

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

City of Hope
Years Ended September 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



City of Hope

Consolidated Financial Statements and
Supplementary Information

Years Ended September 30, 2021 and 2020

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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, which comprise the consolidated statements of financial position as of September 30, 2021 and 2020, 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 of America. 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 consolidated financial position of City of Hope as of September 30, 2021 and 2020, and the consolidated results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

December 20, 2021

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 262,033	\$ 727,366
Investments	2,166,955	2,032,681
Self-insurance trust funds	3,608	4,367
Patient accounts receivable	313,188	257,368
Grants and other receivables	162,045	156,163
Current portion of donor-restricted unconditional promises to give, net	38,159	47,557
Prepaid and other	74,235	67,263
Total current assets	<u>3,020,223</u>	<u>3,292,765</u>
Property and equipment, net	1,412,291	1,149,403
Right-of-use finance lease assets	49,989	56,890
Right-of-use operating lease assets	151,314	109,818
Other assets:		
Investments held for long-term purposes	38,750	39,528
Board-designated assets	1,229,844	957,138
Bond trust funds	245,730	350,481
With donor restrictions:		
Investments	682,583	572,734
Unconditional promises to give, net	96,328	67,891
Contributions receivable from annuity and split-interest agreements, net	114,662	15,128
Other	9,655	3,477
Intangible assets	10,427	9,548
Goodwill	88,086	47,254
Other long-term assets	69,331	63,233
Total other assets	<u>2,585,396</u>	<u>2,126,412</u>
Total assets	<u><u>\$ 7,219,213</u></u>	<u><u>\$ 6,735,288</u></u>

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2021	2020
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 317,273	\$ 224,419
Accrued salaries, wages, and employee benefits	149,071	161,502
Long-term debt, current portion	6,940	7,240
Right-of-use finance leases, current portion	7,338	7,243
Right-of-use operating leases, current portion	19,480	14,066
Line of credit	–	450,000
Due to third-party payors	12,436	6,143
Contract liabilities	118,817	114,349
Total current liabilities	<u>631,355</u>	<u>984,962</u>
Long-term debt, net of current portion	1,295,386	1,300,714
Right-of-use finance leases, net of current portion	50,523	57,375
Right-of-use operating leases, net of current portion	143,704	104,892
Annuity and split-interest agreement obligations	27,707	19,849
Interest rate swap	19,497	30,379
Other	82,341	56,095
Total liabilities	<u>2,250,513</u>	<u>2,554,266</u>
Net assets:		
Without donor restrictions:		
Controlling interests	4,026,274	3,465,438
Noncontrolling interests	29,621	30,584
With donor restrictions	912,805	685,000
Total net assets	<u>4,968,700</u>	<u>4,181,022</u>
Total liabilities and net assets	<u><u>\$ 7,219,213</u></u>	<u><u>\$ 6,735,288</u></u>

See accompanying notes.

City of Hope

Consolidated Statement of Activities (In Thousands)

Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Net patient service revenues	\$ 1,837,419	\$ –	\$ 1,837,419
Research grants, contracts, and clinical trials	183,467	–	183,467
Contributions	37,461	238,451	275,912
Investment income	258,455	49,659	308,114
Net unrealized gain on investments	389,256	50,880	440,136
Royalty and licensing revenue	114,247	–	114,247
Gain on sale of subsidiary	77,327	–	77,327
Other revenue	101,088	265	101,353
Total revenues, gains, and other support	<u>2,998,720</u>	<u>339,255</u>	<u>3,337,975</u>
Net assets released from restrictions	111,450	(111,450)	–
Total revenues, gains, and other support	<u>3,110,170</u>	<u>227,805</u>	<u>3,337,975</u>
Expenses:			
Salaries, wages, and employee benefits	1,017,591	–	1,017,591
Purchased services and professional fees	551,259	–	551,259
Supplies and pharmaceuticals	604,431	–	604,431
Royalty sharing	36,606	–	36,606
Interest, including changes in fair value of swap agreements	32,313	–	32,313
Depreciation and amortization	153,399	–	153,399
Hospital provider fee	26,493	–	26,493
Other expense	128,205	–	128,205
Total expenses	<u>2,550,297</u>	<u>–</u>	<u>2,550,297</u>
Excess of revenues, gains, and other support over expenses	<u>559,873</u>	<u>227,805</u>	<u>787,678</u>
Changes in net assets	559,873	227,805	787,678
Net assets, beginning of year	3,496,022	685,000	4,181,022
Net assets, end of year	<u>\$ 4,055,895</u>	<u>\$ 912,805</u>	<u>\$ 4,968,700</u>

