these contributions into various funds offered through the RSO TDA Plan.

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

Contribution expense for the Plans defined above totaled $16,792,000 and $16,421,000 in 2013 and 2012, 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.

2. Summary of Significant Accounting Policies (continued)

On January 1, 2006, the 2006 Executive Supplemental Accumulation Plan was established. This plan provides each designated executive with deferred compensation equal to 10% of the executive's base salary (net of City of Hope contributions to the participant's defined contribution plan). A participant becomes fully vested upon completion of three plan years of service, 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 $500,000 and $669,000 in 2013 and 2012, respectively.

Net Patient Service Revenues

Net patient service revenues are reported at net realizable amounts from third-party payors and others for services rendered. City of Hope's policy includes the evaluation of a patient's ability to pay. 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):

	2013	2012
Medicare	**$ 140,102**	$ 134,964
Medi-Cal	**92,449**	115,879
Managed care	**456,018**	406,478
Indemnity, self-pay and other	**10,352**	10,628
Net patient service revenues	**$ 698,921**	$ 667,949

2. Summary of Significant Accounting Policies (continued)

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 years ended September 30, 2013 and 2012, are as follows (amounts in thousands):

	2013	**2012**
Medicare	**$ 17,794**	$ 16,274
Medi-Cal	**3,947**	5,559
Managed care	**56,131**	46,691
Indemnity, self-pay and other	**901**	886
Net patient service revenues	**$ 78,773**	$ 69,410

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 audit of the 2009 cost report was finalized during 2012. The Medicare cost report for 2010 is currently being audited and audit results are expected during fiscal year 2014. The cost reports for 2011 and 2012 have been filed but have not yet been audited.

2. Summary of Significant Accounting Policies (continued)

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.

The SB1732 program permits certain health care facilities that meet specific criteria to receive supplemental reimbursement for a portion of debt service for qualified capital projects. The Center has received SB1732 funding for capital projects completed prior to 1998 and has determined it is eligible to receive SB1732 funds related to the construction of a new hospital facility completed in fiscal year 2005. In fiscal years 2013 and 2012, the Center recognized $1,254,000 and $2,375,000, respectively, in SB1732 program revenue, which has been included in net patient service revenues. Of these amounts, $2,116,000 has not been received and is included in other assets at September 30, 2013.

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.

2. Summary of Significant Accounting Policies (continued)

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.

The following is a summary of the Affiliates' estimated Patient Charity Care, at cost, in terms of service to the indigent for the years ended September 30 (amounts in thousands):

	2013	**2012**
Patient Charity Care		
Estimated cost of Patient Charity Care	**$ 1,311**	$ 2,202
Estimated cost of services to Medi-Cal patients not covered under the Governmental Health Care Programs	**5,398**	4,398
	$ 6,709	$ 6,600

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 Note 9 for disclosure of benefits for the broader community and support of governmental health care programs – Medi-Cal and Medicare.

Performance Indicator

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

2. Summary of Significant Accounting Policies (continued)

Derivative and Hedging Instruments

The Affiliated Group is required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as effective hedges are adjusted to fair value in the consolidated statements of activities, above the operating indicator. If the derivative is an effective hedge, changes in the fair values of the derivatives are recognized as a change in unrestricted net assets until the hedged item is recognized in the operating indicator. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized as an expense in the consolidated statements of activities, within the operating indicator. At September 30, 2013, the Affiliated Group's derivative instruments consisted of interest rate swap agreements with a notional amount totaling $65,000,000 (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 2013 and 2012, the Affiliated Group received and recognized royalty revenue totaling $248,522,000 and $224,604,000, respectively, primarily from sales of drugs by Genentech and other licensees of monoclonal antibodies, including Rituxan, Herceptin, Avastin, Simulect, Reopro, Remicade and others using technology developed at the Institute (see Note 8).

2. Summary of Significant Accounting Policies (continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Fair value is established based on quoted prices from recognized security exchanges. Management determines the appropriate classification as trading or other-than-trading of all equity and debt securities at the date of purchase and reevaluates such designations at each balance sheet date. City of Hope determined that all investments held at September 30, 2013 and 2012, 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, 2013, the Affiliated Group has outstanding unfunded private equity and private real asset commitments totaling $104,773,000.

The Affiliated Group accounts for its ownership interests in the alternative investments at fair value, 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, 2013. The

2. Summary of Significant Accounting Policies (continued)

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.

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, 2013 and 2012, as follows (amounts in thousands):

	2013	**2012**
Fund-raising expense	**$ 6,702**	$ 7,186
Administrative and general expense	**3,874**	2,766
Public information and education expense	**2,607**	2,822
Total joint costs	**$ 13,183**	$ 12,774

Reclassifications

Certain 2012 amounts have been reclassified in the consolidated financial statements to conform to the 2013 presentation.

Subsequent Events

City of Hope has evaluated subsequent events occurring between the end of the most recent fiscal year and December 20, 2013, 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. Amended legislation, that incorporated changes requested by the Centers for Medicare & Medicaid Services (CMS) during the CMS approval process, was signed into law by the governor of California and became effective September 8, 2010. The primary legislation (AB 1383) and amended legislation (AB 1653)

3. California Hospital Provider Fee Program (continued)

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. CMS gave final approval of the program in January 2011.

The Center has also entered into various Enforceable Pledge Agreements 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.

On December 29, 2011, CMS approved an additional Six-Month Program for the period from January 1, 2011 through June 30, 2011. During fiscal year 2012, the Center recognized QA fees and CHFT payments and Supplemental Payment revenue of $3,654,000 and $21,271,000 for the Six-Month Program 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.

During 2012, CMS also 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 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 period of the approved fee-for-service portion of the 30-Month Program from July 1, 2011 through September 30, 2012.

