CONSOLIDATED FINANCIAL STATEMENTS

City of Hope and Affiliates
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

City of Hope and Affiliates

Consolidated Financial Statements

Years Ended September 30, 2014 and 2013

Contents

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Report of Independent Auditors

The Board of Directors
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, 2014 and 2013, 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, 2014 and 2013, and the consolidated results of their activities and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 19, 2014

City of Hope and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	**$ 126,607**	$ 129,384
Investments	**702,862**	551,941
Self-insurance trust funds	**3,324**	3,558
Patient accounts receivable, less allowances for uncollectible accounts of $12,932 in 2014 and $8,513 in 2013	**181,568**	164,038
Grants and other receivables	**22,239**	34,211
Donor-restricted unconditional promises to give, net	**18,199**	19,545
Prepaid and other	**18,226**	16,023
Total current assets	**1,073,025**	918,700
Property and equipment, net	**704,109**	632,118
Other assets:		
Investments	**379,648**	354,404
Board-designated assets	**662,774**	592,755
Bond trust funds	**35**	32,532
Donor-restricted assets:		
Investments	**290,550**	253,504
Unconditional promises to give, net	**53,145**	44,368
Contributions receivable from annuity and split-interest agreements, net	**10,294**	9,118
Other	**2,340**	2,643
Intangible assets	**5,270**	6,521
Goodwill	**30,137**	30,137
Other long-term assets	**32,754**	24,144
Total other assets	**1,466,947**	1,350,126
Total assets	**$ 3,244,081**	$ 2,900,944

	September 30	
	2014	**2013**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 84,489**	$ 77,590
Accrued salaries, wages and employee benefits	**55,837**	56,087
Long-term debt, current portion	**73,726**	65,828
Deferred revenue	**7,923**	10,166
Due to third-party payors	**2,062**	4,885
Other	**478**	386
Total current liabilities	**224,515**	214,942
Long-term debt, net of current portion	**636,925**	611,486
Annuity and split-interest agreement obligations	**17,574**	17,345
Other	**47,795**	33,404
Total liabilities	**926,809**	877,177
Net assets:		
Unrestricted	**1,960,318**	1,711,386
Temporarily restricted	**204,023**	169,054
Permanently restricted	**152,931**	143,327
Total net assets	**2,317,272**	2,023,767
Total liabilities and net assets	**$ 3,244,081**	$ 2,900,944

See accompanying notes.

City of Hope and Affiliates

Consolidated Statements of Activities
(In Thousands)

Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions (including $25,231 of contributions from special events)	**$ 56,384**	**$ 47,269**	**$ 9,384**	**$ 113,037**
Special event participation revenue	**5,439**	**–**	**–**	**5,439**
Less: cost of direct benefits to donors	**(6,168)**	**–**	**–**	**(6,168)**
Contributions and net revenues from special events	**55,655**	**47,269**	**9,384**	**112,308**
Net patient service revenues	**798,188**	**–**	**–**	**798,188**
Research grants	**72,874**	**–**	**–**	**72,874**
Investment income	**108,818**	**11,021**	**265**	**120,104**
Net unrealized gain on investments	**52,177**	**6,095**	**–**	**58,272**
Royalty income	**249,845**	**–**	**–**	**249,845**
Other	**16,490**	**70**	**–**	**16,560**
Total revenues	**1,354,047**	**64,455**	**9,649**	**1,428,151**
Net assets released from restrictions	**29,531**	**(29,486)**	**(45)**	**–**
Total revenues and other increases	**1,383,578**	**34,969**	**9,604**	**1,428,151**
Expenses:				
Program services:				
Patient care	**609,234**	**–**	**–**	**609,234**
Research	**303,478**	**–**	**–**	**303,478**
Public information and education	**16,418**	**–**	**–**	**16,418**
Total program services	**929,130**	**–**	**–**	**929,130**
Supporting services:				
Administrative and general	**183,089**	**–**	**–**	**183,089**
Fundraising	**22,427**	**–**	**–**	**22,427**
Total supporting services	**205,516**	**–**	**–**	**205,516**
Total expenses	**1,134,646**	**–**	**–**	**1,134,646**
Changes in net assets	**248,932**	**34,969**	**9,604**	**293,505**
Net assets, beginning of year	**1,711,386**	**169,054**	**143,327**	**2,023,767**
Net assets, end of year	**$ 1,960,318**	**$ 204,023**	**$ 152,931**	**$ 2,317,272**