See accompanying notes.

City of Hope

Consolidated Statement of Activities (In Thousands)

Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Net patient service revenues	\$ 1,707,268	\$ —	\$ 1,707,268
Research grants, contracts, and clinical trials	170,549	—	170,549
Contributions	47,589	148,811	196,400
Investment income	60,473	11,355	71,828
Net unrealized gain on investments	108,664	10,131	118,795
Royalty and licensing revenue	165,523	—	165,523
Other revenue	87,072	78	87,150
Total revenues, gains, and other support	2,347,138	170,375	2,517,513
Net assets released from restrictions	108,250	(108,250)	—
Total revenues, gains, and other support	2,455,388	62,125	2,517,513
Expenses:			
Salaries, wages, and employee benefits	939,720	—	939,720
Purchased services and professional fees	501,803	—	501,803
Supplies and pharmaceuticals	536,916	—	536,916
Royalty sharing	51,417	—	51,417
Interest, including changes in fair value of swap agreements	52,463	—	52,463
Depreciation and amortization	143,146	—	143,146
Hospital provider fee	31,442	—	31,442
Other expense	98,536	1,591	100,127
Total expenses	2,355,443	1,591	2,357,034
Excess of revenues, gains, and other support over expenses	99,945	60,534	160,479
Changes in net assets	99,945	60,534	160,479
Net assets, beginning of year	3,396,077	624,466	4,020,543
Net assets, end of year	<u>\$ 3,496,022</u>	<u>\$ 685,000</u>	<u>\$ 4,181,022</u>

See accompanying notes.

PRELIMINARY AND TENTATIVE FOR DISCUSSION ONLY

City of Hope

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2021	2020
Operating activities		
Changes in net assets	\$ 787,678	\$ 160,479
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	146,105	136,880
Amortization of goodwill and other intangibles	7,294	6,266
Amortization of bond costs, discount, and premium	(2,990)	(2,988)
Amortization of right-of-use operating lease assets	15,286	11,779
Net unrealized gain on investments	(440,136)	(118,795)
Change in value of interest rate swaps	(10,882)	10,890
Contribution proceeds restricted for endowment	(15,608)	(4,937)
Gain on sale of subsidiary	(77,327)	-
Other	656	112
Changes in assets and liabilities:		
Patient accounts receivable	(55,820)	(21,379)
Grants and other receivables	(7,659)	2,013
Unconditional promises to give, net	(19,039)	(45,412)
Contributions receivable from split-interest agreements	(99,534)	588
Other assets	(14,894)	(23,450)
Accounts payable and accrued liabilities	51,202	17,489
Accrued salaries, wages, and employee benefits	(12,431)	53,669
Annuity and split-interest agreement obligations	7,858	781
Operating lease liabilities	(12,556)	(12,442)
Other liabilities	37,008	70,246
Net cash provided by operating activities before net sales of trading investments	284,211	241,789
Net sales of trading investments	285,756	250,838
Net cash provided by operating activities	569,967	492,627
Investing activities		
Acquisition of community practice sites	(57,102)	-
Proceeds on sale of subsidiary	72,000	-
Proceeds from sale of Exact Sciences common stock from Ashion Analytics sale	12,116	-
Decrease (increase) in notes receivable	690	(1,023)
Additions to property and equipment	(365,879)	(356,715)
Proceeds from sale of contributed real property held for sale	240	-
Net purchases of alternative investments	(233,719)	(61,116)
Net cash used in investing activities	(571,654)	(418,854)