3. California Hospital Provider Fee Program (continued)

As part of the 30-Month Program, the Center recorded $6,467,000 in accounts payable and accrued liabilities for the 30-Month Program QA Fee in the consolidated statement of financial position as of September 30, 2012 for the period from July 1, 2011 through September 30, 2012. Additionally, the Center recorded $24,365,000 in grants and other receivables for the 30-Month Program Supplemental Payment revenues in the consolidated statements of financial position as of September 30, 2012. The Center also 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.

During 2013, CMS approved the managed care portion of the 30-Month Program for the period from July 1, 2011 through June 30, 2013. As of September 30, 2013, CMS has not approved the managed care portion of the 30-Month Program for the remaining period of July 1, 2013 through December 31, 2013.

Related to the 30-Month Program, during the year ended September 30, 2013, the Center recognized $40,961,000 of Supplemental Payments as an increase to net patient service revenues in the accompanying consolidated statements of activities. Of this amount, $11,717,000 is recorded in grants and other receivable as of September 30, 2013. The Center also recognized $3,993,000 in CHFT Payments and $13,848,000 in QA Fees as program expenses in the accompanying consolidated statements of activities. Of this amount, $3,557,000 is recorded as accounts payable and accrued liabilities as of September 30, 2013

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 $677,314,000, which are Level 2 liabilities with a total fair value of $657,979,000 at September 30, 2013, 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 Measurements*, 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).

4. Fair Value of Financial Instruments (continued)

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 tables and discount rates that are consistent with Internal Revenue Service (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 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.

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, 2013, 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, 2013 and 2012, 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):

2013	**Level 1**	**Level 2**	**Level 3**	**Total**	**Valuation Technique (a,b,c)**
Assets					
U.S. government and agency obligations	**$ –**	**$ 50,306**	**$ –**	**$ 50,306**	**a,b**
Corporate obligations	**–**	**87,464**	**–**	**87,464**	**a,b**
Marketable securities	**495,628**	**–**	**–**	**495,628**	**a**
Municipal obligations	**–**	**2,221**	**–**	**2,221**	**a**
Alternative investments	**–**	**–**	**721,309**	**721,309**	**a**
Cash equivalents	**550,606**	**–**	**–**	**550,606**	
Total assets	**$ 1,046,234**	**$ 139,991**	**$ 721,309**	**$ 1,907,534**	
Liabilities					
Annuity and split-interest obligations	**$ –**	**$ –**	**$ 17,345**	**$ 17,345**	**c**
Derivative financial instruments	**–**	**2,567**	**–**	**2,567**	**a,b**
Total liabilities	**$ –**	**$ 2,567**	**$ 17,345**	**$ 19,912**	

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	–	47,309	–	47,309	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)

City of Hope's alternative investments include equity and fixed income commingled funds that invest primarily in marketable securities. These commingled funds include $592,044,000 and $472,808,000 of marketable securities as of September 30, 2013 and 2012, respectively, that are subject to certain notice requirements, and 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 hedge 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.

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, 2013 (amounts in thousands):

	Assets	Liabilities
Beginning balance at September 30, 2012	$ 560,995	$ 18,133
Additions	150,287	645
Investment activity, adjustments, maturities	18,651	(359)
Distributions	(76,356)	(1,504)
Change in fair value	67,732	430
Ending balance at September 30, 2013	$ 721,309	$ 17,345

4. Fair Value of Financial Instruments (continued)

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

	2013	2012
Cash and cash equivalents	**$ 129,384**	$ 78,509
Investments, current	**551,941**	473,396
Self-insurance trust funds	**3,558**	3,585
Bond trust funds, current	**–**	6,487
Investments, other	**354,404**	8,421
Board-designated assets	**592,755**	523,640
Bond trust funds, other	**32,532**	12,320
Donor-restricted investments, other	**253,504**	149,502
	1,918,078	1,255,860
Less: Cash not carried at fair value	**(10,544)**	(30,316)
Investments at fair value	**$ 1,907,534**	$ 1,225,544

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.

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, 2013 and 2012, net realized capital gains totaled $42,495,000 and $31,301,000, respectively.

5. Line of Credit

The Affiliated Group maintains a consolidated unsecured revolving bank line of credit in the amount of $50,000,000 which expires June 30, 2014. Interest is charged at the London Interbank Offered Rate (LIBOR) plus 0.75%. As of September 30, 2013, there was no outstanding balance on the line 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):

	2013	2012
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
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
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
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
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

6. Long-Term Debt (continued)

	2013	**2012**
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
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
The City of Hope, 3.75% to 5.00% fixed rate Tax-Exempt Revenue Bonds Series 2012A, originally $234,635, issued through the California Health Facilities Financing Authority, with varying maturities annually on November 15, 2014 through November 15, 2039. Interest payable semi-annually on May 15 and November 15. **(Series 2012A Revenue Bonds)**	**234,635**	–
The City of Hope, Tax-Exempt Variable Rate Revenue Bonds Series 2012B, originally $32,500, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039 through November 15, 2042. **(Series 2012B Revenue Bonds)**	**32,500**	–
The City of Hope, Tax-Exempt Variable Rate Revenue Bonds Series 2012C, originally $32,500, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039 through November 15, 2042. **(Series 2012C Revenue Bonds)**	**32,500**	–

6. Long-Term Debt (continued)

	2013	2012
The City of Hope, 5.623% fixed rate, Taxable Direct Obligation Notes, originally $350,000. Interest payable semi-annually on May 15 and November 15, principal payment due in full on November 15, 2043. **(Series 2013 Notes)**	**$ 350,000**	$ –
The Center, Capital Lease Obligation	**1,629**	2,253
The Foundation, Capital Lease Obligation	**2,140**	–
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
	653,404	250,584
Less: current maturities of long-term debt and $65,000 of Series 2012B and 2012C Revenue Bonds at September 30, 2013	**(65,828)**	(9,593)
Unamortized discount	**(4,460)**	(1,360)
Unamortized premium	**28,370**	–
	$ 611,486	$ 239,631