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
Fundraising	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 Cash Flows
(In Thousands)

	Year Ended September 30 2014	2013
Operating activities		
Changes in net assets	**$ 293,505**	$ 323,516
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**68,795**	58,937
Net gain on sale of contributed real property held for sale	**51**	(47)
Loss (gain) on disposal of fixed assets	**22**	(644)
Net decrease (increase) in trading investments	**135,688**	(450,625)
Net unrealized gain on investments	**(58,272)**	(68,138)
Change in value of interest rate swap agreement	**4,088**	(8,379)
Contribution proceeds restricted for endowment	**(8,930)**	(11,263)
Changes in assets and liabilities:		
Patient accounts receivable, net	**(17,531)**	(33,077)
Grants and other receivables	**1,966**	2,895
Unconditional promises to give, net	**(7,431)**	(22,017)
Contributions receivable from split-interest agreements	**(1,176)**	1,871
Contributed real property held for sale	**(4,591)**	(612)
Other assets	**2,572**	(3,251)
Accounts payable and accrued liabilities	**6,900**	1,829
Accrued salaries, wages and employee benefits	**(250)**	2,048
Annuity and split-interest agreement obligations	**229**	(788)
Other liabilities	**5,244**	958
Net cash provided by (used in) operating activities	**420,879**	(206,787)
Investing activities		
(Increase) decrease in notes receivable	**(750)**	380
Additions to property and equipment	**(103,145)**	(86,663)
Proceeds from sale of contributed real property held for sale	**2,086**	1,012
Proceeds from sale of property and equipment	**8**	–
Net increase in alternative investments	**(327,915)**	(92,582)
Net cash used in investing activities	**(429,716)**	(177,853)
Financing activities		
Repayments of line of credit	**(3,464)**	(37)
Proceeds from line of credit	**3,464**	37
Repayment of long-term debt	**–**	(238,024)
Proceeds from long-term debt borrowings	**–**	674,947
Principal payments on long-term debt	**(2,870)**	(10,931)
Payment for swap termination	**–**	(1,740)
Contribution proceeds restricted for endowment	**8,930**	11,263
Net cash provided by financing activities	**6,060**	435,515
Net (decrease) increase in cash and cash equivalents	**(2,777)**	50,875
Cash and cash equivalents, beginning of year	**129,384**	78,509
Cash and cash equivalents, end of year	**$ 126,607**	$ 129,384
Supplemental disclosure of cash flow information:		
Interest paid during the year (net of capitalized interest)	**$ 28,048**	$ 9,157
Supplemental disclosure of non-cash financing activity:		
Capital lease obligation	**$ 36,207**	$ 2,140

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 fundraising 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 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 U.S. 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 fundraising activities to support the mission of the Affiliated Group.

1. Organization (continued)

Principles of Consolidation

The accompanying consolidated financial statements of City of Hope and Affiliates include the accounts of the Affiliated Group; the net assets and activities of the Auxiliaries. 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, 2014, was approximately 54%. Three of the six agreements will expire within one year of September 30, 2014, 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

In conformity with accounting principles generally accepted in the United States, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the amounts could be material to the consolidated financial statements.

Cash and Cash Equivalents

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

2. Summary of Significant Accounting Policies (continued)

Contributions

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

Temporarily restricted net assets consist of assets restricted by donors for specific purposes until time restrictions lapse and/or the purpose for the restriction is accomplished. These net assets are primarily available for use in future periods or for capital purposes. Permanently restricted net assets have been restricted by donors in perpetuity, the income from which is expendable to support patient care, research or other designated 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, 2014 and 2013, valid will and trust agreement amounts that became measurable totaled $29,709,000 and $26,195,000, respectively, and are included in contributions in the accompanying consolidated statements of activities.

City of Hope reports unconditional promises to give with payments due in future periods as temporarily restricted contributions, unless otherwise restricted by the donor. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates approximating a U.S. Treasury Note rate during the year of gift receipt. The rate used in 2014 and 2013 was 1.73%.