City of Hope

Consolidated Statements of Cash Flows (continued) (In Thousands)

	Year Ended September 30	
	2021	2020
Financing activities		
Proceeds from line of credit	\$ —	\$ 498,875
Repayments of line of credit	(450,000)	(48,875)
Proceeds from long-term debt borrowing, net	4,500	2,500
Principal payments on long-term debt	(7,143)	(7,484)
Principal payments on finance leases	(7,363)	(7,934)
Contribution proceeds restricted for endowment	15,608	4,937
Net cash (used in) provided by financing activities	(444,398)	442,019
Net (decrease) increase in cash, cash equivalents, and restricted cash	(446,085)	515,792
Cash, cash equivalents, and restricted cash beginning of year	771,848	256,056
Cash, cash equivalents, and restricted cash end of year	\$ 325,763	\$ 771,848
Supplemental disclosure of cash flow information		
Interest paid during the year (net of capitalized interest)	\$ 41,909	\$ 41,731
Supplemental disclosure of noncash activity		
Finance lease obligation	\$ 610	\$ —
New operating leases	\$ 56,782	\$ 12,664
Leases recorded upon implementation of ASC 842	\$ —	\$ 108,886
Noncash stock received	\$ 15,310	\$ —
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 76,433	\$ 34,781

See accompanying notes.

City of Hope

Notes to Consolidated Financial Statements *(Dollar Amounts Expressed in Thousands)*

September 30, 2021

1. Organization

City of Hope, a California nonprofit public benefit corporation, with its principal offices located in Duarte, California, is the development organization of City of Hope National Medical Center (the “Center”), City of Hope Medical Foundation (the “Foundation”), Beckman Research Institute of the City of Hope (the “Institute”) (collectively, the “Obligated Group”), the Translational Genomics Research Institute and its Affiliates (“TGen”), Southern California Radiation Oncology, LLC (SCRO), AccessHope, LLC (“AH”) and City of Hope Auxiliaries (the “Auxiliaries”) (collectively, the “Affiliated Group”). These entities represent the consolidated City of Hope organization (collectively referred to as “City of Hope”). City of Hope’s management and staff coordinate the fundraising activities of the many volunteers and donors needed to support the patient care and research mission of City of Hope.

The Center is a California nonprofit public benefit corporation treating primarily cancer and other life-threatening diseases. The Center is currently licensed to operate at a capacity of 217 beds. City of Hope is the sole corporate member of the Center.

The Foundation is a California nonprofit public benefit corporation organized as part of a coordinated health care delivery system to provide teaching, education, and research services in support of the Center and the Institute. The Foundation also owns and/or operates outpatient clinic facilities that provide an extensive range of medical care and treatment. City of Hope is the sole corporate member of the Foundation.

The Foundation has entered into a professional services agreement with City of Hope Medical Group (“COHMG”), an unconsolidated medical group. Under the terms of the professional services agreement, COHMG physicians provide exclusive patient care services and academic services, such as teaching, administration, and research, 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 educational services, the Foundation provides for, or arranges for, the provision of certain patient care and on-call coverage services and teaching, administration, and research for the operations and activities of the Center pursuant to an agreement between the Foundation and the Center. The professional fee revenue and expense associated with the contract between the Foundation and the Center are eliminated in consolidation.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

1. Organization (continued)

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 for 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.

The Institute is a California nonprofit public benefit corporation that owns and operates several major research facilities on or near City of Hope's main campus. The Institute 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.

TGen located in Phoenix, Arizona, is an Arizona nonprofit public benefit corporation that translates genomic discoveries into advances in human health. TGen employs innovative advances arising from the Human Genome Project and applies them to the development of diagnostics. The accounts of TGen include the assets, liabilities, and results of operations of TGen Foundation and certain other controlled entities that were created to support TGen through its various functions. City of Hope is the sole corporate member of TGen.