Long-term debt maturities at September 30, 2013, are as follows (amounts in thousands):

2014	$ 828
2015	6,018
2016	6,231
2017	6,024
2018	6,298
Thereafter	628,005
	$ 653,404

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

6. Long-Term Debt (continued)

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 were collateralized by the Center's gross revenues and certain buildings and properties. The City of Hope was a guarantor of the Series 1999 Certificates (but the Institute was not). The Series 1999 Certificates accrued interest at fixed rates between 4.5% and 5.25%. In November 2012, the Series 1999 Certificates were defeased through the Series 2012 Revenue Bond issuance. As a result of the defeasance, $18,081,000 of combined Debt Service Reserve funds, Principal funds and Interest funds were no longer required to be maintained, and these funds were released and used as part of the defeasance of the 1999A Certificates. The Center recognized charges of $1,812,000 and $1,349,000 associated with the unamortized bond issuance costs and bond discounts, respectively, as of September 30, 2013, which have been included in the accompanying consolidated statements of activities.

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 was collateralized by certain buildings and property. Interest accrued at 70% of one-month LIBOR when LIBOR was less than 7% and 81% of one-month LIBOR when LIBOR was 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. In November 2012, the 2007 Note Payable was paid-off with proceeds from the Series 2012 Revenue Bonds.

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 was collateralized by the Institute's property and other certain buildings and properties. In November 2012, the Institute paid-off the then outstanding balance of the Tax-Exempt Note Payable using cash from the Institute's balance sheet.

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 was collateralized by certain real property of the Institute. On December 1, 2006, the Institute

6. Long-Term Debt (continued)

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, 2013). In November 2012, the Institute paid-off the then outstanding balance of the Taxable Note Payable using cash from the Institute's balance sheet.

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 were subject to variable rates equal to 64.72% of one-month LIBOR plus 0.96488%. The Series 2006 Bonds were defeased in November 2012 through the Series 2012 Revenue Bond issuance. The Center recognized early termination fees totaling $2,861,000 which has been included in the accompanying consolidated statements of activities.

Series 2012 Revenue Bonds (Tax-Exempt) – In November 2012, pursuant to a Master Trust Indenture (MTI), the City of Hope Obligated Group (consisting of City of Hope, the Center, the Foundation and the Institute), issued $234,635,000 of Tax-Exempt Series 2012A fixed rate Revenue Bonds (Series 2012A Revenue Bonds), $32,500,000 of Tax-Exempt Series 2012B Variable Rate Revenue Bonds (Series 2012B Revenue Bonds) and $32,500,000 of Tax-Exempt Series 2012C Variable Rate Revenue Bonds (Series 2012C Revenue Bonds) through the California Health Facilities Financing Authority. The proceeds from the issuance of the Series 2012A, Series 2012B and Series 2013C Revenue Bonds (collectively, the Series 2012 Revenue Bonds) were used to refund, repay or redeem the then outstanding principal and interest on the Series 1999 Certificates, the 2007 Note Payable and the Series 2006 Bonds and to finance or reimburse City of Hope for certain costs of constructing, renovating and equipping healthcare and research related facilities. The obligations issued under the MTI, including those securing the Series 2012 Revenue Bonds, are secured by a gross receivables pledge. The Series 2012A Bonds accrue interest at fixed rates between 3.75% and 5.00% annually. The Series 2012A Revenue Bonds were issued at a premium totaling $29,887,000.

Interest on the Series 2012B and the Series 2012C Revenue Bonds accrues at a weekly interest rate as determined by the Remarketing Agent every Tuesday. The average interest rate on the Series 2012B was 0.10% and the Series 2012C was 0.08% during the period November 15, 2012 through September 30, 2013. The bonds can be converted to another interest rate period as defined in the

6. Long-Term Debt (continued)

bond indenture related to the Series 2012B and Series 2012C Revenue Bonds. If such bonds are tendered and not remarketed, the Obligated Group will be obligated to purchase such variable rate bonds from its own funds. As a result, the Series 2012B and Series 2012C Revenue Bonds are classified as current liabilities in the accompanying consolidated statements of financial position.

Series 2013 Notes (Taxable) – In July 2013 City of Hope, as representative of the Obligated Group, issued $350,000,000 in Series 2013 fixed rate Direct Obligation Notes (the Series 2013 Notes) under the MTI. The proceeds from the Series 2013 Notes will be used for the Obligated Group's capital needs in furtherance of the implementation of the Obligated Group's strategic plan, including the construction of a new inpatient/outpatient facility and the expansion of one or more existing research buildings. The Series 2013 Notes are secured by a gross receivables pledge and accrue interest at a fixed rate of 5.623% annually.

Interest Rate Swap Transactions – The Institute and Center entered into interest rate swap agreements to synthetically convert the Tax-Exempt Note Payable, the 2007 Note Payable, the Taxable Note Payable and the Series 2006B variable rate borrowings to fixed interest rates. In connection with the defeasance of the Tax-Exempt Note Payable, the 2007 Note Payable, the Taxable Note Payable and the Series 2006B variable rate borrowings, the associated interest rate swap agreements were also terminated. The Institute paid the interest rate swap counterparties $1,740,000 and the Institute and the Center recognized a total gain on termination of interest rate swaps of $11,128,000. The fair value of these interest rate swap liabilities was $12,686,000 as of September 30, 2012. These swaps were not designated as cash flow hedges, so the changes in fair value totaling $183,000 in 2013 and $93,000 in 2012 were recorded within program and supporting services expenses in the accompanying consolidating statements of activities. The effect of total counterparty payments on interest expense was an increase of $426,000 in 2013 and $2,455,000 in 2012.