2. Summary of Significant Accounting Policies (continued)

City of Hope reports conditional promises to give as contribution revenue when the conditions stipulated by the donor are met, so the conditional promises become unconditional. There are no conditional promises to give as of September 30, 2014 and 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):

	2014	2013
Unconditional promises to give	**$ 93,222**	$ 81,254
Less:		
Discounts	**(4,504)**	(2,394)
Allowance for uncollectible promises to give	**(17,374)**	(14,947)
Total unconditional promises to give, net	**71,344**	63,913
Less current portion	**(18,199)**	(19,545)
	$ 53,145	$ 44,368

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

At September 30, 2014, future cash flows anticipated from unconditional promises to give, are as follows (amounts in thousands):

2015	$ 23,398
2016	17,933
2017	16,445
2018	12,075
2019	11,767
Thereafter	11,604
	93,222
Discounts	(4,504)
Allowance for uncollectible promises to give	(17,374)
	$ 71,344

2. Summary of Significant Accounting Policies (continued)

Split-Interest Obligations

City of Hope receives contributions from various types of split-interest agreements, 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, 2014, City of Hope has state-mandated reserves above the actuarial annuity reserves in the amount of $756,000. Additionally, City of Hope has voluntary reserves in the amount of $3,373,000 that are to protect the reserve fund against unexpected actuarial losses. These voluntary reserves are included in unrestricted investments and net assets in the accompanying consolidated statements of financial position.

Under a charitable remainder annuity trust arrangement and a charitable remainder unitrust arrangement in which City of Hope is not a trustee or is a co-trustee, City of Hope recognizes temporarily restricted long-term receivables and contribution revenues 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, 2014, totaling $10,294,000, are to be collected over the next 27.2 years and have an average remaining life of 11.8 years.

2. Summary of Significant Accounting Policies (continued)

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

In-Kind Contributions

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

Supplies Inventory

Inventories, consisting of materials, pharmaceuticals and medical supplies for use in program services provided by the Affiliates, are stated at the lower of cost or market using the first-in, first-out method. Inventories are included in prepaid and other current assets in the consolidated statements of financial position and totaled $11,297,000 and $9,614,000 at September 30, 2014 and 2013, 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.

2. Summary of Significant Accounting Policies (continued)

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. Capital lease amortization is included with depreciation and amortization expense.

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

	2014	2013
Land	**$ 15,313**	$ 15,223
Buildings and improvements	**644,163**	601,794
Equipment and furniture	**422,961**	397,926
Capitalized software	**139,968**	75,098
Construction in progress	**65,121**	73,782
Total property and equipment	**1,287,526**	1,163,823
Accumulated depreciation and amortization	**(583,417)**	(531,705)
Property and equipment, net	**$ 704,109**	$ 632,118

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, 2014.

2. Summary of Significant Accounting Policies (continued)

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 2014, 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.

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 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 $67,616,000 and $15,709,000 as of September 30, 2014 and 2013, respectively. Total amortization expense related to capitalized software development costs was $13,625,000 and $9,736,000 for the years ended September 30, 2014 and 2013, respectively. Software development costs included in construction in progress totaled $31,497,000 and $51,379,000 at September 30, 2014 and 2013, respectively.

2. Summary of Significant Accounting Policies (continued)

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 $30,980,000 and $13,936,000 in 2014 and 2013, respectively. Interest cost capitalized totaled $931,000 and $1,222,000 in 2014 and 2013, respectively.

Deferred Revenue

City of Hope is the recipient of the proceeds of various fundraising events and other fundraising activities. City of Hope receives cash during the year for these fundraising events and defers recognition of the revenue received in advance of fundraising 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):

	2014	**2013**
Fundraising events and other efforts	**$ 2,192**	$ 946
Unexpended grants/agreements	**5,731**	9,220
Total deferred revenue	**$ 7,923**	$ 10,166

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.

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,

2. Summary of Significant Accounting Policies (continued)

classification, interest and penalties, disclosure and transition. The guidance contained in FASB ASC 740 is applicable to pass-through entities and tax-exempt organizations. City of Hope has no significant uncertain tax positions or tax liability for tax benefits, interest or penalties accrued at September 30, 2014 and 2013.