SCRO, a California for-profit joint venture, was formed on March 30, 2018, between the Foundation and Vantage Oncology Treatment Centers, LLC ("Vantage") to manage and provide services to nine freestanding radiation therapy centers in Southern California. The Foundation owns 50.1% and Vantage owns 49.9% of SCRO.

AH, located in Irwindale, California, is a Delaware limited liability company that provides for or arranges for the provision of certain oncology-related consultative, advisory, and support services designed to address the specific cancer needs of patients, improve care outcomes, and drive value to employers and payors throughout the United States. City of Hope owns a majority membership interest in AH. City of Hope consolidates AH because of its ability to exercise control through its majority voting interest.

The Auxiliaries, located throughout the United States, are nonprofit public benefit unincorporated associations that coordinate fundraising activities to support the mission of City of Hope.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

1. Organization (continued)

Principles of Consolidation

The consolidated financial statements of City of Hope have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). All intercompany accounts are eliminated in consolidation.

2. Summary of Significant Accounting Policies

New Accounting Standards Adopted

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance is part of the FASB’s disclosure framework project, whose objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements. The ASU eliminates, amends, and adds certain disclosure requirements for fair value measurements. The FASB concluded that these changes improve the overall usefulness of the footnote disclosures for financial statement users and reduce costs for preparers. The new standard became effective for City of Hope beginning October 1, 2020. Certain disclosures are required to be applied prospectively and other disclosures need to be adopted retrospectively in the period of adoption. The additional disclosure requirements were adopted by City of Hope as of September 30, 2021, and the adoption of these fair value measurement disclosures had a minimal impact on its consolidated financial statements.

New Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other — Internal-Use Software (“Subtopic 350-40”), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for annual periods beginning after December 15, 2020, and City of Hope is evaluating the effect of this standard on its consolidated financial statements.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2002, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s own Equity*,) to reduce complexities in guidance related to convertible instruments and the derivative scope exception for contracts in an entity’s own equity. The ASU is effective for annual periods beginning after December 15, 2023. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. City of Hope is evaluating the effects of this standard on its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Financial Assets*. This ASU enhances presentation and disclosure requirements for not-for-profit entities to increase the transparency in reporting contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2022 and City of Hope is evaluating the effect of this standard on the consolidated financial statements.

Use of Estimates

The preparation of City of Hope’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Principal areas requiring the use of estimates include recognition of net patient service revenues, which includes contractual discounts and adjustments, price concessions, and charity care; valuation of unconditional promises to give; cost report settlements and amounts due to/from third-party payers; valuation of annuity and split-interest agreement obligations; fair value of interest rate swap agreements; fair value of business combinations; impairment of goodwill and other intangibles; and self-insured liabilities. Actual results could differ from those estimates and the amounts could be material to the consolidated financial statements.

Performance Indicator

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

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

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 maturities of three months or less from the date of purchase and exclude amounts whose use is limited under contractual or donor agreements or are held in investment portfolios that are included in investments and investments held for long-term purposes on the consolidated statements of financial position. Amounts within restricted cash include cash and cash equivalents held within assets whose use is limited and represent funds set aside based on contractual arrangements.

Cash and cash equivalents that are held as a component of donor-restricted assets are reflected in donor-restricted investments on the accompanying consolidated statements of financial position. Cash and cash equivalents, including restricted cash, are held as components of investments held for long-term purposes, board-designated assets, and bond trust funds on the accompanying consolidated statements of financial position.

The reconciliation of cash and cash equivalents, and restricted cash within the consolidated statements of financial position that comprise the amount reported on the consolidated statements of cash flows as of September 30 is as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 262,033	\$ 727,366
Restricted cash in bond trust funds	63,730	44,482
Total cash, cash equivalents, and restricted cash	<u>\$ 325,763</u>	<u>\$ 771,848</u>

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated statements of financial position (see Note 4). These equity and debt securities are designated as trading securities since the investments are externally managed within the guidelines of City of Hope's investment policy. Fair value is established based on quoted prices from recognized security exchanges. Accordingly, the change in unrealized gains and losses on investments is reported within the excess of revenues, gains, and other support over expenses on the consolidated statements of activities. Investment transactions are recorded on a settlement date basis.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment income or loss on equity and debt securities included in net assets with donor restrictions (including realized gains and losses on investments, interest, and dividends) is reported in revenues without donor restrictions, unless the income or loss is specifically restricted by the donor or by law.