In 2013, City of Hope entered into two swap contracts to synthetically convert the Series 2012B Revenue Bonds and Series 2012C Revenue Bonds from a variable rate to a fixed rate of 2.715% and 2.72%, respectively. The City of Hope receives a floating rate equal to 70% of the USD-LIBOR-BBA for both Series 2012B and Series 2012C Revenue Bonds. The swaps were not designated as cash flow hedges, so the changes in fair value totaling $2,566,000 are recorded within program and supporting services expenses in the accompanying consolidating statements of activities. The effect of counterparty payments on interest expense was an increase of $1,324,000 in 2013.

6. Long-Term Debt (continued)

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

Under the Series 2006 Bonds and Series 1999 Certificates, the Center was required to maintain certain financial ratios and was limited as to the amount of future borrowings. Similarly, under the 2007 Note Payable, the Institute was required to comply with certain financial covenants. The Center and Institute were in compliance with their respective covenants at September 30, 2012 and in 2013, up until the Series 2006 and Series 1999 Certificates were defeased.

Under the Series 2012 Revenue Bonds and the Series 2013 Notes, the Obligated Group must maintain certain financial covenants. The Obligated Group was in compliance with the respective covenants at and during the year ended September 30, 2013.

Under the terms of the Series 1999 and Series 2006 Certificates trust agreement, the Center was required to make mandatory deposits to the trustee through June 2031 and maintain a Reserve, Interest and Principal Account. These mandatory deposits are no longer required upon defeasance of Series 1999 and Series 2006 Certificates.

A portion of the proceeds from the Series 2012 Revenue Bonds remain on deposit in project funds established under the bond indentures related to the Series 2012 Revenue Bonds. The funds from these accounts are to be used and withdrawn by the Obligated Group to pay the costs for certain projects.

These accounts are under the control of the trustee and are invested in government securities, corporate obligations and other permitted instruments.

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.

7. City of Hope Medical Foundation (continued)

On May 31, 2011, in furtherance of the decision to develop the Foundation, 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. On the same date and as a 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 $5,600,000. As a result of these two acquisitions, the Foundation recorded $39,600,000 of intangible assets, which included $30,137,000 of goodwill.

Most of the physicians employed by CCSMG and OSCOH joined together in a new unconsolidated 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.

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.

7. City of Hope Medical Foundation (continued)

The gross carrying amount of intangible assets subject to amortization and accumulated amortization on those intangible assets at September 30, 2013 was $9,463,000 and $2,947,000, respectively. The Foundation has recorded $1,251,000 related to amortization expense for intangible assets acquired through the purchase, excluding goodwill, during the years ended September 30, 2013 and 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):

2014	$ 1,251
2015	1,251
2016	1,251
2017	1,251
2018	1,251
Thereafter	266
	$ 6,521

During 2013, 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, 2013, 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 value of the reporting unit. The Foundation primarily used the income and discounted cash flow approach for its valuation 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, 2013 and there is no impairment.

8. Commitments and Contingencies

Leases

The Affiliated Group has noncancelable operating leases for office space and equipment that expire on various dates through 2028. As of September 30, 2013, future minimum lease payments required under these operating leases are as follows (amounts in thousands):

2014	$	7,193
2015		3,290
2016		2,718
2017		1,870
2018		1,847
Thereafter		13,888
	$	30,806

Lease expense for the leases shown above and other rental agreements totaled $8,396,000 and $9,994,000 in 2013 and 2012, respectively.

Litigation and Administrative Actions

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

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

8. Commitments and Contingencies (continued)

(HGS), Eli Lilly and Company (Lilly) and Bristol-Myers Squibb Company (BMS). The suits filed by MedImmune, Inc. and Centocor, Inc. were settled in 2008 and 2010, respectively, and the suits filed by GSK and HGS were settled in December 2012. City of Hope made no payment in connection with these settlements. The Lilly and BMS suits, filed on February 28, 2013 and May 3, 2013, respectively are pending in the U.S. District Court for the Central District of California. The Lilly suit involves the antibody drug Erbitux, and the BMS suit involves the antibody drugs Erbitux (BMS is Lilly's development partner on this drug) and Yervoy. Each of Lilly and BMS in their respective suits is challenging the validity and enforceability of Cabilly II (and a later issued patent discussed immediately below) and is seeking a declaratory judgment that the drugs do not infringe Cabilly II and that no royalties are owed.

The GSK and HGS challenges involved, and the Lilly and BMS cases currently involve, in addition to Cabilly II, 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), issued by the PTO on April 12, 2011. 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.

The complaints filed by Lilly and BMS contain allegations that are similar in significant respects to allegations made in the prior challenges to the Cabilly patents. The Lilly and BMS cases are at a very early stage. The final outcome of the cases cannot be determined at this time. If the Cabilly II or Cabilly III patents are ultimately declared invalid or unenforceable, royalties under the Cabilly patents could be significantly reduced or eliminated in the future.

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, 2013 and 2012, 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, 2013, the Affiliates have committed to spend approximately $19,822,000 through 2014 for building renovations, multiple campus facility renovations, and various information technology projects, including a clinical information system and an enterprise resource planning system.