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 $16,036,000 and $16,937,000 as of September 30, 2014 and 2013, respectively. The estimated current portion of the liability, totaling $2,951,000, 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 1.67% discount factor as of September 30, 2014. Workers' compensation expense charged to the Affiliated Group's operations totaled $4,114,000 and $5,038,000 in 2014 and 2013, 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 $3,354,000 and $3,510,000, which have been reflected in the accompanying consolidated statements of financial position in other assets as of September 30, 2014 and 2013, 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 from November 1, 1997 to September 30, 2014, with limits up to $50,000,000 and a deductible of $100,000 through June 30, 2014 and $250,000 between July 1, 2014 and September 30, 2014. 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 1.67% discount factor as of September 30, 2014. City of Hope and the Affiliated Group has recorded an estimated

2. Summary of Significant Accounting Policies (continued)

liability of $2,456,000 and $1,044,000 as of September 30, 2014 and 2013, 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 $826,000 and $1,165,000 in 2014 and 2013, respectively.

The Affiliated Group recorded insurance recoveries totaling $1,775,000 and $346,000 which have been reflected in the accompanying consolidated statements of financial position in other assets as of September 30, 2014 and 2013, respectively.

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. 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 $260,000 in 2014. 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 $260,000 in 2014. The participants have the ability to direct these contributions into various funds offered through the RSO TDA Plan.

Contribution expense for the Plans defined above totaled $14,813,000 and $16,792,000 in 2014 and 2013, respectively.

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.

2. Summary of Significant Accounting Policies (continued)

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

On January 1, 2006, the 2006 Executive Supplemental Accumulation Plan was established. This plan provides each designated executive with deferred compensation equal to 10% of the executive's base salary (net of City of Hope contributions to the participant's defined contribution plan). A participant becomes fully vested upon completion of three plan years of service, at age 65, or if they leave involuntarily. There is the possibility of substantial forfeiture should the participant leave voluntarily or involuntarily for cause prior to fully vesting. Contribution expense for the supplemental accumulation plan totaled $803,000 and $500,000 in 2014 and 2013, 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 years ended September 30, are as follows (amounts in thousands):

	2014	2013
Medicare	**$ 145,420**	$ 140,102
Medi-Cal	**69,356**	92,449
Managed care	**478,143**	456,018
Indemnity, self-pay and other	**14,385**	10,352
Net patient service revenues	**$ 707,304**	$ 698,921

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, 2014 and 2013, are as follows (amounts in thousands):

	2014	**2013**
Medicare	**$ 20,450**	$ 17,794
Medi-Cal	**4,619**	3,947
Managed care	**64,911**	56,131
Indemnity, self-pay and other	**904**	901
Net patient service revenues	**$ 90,884**	$ 78,773

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 2012. The Center has filed appeals to re-open previously audited cost reports for years 2004 through 2010 and, if successful, will record the appeals as net patient service revenues in the period realized. Medicare audits of the 2010, 2011 and 2012 cost reports were finalized during 2014. The cost report for 2013 has been filed but has 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. 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 2014 and 2013, the Center recognized $1,342,000 and $1,254,000, respectively, in SB1732 program revenue, which has been included in net patient service revenues. Of these amounts, $1,965,000 has not been received and is included in other assets at September 30, 2014.

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.

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

	2014	**2013**
Medicare	**27%**	28%
Medi-Cal	**29**	27
Other third-party payors and patients	**44**	45
	100%	100%

2. Summary of Significant Accounting Policies (continued)

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

	2014	2013
Medicare	**30%**	27%
Medi-Cal	**11**	11
Other third-party payors and patients	**59**	62
	100%	100%

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. 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 is included in the category below.

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

2. Summary of Significant Accounting Policies (continued)

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

	2014	2013
Patient Charity Care		
Estimated cost of Patient Charity Care	**$ 751**	$ 1,311
Estimated cost of services to Medi-Cal patients not covered under the Governmental Health Care Programs	**5,061**	5,398
	$ 5,812	$ 6,709

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.

Derivative and Hedging Instruments

The Affiliated Group is required to recognize all derivatives on the balance sheet at fair value. At September 30, 2014, 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. The Affiliated Group's derivatives are not designated as effective hedges and are adjusted to fair value in the consolidated statements of activities, above the operating indicator.