City of Hope's alternative investments consist of equity commingled funds that invest primarily in marketable securities and fund limited partnerships. Various strategies seek to achieve attractive risk-adjusted returns across public and private equity and debt securities, derivatives, private companies, venture capital, real estate, etc. These alternative investments may invest in both registered and non-registered securities in the U.S. and globally, with exposure to both emerging and developed markets.

City of Hope's hedge fund investments consist of direct and multi-manager "hedge fund of fund" investments. Strategies include long/short equity, long/short credit, and other strategies. Investments in hedge funds have limited liquidity and may be subject to various lockup periods, redemption fees, and notice requirements. Hedge funds typically reserve the right 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 periods range monthly, quarterly, or annually with notice requirements between 30 to 90 days. City of Hope also invests in fund limited partnerships with private equity-like terms, including capital calls, during its investment period. These select funds, which are currently opportunistic credit strategies, are classified as hedge funds.

City of Hope's private equity investments consist of fund limited partnerships. Strategies include buyout, venture/growth capital, debt, and secondary private equity. Fund terms are typically ten years or greater. City of Hope may not withdraw, 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.

City of Hope's public and private real asset investments consist of fund limited partnerships that may invest in equity and debt of commercial, industrial, and residential properties, and energy and related companies. Fund terms are typically ten years or greater 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.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

City of Hope's commitments to fund limited partnerships are generally structured as drawdown funds, to which City of Hope funds future capital calls as investments are made over the investment period as established in the respective fund terms. Based upon the most recent available information, the outstanding unfunded commitments as of September 30 were as follows:

	<u>2021</u>	<u>2020</u>
Private equity	\$ 357,100	\$ 319,300
Private real assets:		
Real estate	195,300	201,700
Natural resources	20,800	27,200
Total unfunded commitments	<u>\$ 573,200</u>	<u>\$ 548,200</u>

City of Hope accounts for its ownership interests in alternative investments at fair value, under which the net asset value is used as a practical expedient to fair value on the accompanying consolidated statements of financial position and its changes in fair value and share of earnings are included in net unrealized gain or loss on investments on the consolidated statements of activities.

Patient Accounts Receivable and Patient Service Revenue

City of Hope receives payments for services rendered to patients from federal and state governmental programs, mainly Medicare and Medi-Cal, privately sponsored contracted plans (including commercial, Medicare Advantage, and Medi-Cal managed care) for which payment is made based on terms defined under formal contracts, and other payors. City of Hope recognizes that revenues and receivables from government agencies are significant to its operations, but it does not believe there are significant credit risks associated with these government agencies. City of Hope does not believe there are any other significant concentrations of revenues or receivables from any payor that would subject City of Hope to any significant credit risks in the collection of patient accounts receivable. Changes in general economic conditions, patient accounting operations, payor mix, or federal or state governmental health care coverage could affect the collection of patient accounts receivable, cash flows, and results of operations.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Net patient service revenues are reported at the amount that reflects the consideration to which City of Hope expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits or reviews. Patients and third-party payors are billed after the services are performed and/or the patient is discharged from the facility. City of Hope recognizes revenue as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by City of Hope. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to the total expected. City of Hope believes this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs necessary to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Center receiving inpatient care services. The Center measures the performance obligation from admission to the hospital to the point when it is no longer required to provide goods or services to the patient for that admission, which is generally at the time of discharge.

Substantially all performance obligations relate to contracts with a duration of less than one year; City of Hope has elected to continue to apply the optional exemption provided in ASC 606-10-50-14(a) and are not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient care services whose performance obligation for these contracts is generally completed when the patients are discharged, which often occurs within weeks of the end of the reporting period.