9. Community Benefit Expense (Unaudited)

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:

- Benefits for the Broader Community – Clinical Research
- Benefits for the Broader Community – Support of Basic Science Research
- Public Information and Education

Benefits for the Broader Community and Support of Governmental Health Care Programs – Medi-Cal and Medicare

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

	2013	2012
Benefits for the broader community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of $81,797 and $77,198 in 2013 and 2012, respectively		
Center	**$ 56,319**	$ 50,292
Institute	**114,543**	119,064
Total estimated benefits for the broader community, at cost	**$ 170,862**	$ 169,356

9. Community Benefit Expense (Unaudited) (continued)

	2013	2012
Support of Governmental Health Care Programs		
Estimated unreimbursed cost of the Medi-Cal Program	**51,306**	56,665
Estimated unreimbursed cost of the Medicare Program	**55,157**	56,395
	106,463	113,060
Total estimated benefits for the broader community and unreimbursed costs to governmental health programs	**$ 277,325**	$ 282,416

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, 2013 and 2012, there were no material deficiencies of this nature.

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

10. Donor-Restricted Endowments (continued)

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

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

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

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of the City of Hope

(7) The investment policies of City of Hope

10. Donor-Restricted Endowments (continued)

The endowment net asset composition by type of fund as of September 30, 2013 and 2012, consists of the following (amounts in thousands):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ (2,791)**	**$ –**	**$ 135,729**	**$ 132,938**
Temporarily restricted donor funds	**–**	**24,683**	**–**	**24,683**
Board-designated funds	**595,546**	**–**	**–**	**595,546**
Total funds at September 30, 2013	**$ 592,755**	**$ 24,683**	**$ 135,729**	**$ 753,167**

	2012			
	Unrestricted	Temporarily Restricted	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

The changes in endowment net assets for the years ended September 30, 2013 and 2012, are as follows (amounts in thousands):

	2013			
	Unrestricted	Temporary Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2012	**$ 523,640**	**$ 12,116**	**$ 129,129**	**$ 664,885**
Contributions and additions	**–**	**70**	**6,065**	**6,135**
Investment returns:				
Investment income	**8,901**	**1,727**	**535**	**11,163**
Net depreciation – realized and unrealized	**60,268**	**13,690**	**–**	**73,958**
Appropriation of endowment assets for expenditure	**(54)**	**(2,920)**	**–**	**(2,974)**
Endowment net assets, September 30, 2013	**$ 592,755**	**$ 24,683**	**$ 135,729**	**$ 753,167**

10. Donor-Restricted Endowments (continued)

	2012			
	Unrestricted	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

11. Restricted Net Assets

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

	2013	2012
Time restricted under annuity and split-interest obligations and other	**$ 68,475**	$ 46,222
Patient care	**6,658**	4,758
Education	**3,993**	2,893
Research	**88,033**	62,188
Medical equipment and buildings	**1,895**	1,087
Total temporarily restricted net assets	**$ 169,054**	$ 117,148

As of September 30, 2013 and 2012, $98,684,000 and $69,839,000, 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):

	2013	2012
Time restricted under annuity and split-interest obligations and other	**$ 4,123**	$ 3,833
Patient care	**405**	614
Education	**1,103**	1,405
Research	**22,134**	17,910
Medical equipment and buildings	**3,530**	6,920
Total temporarily restricted net assets released to operations	**$ 31,295**	$ 30,682

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):

	2013	2012
Time restricted under annuity and split-interest obligations and other	**$ 9,653**	$ 11,285
Patient care	**14,278**	14,161
Education	**17,092**	16,701
Research	**98,794**	92,013
Medical equipment and buildings	**3,510**	3,510
Total permanently restricted net assets	**$ 143,327**	$ 137,670

12. Concentrations of Credit Risk

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

12. Concentrations of Credit Risk (continued)

The Center's mix of gross accounts receivable from patients and third-party payors as of September 30 is as follows:

	2013	2012
Medicare	**28%**	21%
Medi-Cal	**27**	29
Other third-party payors and patients	**45**	50
	100%	100%

The Foundation's mix of gross accounts receivable from patients and third-party payors as of ended September 30, 2013, is as follows:

	2013	2012
Medicare	**27%**	30%
Medi-Cal	**11**	19
Other third-party payors and patients	**62**	51
	100%	100%

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, 2013 and 2012, and have issued our report thereon dated December 20, 2013, 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, 2013 and 2012, 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 20, 2013

City of Hope and Affiliates

Consolidating Statements of Financial Position

September 30, 2013 and 2012
(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2013	2012
Assets								
Current assets:								
Cash and cash equivalents	$ 77,187	$ 31,035	$ 7	$ 21,155	$ 129,384	$ –	$ 129,384	$ 78,509
Investments	322,138	129,142	–	100,661	551,941	–	551,941	473,396
Self-insurance trust funds	–	3,558	–	–	3,558	–	3,558	3,585
Bond trust funds	–	–	–	–	–	–	–	6,487
Patient accounts receivable, net	–	148,989	15,049	–	164,038	–	164,038	130,961
Due from affiliates	4,733	5,461	–	1,374	11,568	(11,568)	–	–
Grants and other receivables	8,683	16,562	2,285	6,681	34,211	–	34,211	35,923
Donor-restricted unconditional promises to give, net	19,545	–	–	–	19,545	–	19,545	12,938
Due from third-party payors	–	–	–	–	–	–	–	194
Prepaid and other	1,223	13,104	1,011	685	16,023	–	16,023	17,873
Total current assets	433,509	347,851	18,352	130,556	930,268	(11,568)	918,700	759,866
Property, plant and equipment, net	15,845	372,267	14,393	229,613	632,118	–	632,118	600,226
Other assets:								
Investments	7,640	297,226	–	49,538	354,404	–	354,404	8,421
Board-designated assets	51,561	43,437	–	497,757	592,755	–	592,755	523,640
Bond trust funds	–	29,798	–	2,734	32,532	–	32,532	12,320
Donor-restricted assets:								
Investments	236,599	–	–	16,905	253,504	–	253,504	149,502
Unconditional promises to give, net	44,368	–	–	–	44,368	–	44,368	28,958
Contributions receivable from annuity and split-interest obligations, net	9,118	–	–	–	9,118	–	9,118	10,989
Other	2,643	–	–	–	2,643	–	2,643	726
Intangible assets	–	–	6,521	–	6,521	–	6,521	7,772
Goodwill	–	–	30,137	–	30,137	–	30,137	30,137
Other long-term assets	3,810	14,097	3,518	2,719	24,144	–	24,144	21,455
Total other assets	355,739	384,558	40,176	569,653	1,350,126	–	1,350,126	793,920
Total assets	$ 805,093	$ 1,104,676	$ 72,921	$ 929,822	$ 2,912,512	$ (11,568)	$ 2,900,944	$ 2,154,012