2. Summary of Significant Accounting Policies (continued)

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 2014 and 2013, the Affiliated Group received and recognized royalty revenue totaling $249,845,000 and $248,522,000, respectively, primarily from sales of drugs by Genentech and other licensees of monoclonal antibodies, including Rituxan, Herceptin, Avastin, Humira and others using technology developed at the Institute (see Note 8).

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Fair value is established based on quoted prices from recognized security exchanges. Management 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, 2014 and 2013, 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 within changes in net assets 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

2. Summary of Significant Accounting Policies (continued)

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. The Affiliated Group also invests in private equity and real asset funds that may be structured as drawdown funds, to which the Affiliated Group has committed capital to the funds and the fund managers make capital calls as the investment opportunities develop over the initial investment period established by the fund managers. As of September 30, 2014, the Affiliated Group has outstanding unfunded private equity and private real asset commitments totaling $273,719,000.

City of Hope's alternative investments include equity and fixed income commingled funds that invest primarily in marketable securities. These funds are subject to certain notice requirements, but can be liquidated at least monthly.

City of Hope's classification of "hedge funds" consists of direct and multi-manager fund-of-funds hedge fund investments which implement a range of alternative investment strategies, including, but not limited to, long or short equity, credit, and other strategies. City of Hope's investments in hedge funds have limited liquidity since shares or interests in the hedge funds are not freely transferable and are subject to various lock-up periods, redemption fees and notice requirements. In addition, the hedge funds typically reserve the rights to reduce or suspend redemptions (gating event) and to satisfy redemptions by making distributions in-kind, under certain circumstances. Additionally, hedge funds may hold, directly or indirectly, side pocket investments where no redemptions are permitted until such investments are liquidated or deemed realized. Redemption clauses range between monthly, quarterly and annually with various notice requirements between 30 to 65 days.

City of Hope's classification of "private equity" consists of direct and fund-of-funds private equity investments, including private equity buyout, venture capital, mezzanine, and secondary private equity funds. These private equity investments typically have investment terms greater than ten years. City of Hope may not withdraw or sell, assign or transfer its interests in the private equity funds except in certain very limited circumstances, subject to consent by the general partners of the funds.

2. Summary of Significant Accounting Policies (continued)

City of Hope's classification of "real assets" consists of 19 investment funds – one fund which invests in timberland properties; one fund which invests in global real estate investment trusts securities; one fund that invests in real estate operating company securities; eight funds investing in distressed real estate; three energy funds; four fund of funds, and one fund invested in a Master Limited Partnership investment. The investment terms of the timberland, distressed real estate, and energy funds are typically greater than ten years and City of Hope may not withdraw or sell, assign or transfer its interests in these funds except in certain very limited circumstances, subject to consent by the general partners of the funds.

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 0.01% to 35.18% as of September 30, 2014.

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 fundraising costs. City of Hope allocated total joint costs to the following functional expense categories for the years ended September 30, 2014 and 2013, as follows (amounts in thousands):

	2014	2013
Fundraising expense	**$ 7,052**	$ 6,702
Administrative and general expense	**3,903**	3,874
Public information and education expense	**2,392**	2,607
Total joint costs	**$ 13,347**	$ 13,183

Subsequent Events

City of Hope has evaluated subsequent events occurring between the end of the most recent fiscal year and December 19, 2014, the date the financial statements were issued.

3. California Hospital 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) 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.

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, 2014, 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 receivables 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.

3. California Hospital Fee Program (continued)

During 2014, the Center recognized $10,241,000 in Supplemental Payments relating to the 30-Month Program period of October 1, 2013 through December 31, 2013. This has been included as an increase to net patient service revenues in the accompanying consolidated statements of activities. Of this amount, $2,548,000 is recorded in grants and other receivables as of September 30, 2014. The Center also recognized $3,144,000 in QA Fees as program expenses in the accompanying consolidated statements of activities. Of this amount, $1,044,000 is recorded in accounts payable and accrued liabilities as of September 30, 2014.

In November 2014, CMS approved the final six months of the managed care portion of the 30-Month Program covering the period July 1, 2013 to December 31, 2013. The Center will recognize approximately $850,000 in Supplemental Payments revenue and approximately $870,000 in QA Fee expense during fiscal year 2015.