City of Hope has agreements with third-party payors that provide for payments to City of Hope at amounts different from established rates. Transaction prices are determined based on standard charges for goods and services provided to patients and are reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the City of Hope's charity policies, and/or implicit price concessions based on historical collection experience.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

Expected settlement amounts are included in due to third-party payors on 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 revenues. In the opinion of management, adequate provision has been made for any adjustments that might result from this review. During fiscal years ended September 30, 2021 and 2020, the Center received information requiring changes in its estimates of settlements due for certain open cost report years, and appeals. Based on this information, the Center recorded increases to net patient service revenues totaling \$6,520 and \$1,239 for the fiscal years ended September 30, 2021 and 2020, respectively.

California Hospital Fee Program

The state of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program charges hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. A 30-month hospital fee program covering the periods from July 1, 2019 through December 31, 2021 was the only hospital fee program that had activity for the fiscal years ended September 30, 2021 and 2020.

The Center also entered into various enforceable pledge agreements with the California Health Foundation and Trust ("CHFT"), agreeing to make contributions to CHFT based on a pre-described calculation methodology. These funds will be used by CHFT to support charitable activities at various independent hospitals and hospital/health systems in California, including measures to alleviate distortions, interruptions, and disparities potentially resulting from short-term changes in government health care reimbursement programs, including the hospital fee to be imposed on hospitals under the hospital fee program.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The Center recognized \$87,185 and \$107,512 in net patient service revenues related to the hospital fee program on the accompanying consolidated statements of activities for the fiscal years ended September 30, 2021 and 2020, respectively. Additionally, the Center recognized \$26,493 and \$31,442 in expenses related to the hospital fee program for the fiscal years ended September 30, 2021 and 2020, respectively, which has been reflected in hospital provider fee expense on the accompanying consolidated statements of activities.

As of September 30, 2021 and 2020, \$48,737 and \$51,845 of hospital fee program receivables is included in grants and other receivables, and \$19,936 and \$22,413 of hospital fee program payables is included in accounts payable and other accrued liabilities, respectively, on the accompanying consolidated statements of financial position.

Property and Equipment

Property and equipment are stated at cost when purchased or at fair market value on the contribution date in the case of a donation. When property and equipment are 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 expense on the accompanying consolidated statements of activities. The costs of normal maintenance, repairs, and minor replacements are charged to expense when incurred.

City of Hope 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
Software	3 to 5 years

Leasehold improvements are amortized on a straight-line basis over the term of the lease or estimated useful life, whichever is shorter. Finance lease amortization is included with depreciation and amortization (see Note 15).

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

City of Hope reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. Impairment is considered when the associated expected undiscounted cash flows are less than the carrying value and the assets will be written down to fair value at that time. Fair value is the present value of the associated cash flows. As of September 30, 2021 and 2020, no impairment was recorded on long-lived assets.

Interest and Capitalized Interest

Total interest cost incurred on all financing vehicles (excluding changes in fair value of interest rate swap agreements) totaled \$63,589 and \$62,233 in 2021 and 2020, respectively. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. For the fiscal years ended September 30, 2021 and 2020, capitalized interest income of \$4,878 and \$1,169, respectively, was earned on the 2019 bonds. Interest costs capitalized during the same periods were \$20,394 and \$21,829, respectively.

Intangible Assets and Goodwill

Intangible assets consist of the following as of September 30:

	2021			Estimated Useful Life (In Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Intangible assets subject to amortization:				
Tradenname	\$ 9,026	\$ (7,710)	\$ 1,316	2 to 7
Noncompete agreement	188	(16)	172	2
Electronic medical records	2,280	(2,280)	-	10
Favorable leasehold interests	1,280	(634)	646	8
Intellectual property and research and development costs related to TARDIS	4,600	(307)	4,293	10
Total intangible assets subject to amortization	<u>17,374</u>	<u>(10,947)</u>	<u>6,427</u>	
Intangible assets not subject to amortization:				
Tradenname	4,000	-	4,000	Indefinite
Total intangible assets not subject to amortization	<u>4,000</u>	<u>-</u>	<u>4,000</u>	
	<u>\$ 21,374</u>	<u>\$ (10,947)</u>	<u>\$ 10,427</u>	