City of Hope and Affiliates

Consolidating Statements of Financial Position (continued)

September 30, 2013 and 2012
(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Total	Eliminating Entries	2013	2012
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued liabilities	$ 3,655	$ 51,665	$ 14,964	$ 7,306	$ 77,590	$ –	$ 77,590	$ 75,761
Accrued salaries, wages and employee benefits	3,980	40,499	1,014	10,594	56,087	–	56,087	54,039
Long-term debt, current portion	–	33,056	272	32,500	65,828	–	65,828	9,593
Deferred revenue	946	702	–	8,518	10,166	–	10,166	18,549
Due to third-party payors	–	4,885	–	–	4,885	–	4,885	
Due to affiliates	1,954	–	7,639	1,975	11,568	(11,568)	–	–
Other	182	204	–	–	386	–	386	368
Total current liabilities	10,717	131,011	23,889	60,893	226,510	(11,568)	214,942	158,310
Long-term debt, net of current portion	–	534,943	1,868	74,675	611,486	–	611,486	239,631
Annuity and split-interest agreement obligations	17,345	–	–	–	17,345	–	17,345	18,133
Other	373	26,547	3,752	2,732	33,404	–	33,404	37,687
Total liabilities	28,435	692,501	29,509	138,300	888,745	(11,568)	877,177	453,761
Net assets:								
Unrestricted	481,250	412,175	43,412	774,549	1,711,386	–	1,711,386	1,445,433
Temporarily restricted	165,823	–	–	3,231	169,054	–	169,054	117,148
Permanently restricted	129,585	–	–	13,742	143,327	–	143,327	137,670
Total net assets	776,658	412,175	43,412	791,522	2,023,767	–	2,023,767	1,700,251
Total liabilities and net assets	$ 805,093	$ 1,104,676	$ 72,921	$ 929,822	$ 2,912,512	$ (11,568)	$ 2,900,944	$ 2,154,012

City of Hope and Affiliates

Consolidating Statements of Activities

Years Ended September 30, 2013 and 2012
(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2013 Total	2012
Revenues:							
Contributions (including $26,621 and $20,477 in contributions from special events in 2013 and 2012, respectively)	$ 129,050	$ –	$ –	$ 20	$ –	$ 129,070	$ 95,543
Special event participation revenue	5,818	–	–	–	–	5,818	4,848
Less: cost of direct benefits to donor	(6,580)	–	–	–	–	(6,580)	(5,032)
Contributions and net revenues from special events	128,288	–	–	20	–	128,308	95,359
Net patient service revenues	–	698,921	78,773	–	–	777,694	737,359
Research grants	–	12,211	–	69,587	–	81,798	77,198
Investment income	27,277	6,757	79	35,651	–	69,764	47,682
Net unrealized gain (loss) on investments	26,987	6,265	–	34,886	–	68,138	89,489
Royalty income	246,759	77	–	1,686	–	248,522	224,604
Professional fees revenue	–	–	49,181	–	(49,181)	–	–
Other	1,372	14,963	570	642	–	17,547	11,351
Total revenues	430,683	739,194	128,603	142,472	(49,181)	1,391,771	1,283,042
Expenses:							
Program services:							
Patient care	–	492,885	84,091	–	(17,570)	559,406	519,077
Research	–	59,874	16,474	226,172	(14,074)	288,446	287,474
Public information and education	4,060	13,616	862	–	(678)	17,860	12,698
Total program services	4,060	566,375	101,427	226,172	(32,322)	865,712	819,249
Supporting services:							
Administrative and general	20,823	120,309	28,308	27,303	(16,859)	179,884	174,815
Fund-raising	21,849	456	–	354	–	22,659	22,980
Total supporting services	42,672	120,765	28,308	27,657	(16,859)	202,543	197,795
Total expenses	46,732	687,140	129,735	253,829	(49,181)	1,068,255	1,017,044
Excess (deficit) of revenues and other increases over expenses	383,951	52,054	(1,132)	(111,357)	–	323,516	265,998
Distributions (to) from affiliates	(211,169)	7,355	–	203,814	–	–	–
Changes in net assets	172,782	59,409	(1,132)	92,457	–	323,516	265,998
Net assets, beginning of year	603,876	352,766	44,544	699,065	–	1,700,251	1,434,253
Net assets, end of year	$ 776,658	$ 412,175	$ 43,412	$ 791,522	$ –	$ 2,023,767	$ 1,700,251