In December 2014, CMS approved the fee-for-service portion of a new 36-month Program to provide supplemental Medi-Cal payments and impose a QA Fee for facilities that provide service to the Medi-Cal population. The 36-month Program covers the period January 1, 2014 through December 31, 2016. The impact to the Center for fiscal year 2015 and beyond is still being determined.

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 Note 2) 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 $710,651,000, which are Level 2 liabilities with a total fair value of $760,381,000 at September 30, 2014, 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).

In determining fair value, City of Hope utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value. The fair value of annuity and split-interest obligations has been determined using present value techniques based on mortality

4. Fair Value of Financial Instruments (continued)

tables and discount rates that are consistent with 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, 2014, 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, 2014 and 2013, 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):

2014	**Level 1**	**Level 2**	**Level 3**	**Total**	**Valuation Technique (a,b,c)**
Assets					
U.S. government and agency obligations	**$ –**	**$ 100,727**	**$ –**	**$ 100,727**	**a,b**
Corporate obligations	**–**	**4,730**	**–**	**4,730**	**a,b**
Marketable securities	**817,146**	**–**	**–**	**817,146**	**a**
Municipal obligations	**–**	**2,110**	**–**	**2,110**	**a**
Alternative investments	**–**	**831,960**	**217,264**	**1,049,224**	**a,c**
Cash equivalents	**156,152**	**–**	**–**	**156,152**	**a**
Total assets	**$ 973,298**	**$ 939,527**	**$ 217,264**	**$ 2,130,089**	
Liabilities					
Annuity and split-interest obligations	**$ –**	**$ –**	**$ 17,574**	**$ 17,574**	**c**
Derivative financial instruments	**–**	**6,668**	**–**	**6,668**	**a,b**
Total liabilities	**$ –**	**$ 6,668**	**$ 17,574**	**$ 24,242**	

2013	**Level 1**	**Level 2**	**Level 3**	**Total**	**Valuation Technique (a,b,c)**
Assets		*(revised)*	*(revised)*		
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	–	536,378	184,931	721,309	a,c
Cash equivalents	550,606	–	–	550,606	a
Total assets	$ 1,046,234	$ 676,369	$ 184,931	$ 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	

4. Fair Value of Financial Instruments (continued)

As a result of further analysis of the characteristics of certain financial instruments during the preparation of its 2014 financial statement disclosures, City of Hope has reclassified $536,378,000 in commingled fund investments and certain hedge funds that were previously reported as Level 3 at September 30, 2013 to Level 2. The changes had no impact on the face of the financial statements.

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, 2014 (amounts in thousands):

	Assets	Liabilities
Beginning balance at September 30, 2013 – *revised*	$ 184,931	$ 17,345
Additions	61,831	1,382
Investment activity, adjustments, maturities	22,397	491
Distributions	(61,463)	(1,729)
Change in fair value	9,568	85
Ending balance at September 30, 2014	$ 217,264	$ 17,574

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

	2014	2013
Cash and cash equivalents	**$ 126,607**	$ 129,384
Investments, current	**702,862**	551,941
Self-insurance trust funds	**3,324**	3,558
Investments, other	**379,648**	354,404
Board-designated assets	**662,774**	592,755
Bond trust funds, other	**35**	32,532
Donor-restricted investments, other	**290,550**	253,504
	2,165,800	1,918,078
Less: Cash not carried at fair value	**(35,711)**	(10,544)
Investments at fair value	**$ 2,130,089**	$ 1,907,534

4. Fair Value of Financial Instruments (continued)

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 include changes in equity interests of alternative investments and are reported as investment income in the consolidated statements of activities. For the years ended September 30, 2014 and 2013, net realized capital gains totaled $84,278,000 and $46,750,000, respectively.

5. Long-Term Debt

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

	2014	2013
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**	$ 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**	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**	32,500

5. Long-Term Debt (continued)

	2014	2013
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**	$ 350,000
The Center, capital lease obligations:		
Equipment	**3,486**	1,629
Facilities	**33,357**	–
The Foundation, capital lease obligations	**1,878**	2,140
	688,356	653,404
Less: current maturities of long-term debt and $65,000 of Series 2012B and 2012C Revenue Bonds at September 30, 2014	**(73,726)**	(65,828)
Unamortized discount	**(4,260)**	(4,460)
Unamortized premium	**26,555**	28,370
	$ 636,925	$ 611,486

Long-term debt maturities at September 30, 2014, are as follows (amounts in thousands):

2015	$ 8,726
2016	9,013
2017	10,178
2018	10,614
2019	10,487
Thereafter	639,338
	$ 688,356

5. Long-Term Debt (continued)

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 2012C 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 Revenue 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 0.05% and the Series 2012C was 0.04% during the year ended September 30, 2014. The bonds can be converted to another interest rate period as defined in the 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.