City of Hope and Affiliates

Consolidating Statements of Cash Flows

Years Ended September 30, 2013 and 2012
(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2013	2012
Operating activities							
Changes in net assets	$ 172,782	$ 59,409	$ (1,132)	$ 92,457	$ –	$ 323,516	$ 265,998
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:							
Depreciation and amortization	1,838	40,331	2,644	14,124	–	58,937	56,118
Net (gain) loss on sale of contributed real property held for sale	(47)	–	–	–	–	(47)	106
(Gain) loss on disposal of fixed assets	–	(434)	–	(210)	–	(644)	646
Net (increase) decrease in trading investments	(32,281)	(358,500)	–	(59,844)	–	(450,625)	(132,328)
Net unrealized gain on investments	(26,987)	(6,265)	–	(34,886)	–	(68,138)	(89,489)
Change in value of interest rate swap agreement	–	(559)	–	(7,820)	–	(8,379)	93
Contribution proceeds restricted for endowment	(11,243)	–	–	(20)	–	(11,263)	(17,602)
Changes in assets and liabilities:							
Patient accounts receivable, net	–	(30,800)	(2,277)	–	–	(33,077)	(17,696)
Grants and other receivables	(4,044)	11,509	(2,037)	(2,533)	–	2,895	(23,154)
Unconditional promises to give, net	(22,017)	–	–	–	–	(22,017)	(1,759)
Contributions receivable from split-interest agreements	1,871	–	–	–	–	1,871	1,777
Contributed real property held for sale	(612)	–	–	–	–	(612)	(2,673)
Other assets	1,588	(623)	(399)	992	(4,809)	(3,251)	(3,200)
Accounts payable and accrued liabilities	1,736	(6,344)	7,317	(880)	–	1,829	524
Accrued salaries, wages and employee benefits	421	1,663	347	(383)	–	2,048	4,643
Annuity and split-interest agreement obligations	(788)	–	–	–	–	(788)	(206)
Other liabilities	(2,688)	(1,435)	949	(677)	4,809	958	(11,041)
Cash (used in) provided by operating activities	79,529	(292,048)	5,412	320	–	(206,787)	30,757

City of Hope and Affiliates

Consolidating Statements of Cash Flows (continued)

Years Ended September 30, 2013 and 2012
(In Thousands)

	City of Hope	National Medical Center	Medical Foundation	Beckman Research Institute	Eliminations	2013	2012
Investing activities							
Decrease in notes receivable	$ –	$ 380	$ –	$ –	$ –	$ 380	$ 71
Additions to property, plant and equipment	(9,322)	(58,359)	(6,565)	(12,417)	–	(86,663)	(72,495)
Proceeds from sale of contributed real property held for sale	1,012	–	–	–	–	1,012	2,539
Proceeds from sale of property, plant and equipment	–	–	–	–	–	–	70
(Increase) decrease in alternative investments	(45,590)	(22,290)	–	(24,702)	–	(92,582)	27,913
Cash used in investing activities	(53,900)	(80,269)	(6,565)	(37,119)	–	(177,853)	(41,902)
Financing activities							
Repayments of line of credit	–	(37)	–	–	–	(37)	(1,757)
Proceeds from line of credit	–	37	–	–	–	37	1,757
Repayment of long-term debt	–	(190,495)	–	(47,529)	–	(238,024)	–
Proceeds from long-term debt borrowings	–	567,641		107,306	–	674,947	–
Principal payments on long-term debt	(64)	(1,024)		(9,843)	–	(10,931)	(8,533)
Payment for swap termination	–	–	–	(1,740)	–	(1,740)	–
Contribution proceeds restricted for endowment	11,243	–		20	–	11,263	17,602
Net cash provided by financing activities	11,179	376,122	–	48,214	–	435,515	9,069
Net increase (decrease) in cash and cash equivalents	36,808	3,805	(1,153)	11,415	–	50,875	(2,076)
Cash and cash equivalents, beginning of year	40,379	27,230	1,160	9,740	–	78,509	80,585
Cash and cash equivalents, end of year	$ 77,187	$ 31,035	$ 7	$ 21,155	$ –	$ 129,384	$ 78,509
Supplemental disclosure of cash flow information:							
Interest paid during the year (net of capitalized interest)	$ 3	$ 7,917	$ 8	$ 1,229	$ –	$ 9,157	$ 12,652
Supplemental disclosure of non-cash financing activity:							
Capital lease obligation	$ –	$ –	$ 2,140	$ –	$ –	$ 2,140	$ 2,253

City of Hope and Affiliates

Consolidating Statements of Functional Expenses

Year Ended September 30, 2013
(In Thousands)

Account Title	Program Services: Patient Care	Program Services: Research	Program Services: Public Information and Education	Program Services: Total Program Services	Supporting Services: Administrative and General	Supporting Services: Fund-Raising	Supporting Services: Total Supporting Services	Eliminations	Total
Salaries, wages and employee benefits	$ 217,014	$ 116,888	$ 6,818	$ 340,720	$ 78,343	$ 11,022	$ 89,365	$ –	$ 430,085
Purchased services	35,782	24,355	9,095	69,232	50,914	6,028	56,942	–	126,174
Professional fees	83,188	33,023	812	117,023	27,830	–	27,830	(49,181)	95,672
Supplies	157,254	21,467	474	179,195	8,499	2,706	11,205	–	190,400
Equipment rental and maintenance	9,961	3,118	43	13,122	3,511	4	3,515	–	16,637
Interest	10,307	3,332	–	13,639	297	–	297	–	13,936
Change in fair value of swap agreement	(495)	(7,122)	–	(7,617)	(762)	–	(762)	–	(8,379)
Loss on early extinguishment of debt	–	–	–	–	6,171	–	6,171	–	6,171
Depreciation and amortization	35,891	17,933	714	54,538	3,412	987	4,399	–	58,937
Occupancy	6,587	6,014	280	12,881	5,079	774	5,853	–	18,734
Patent	42	76,946	–	76,988	116	–	116	–	77,104
Hospital provider fee	17,841	–	–	17,841	–	–	–	–	17,841
Bad debt	–	–	–	–	6,471	–	6,471	–	6,471
Other	3,604	6,566	302	10,472	6,862	1,138	8,000	–	18,472
Total functional expenses	$ 576,976	$ 302,520	$ 18,538	$ 898,034	$ 196,743	$ 22,659	$ 219,402	$ (49,181)	$ 1,068,255