Capital Lease Obligations – City of Hope and Affiliates have entered into various capital lease agreements for equipment and administrative facilities. Assets are capitalized using interest rates commensurate with City of Hope's incremental borrowing rate.

5. Long-Term Debt (continued)

Interest Rate Swap Transactions – In November 2012, the Obligated Group 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 Obligated Group 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 $4,100,000 are recorded within program and supporting services expenses in the accompanying consolidated statements of activities. The effect of counterparty payments and receipts on interest expense was an increase of $1,693,000 in 2014.

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 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 September 30, 2014.

Approximately $35,000 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.

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, 2015. Interest is charged at the London Interbank Offered Rate (LIBOR) plus 0.75%. As of September 30, 2014, there was no outstanding balance on the line of credit.

6. City of Hope Medical Foundation

The Board of Directors of City of Hope authorized its management to develop a nonprofit medical 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.

6. City of Hope Medical Foundation (continued)

The Foundation has entered into a five-year professional services agreement with the City of Hope Medical Group (COHMG), an unconsolidated medical group. Under the terms of the professional services agreement, COHMG physicians provide exclusively to the Foundation both patient care services and academic services, such as teaching, administrative and research services. 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. Goodwill and Other Intangible Assets

The gross carrying amount of intangible assets subject to amortization and accumulated amortization on those intangible assets at September 30, 2014, was $9,643,000 and $4,373,000, respectively. The Foundation has recorded $1,251,000 of amortization expense for intangible assets acquired, excluding goodwill, during the years ended September 30, 2014 and 2013. 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):

2015	$ 1,251
2016	1,251
2017	1,251
2018	910
2019	228
Thereafter	379
	$ 5,270

During 2014, 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, 2014, 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, 2014, 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, 2014, future minimum lease payments required under these operating leases are as follows (amounts in thousands):

2015	$ 4,825
2016	3,896
2017	2,959
2018	2,408
2019	1,900
Thereafter	12,352
	$ 28,340

Lease expense for the leases shown above and other rental agreements totaled $10,858,000 and $8,396,000 in 2014 and 2013, 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 currently pending against the Affiliated Group 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, ("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. On April 12, 2011, the PTO issued U.S. Patent No. 7,923,221 ("Cabilly III", and together with Cabilly II, the "Cabilly Patents"). City of Hope and Genentech are also co-owners of Cabilly III which is subject to a terminal disclaimer and has the same expiration date as Cabilly II.

8. Commitments and Contingencies (continued)

City of Hope and Genentech are defending two cases involving challenges to the Cabilly patents, both filed in 2013. The first was brought by Eli Lilly and Company and ImClone Systems LLC (jointly, "Lilly"), and involves Lilly's antibody drug Erbitux, and the second was brought by Bristol-Myers Squibb Company ("BMS") and involves two antibody drugs, Erbitux and Yervoy. Both cases have been transferred to the Central District of California.

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 an early, pre-trial stage. The final outcome of the cases cannot be determined at this time. If either the Cabilly II or Cabilly III patent is ultimately declared invalid or unenforceable, royalties under the Cabilly patent or patents could be significantly reduced or eliminated in the future, which could have a material adverse impact on the financial condition of the Affiliated Group.

Health Care Regulations

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

Commitments and Contingencies

The Affiliated Group identified underpayments and overpayments for certain classes of employees in its City of Hope Defined Contribution Plan related to prior years. In 2011, management accrued its best estimate of the underpayments, including an assumed rate of return on investment related to the underpayments, totaling approximately $3,600,000.

8. Commitments and Contingencies (continued)

In September 2011, City of Hope filed a Voluntary Correction Plan with the United States Department of Labor citing the causes, corrective actions to be taken to remediate the calculations, and outlining a plan of corrective action to make whole those participants whose contributions were affected. The Internal Revenue Service responded on October 28, 2011, that it has received City of Hope's filing and, in April 2014, City of Hope was notified of the filing and the plan of corrective action was approved.