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

Statements of Functional Expenses – City of Hope

Years Ended September 30, 2013 and 2012
(In Thousands)

	Program Services	Supporting Services				
Account Title	**Public Information and Education**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**2013 Total**	**2012 Total**
Salaries, wages and employee benefits	$ 2,652	$ 9,700	$ 10,296	$ 19,996	$ 22,648	$ 23,493
Purchased services	575	6,377	6,019	12,396	12,971	10,586
Professional fees	–	628	–	628	628	619
Supplies	228	1,187	2,700	3,887	4,115	3,563
Equipment rental and maintenance	–	134	–	134	134	245
Interest	–	7	–	7	7	14
Depreciation and amortization	235	662	941	1,603	1,838	1,829
Occupancy	193	674	760	1,434	1,627	1,985
Patent	–	116	–	116	116	50
Other	177	1,338	1,133	2,471	2,648	1,792
Total functional expenses – 2013	$ 4,060	$ 20,823	$ 21,849	$ 42,672	$ 46,732	$ 44,176
Total functional expenses – 2012	$ 3,874	$ 17,947	$ 22,355	$ 40,302		

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope National Medical Center

Years Ended September 30, 2013 and 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**	**2013 Total**	**2012 Total**
Salaries, wages and employee benefits	$ 214,227	$ 27,176	$ 4,121	$ 245,524	$ 45,560	$ 433	$ 45,993	$ 291,517	$ 275,269
Purchased services	35,715	6,874	8,520	51,109	35,316	2	35,318	86,427	79,986
Professional fees	16,169	14,082	–	30,251	15,814	–	15,814	46,065	44,493
Supplies	146,103	2,727	242	149,072	4,702	–	4,702	153,774	141,139
Equipment rental and maintenance	9,571	411	43	10,025	2,115	1	2,116	12,141	11,401
Interest	10,307	1,327	–	11,634	48	–	48	11,682	9,710
Change in fair value of interest swap agreement	(495)	(64)	–	(559)	–	–	–	(559)	(281)
Loss on early extinguishment of debt	–	–	–	–	6,022	–	6,022	6,022	–
Depreciation and amortization	33,722	4,342	479	38,543	1,772	16	1,788	40,331	37,533
Occupancy	6,141	790	87	7,018	2,403	3	2,406	9,424	11,078
Patent	42	27	–	69	–	–	–	69	46
Hospital provider fee	17,841	–	–	17,841	–	–	–	17,841	14,211
Bad debt	–	–	–	–	2,830	–	2,830	2,830	4,935
Other	3,542	2,182	124	5,848	3,727	1	3,728	9,576	8,142
Total functional expenses – 2013	$ 492,885	$ 59,874	$ 13,616	$ 566,375	$ 120,309	$ 456	$ 120,765	$ 687,140	$ 637,662
Total functional expenses – 2012	$ 459,981	$ 54,627	$ 8,824	$ 523,432	$ 113,923	$ 307	$ 114,230		

City of Hope and Affiliates

Statements of Functional Expenses – City of Hope Medical Foundation

Years Ended September 30, 2013 and 2012
(In Thousands)

	Program Services				Supporting Services		
Account Title	**Patient Care**	**Research**	**Public Information and Education**	**Total Program Services**	**Administrative and General**	**2013 Total**	**2012 Total**
Salaries, wages and employee benefits	$ 2,787	$ 148	$ 45	$ 2,980	$ 9,661	$ 12,641	$ 11,837
Purchased services	67	–	–	67	1,655	1,722	3,022
Professional fees	67,019	16,326	812	84,157	10,757	94,914	87,257
Supplies	11,151	–	4	11,155	773	11,928	7,489
Equipment rental and maintenance	390	–	–	390	129	519	567
Interest	–	–	–	–	10	10	–
Depreciation and amortization	2,169	–	–	2,169	475	2,644	3,154
Occupancy	446	–	–	446	1,014	1,460	2,079
Bad debt	–	–	–	–	3,641	3,641	1,442
Other	62	–	1	63	193	256	742
Total functional expenses – 2013	$ 84,091	$ 16,474	$ 862	$ 101,427	28,308	$ 129,735	$ 117,589
Total functional expenses – 2012	$ 78,149	$ 13,970	$ 876	$ 92,995	$ 24,248		

City of Hope and Affiliates

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

Years Ended September 30, 2013 and 2012
(In Thousands)

	Program Services	Supporting Services				
Account Title	**Research**	**Administrative and General**	**Fund-Raising**	**Total Supporting Services**	**2013 Total**	**2012 Total**
Salaries, wages and employee benefits	$ 89,564	$ 13,422	$ 293	$ 13,715	$ 103,279	$ 107,930
Purchased services	17,481	7,566	7	7,573	25,054	25,994
Professional fees	2,615	631	–	631	3,246	5,260
Supplies	18,740	1,837	6	1,843	20,583	20,805
Equipment rental and maintenance	2,707	1,133	3	1,136	3,843	4,417
Interest	2,005	232	–	232	2,237	2,792
Change in fair value of interest rate swap agreement	(7,058)	(762)	–	(762)	(7,820)	374
Loss on early extinguishment of debt	–	149	–	149	149	–
Depreciation and amortization	13,591	503	30	533	14,124	13,602
Occupancy	5,224	988	11	999	6,223	5,902
Patent	76,919	–	–	–	76,919	69,522
Other	4,384	1,604	4	1,608	5,992	5,929
Total functional expenses – 2013	$ 226,172	$ 27,303	$ 354	$ 27,657	$ 253,829	$ 262,527
Total functional expenses – 2012	$ 230,156	$ 32,053	$ 318	$ 32,371		

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