During 2014, City of Hope finalized the analysis of its liability and calculated $1,493,000 in underpayments and approximately $750,000 in investment related rate of return associated with the underpayments. During the year ended September 30, 2014, City of Hope remitted the calculated underpayments to affected plan participants and, in November 2014, the related rate of return for these participants was remitted.

Capital Commitments

As of September 30, 2014, the Affiliates have committed to spend approximately $7,515,000 through 2015 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

9. Community Benefit Expense (Unaudited) (continued)

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):

	2014	**2013**
Benefits for the broader community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of $72,874 and $81,797 in 2014 and 2013, respectively		
Center	**$ 61,081**	$ 56,319
Institute	**122,022**	114,543
Total estimated benefits for the broader community, at cost	**$ 183,103**	$ 170,862
Support of Governmental Health Care Programs		
Estimated unreimbursed cost of the Medi-Cal Program	**$ 44,539**	$ 51,306
Estimated unreimbursed cost of the Medicare Program	**78,448**	55,157
	122,987	106,463
Total estimated benefits for the broader community and unreimbursed costs to governmental health programs	**$ 306,090**	$ 277,325

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, 2014 and 2013, 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.

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.

10. Donor-Restricted Endowments (continued)

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 effects of inflation and deflation

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

(6) Other resources of 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, 2014 and 2013, consists of the following (amounts in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,451)	$ –	$ 146,892	$ 145,441
Temporarily restricted donor funds	–	36,483	–	36,483
Board-designated funds	664,225	–	–	664,225
Total funds at September 30, 2014	$ 662,774	$ 36,483	$ 146,892	$ 846,149

	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

The changes in endowment net assets for the years ended September 30, 2014 and 2013, are as follows (amounts in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2013	$ 592,755	$ 24,683	$ 135,729	$ 753,167
Contributions and additions	–	97	10,657	10,754
Investment returns:				
Investment income	11,924	2,754	5	14,683
Net appreciation – realized and unrealized	58,163	12,083	546	70,792
Appropriation of endowment assets for expenditure	(68)	(3,134)	(45)	(3,247)
Endowment net assets, September 30, 2014	$ 662,774	$ 36,483	$ 146,892	$ 846,149

10. Donor-Restricted Endowments (continued)

	2013			
	Unrestricted	**Temporarily 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 appreciation – 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

11. Restricted Net Assets

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

	2014	**2013**
Time restricted under annuity and split-interest obligations and other	**$ 86,766**	$ 68,475
Patient care	**8,146**	6,658
Education	**5,806**	3,993
Research	**101,769**	88,033
Medical equipment and buildings	**1,536**	1,895
Total temporarily restricted net assets	**$ 204,023**	$ 169,054

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):

	2014	2013
Time restricted under annuity and split-interest obligations and other	**$ 2,790**	$ 4,123
Patient care	**799**	405
Education	**1,065**	1,103
Research	**22,148**	22,134
Medical equipment and buildings	**2,729**	3,530
Total temporarily and permanently restricted net assets released to operations	**$ 29,531**	$ 31,295

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):

	2014	2013
Time restricted under annuity and split-interest obligations and other	**$ 7,674**	$ 9,653
Patient care	**14,435**	14,278
Education	**17,281**	17,092
Research	**110,031**	98,794
Medical equipment and buildings	**3,510**	3,510
Total permanently restricted net assets	**$ 152,931**	$ 143,327

12. Expenses

The Affiliated Group provides critical patient care services, research to the community, including public information and education. Expenses related to providing these services for the years ended September 30, 2014 and 2013, are as follows (amounts in thousands):

	2014	2013
Salaries, wages and employee benefits	**$ 452,073**	$ 430,085
Purchased services	**128,242**	126,174
Professional fees	**91,001**	95,672
Supplies	**218,852**	190,400
Equipment rental and maintenance	**16,659**	16,637
Interest	**30,980**	13,936
Depreciation and amortization	**68,795**	58,937
Occupancy	**22,258**	18,734
Patent	**77,100**	77,104
Bad debt	**7,699**	6,471
Other	**20,987**	34,105
Total expenses	**$ 1,134,646**	$ 1,068,255

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