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

	2020			Estimated Useful Life (In Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Intangible assets subject to amortization:				
Tradename	\$ 7,590	\$ (7,590)	\$ –	2 to 7
Electronic medical records	2,280	(2,129)	151	10
Favorable leasehold interests	1,280	(483)	797	8
Total intangible assets subject to amortization	11,150	(10,202)	948	
Intangible assets not subject to amortization:				
Tradename	4,000	–	4,000	Indefinite
Intellectual property and research and development costs related to TARDIS	4,600	–	4,600	Indefinite
Total intangible assets not subject to amortization	8,600	–	8,600	
	\$ 19,750	\$ (10,202)	\$ 9,548	

Under ASC 350, *Intangibles – Goodwill and Other* (“ASU Topic 350”), these intangibles are subject to an impairment assessment when significant indicators of impairment exist. There was no indication of an impairment in value as of September 30, 2021.

City of Hope recorded \$594 and \$359 of amortization expense for intangible assets for the fiscal years ended September 30, 2021 and 2020, respectively. During the fiscal year ended September 30, 2021, TGen began amortizing intangible assets for intellectual property and research and development costs related to TGen’s proprietary Targeted Digital Sequencing (“TARDIS”) blood biopsy technology, which was previously not subject to amortization. In addition, City of Hope recognized \$151 and \$130 in rent expense for favorable leasehold interests during the fiscal years ended September 30, 2021 and 2020, respectively.

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, including identifiable intangible assets. City of Hope amortizes goodwill on a straight-line basis over ten years and performs a one-step impairment test at the entity level only when an impairment indicator exists. The accumulated goodwill amortization as of September 30, 2021 and 2020, was \$18,513 and \$11,813, respectively. There was no impairment loss or expense recognized in either year.

City of Hope

Notes to Consolidated Financial Statements (continued)
(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The following table provides a rollforward of goodwill for the fiscal years ended September 30:

	<u>2021</u>	<u>2020</u>
Balance, beginning of fiscal year	\$ 47,254	\$ 53,160
Acquisition of the Practice <i>(see Note 3)</i>	47,532	–
Amortization	(6,700)	(5,906)
Balance, end of fiscal year	<u>\$ 88,086</u>	<u>\$ 47,254</u>

Future amortization of intangible assets subject to amortization is reflected below:

	<u>Goodwill</u>	<u>Intangible Assets</u>
2022	\$ 10,660	\$ 1,385
2023	10,660	1,247
2024	10,660	488
2025	10,660	485
2026	10,660	485
Thereafter	34,786	2,337
	<u>\$ 88,086</u>	<u>\$ 6,427</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Contract Liability

City of Hope defers recognition of revenue received in advance of certain performance objectives, including fundraising events, research grants, and other agreements prior to such funds being earned. The following is a summary of contract liabilities as of September 30:

	2021	2020
Fundraising events and other activities	\$ 3,446	\$ 2,461
Donor-restricted conditional contributions	749	2,217
Grants revenue	12,218	17,950
Provider relief funds <i>(see Note 18)</i>	–	5,548
Accelerated and advance payment funds <i>(see Note 18)</i>	102,404	86,173
Total contract liabilities	\$ 118,817	\$ 114,349

For the fiscal years ended September 30, 2021, and 2020, \$24,053 and \$23,548, respectively, was recognized in revenue from contact liabilities.

Net Assets Without Donor Restrictions

A rollforward of controlling interests and noncontrolling interests net assets without donor restrictions for fiscal years ended September 30, 2021 and 2020, is as follows:

	Controlling Interests	Noncontrolling Interests	Total
Balance as of September 30, 2019	\$ 3,363,779	\$ 32,298	\$ 3,396,077
Excess (deficiency) of revenues, gains, and other support over expenses	101,659	(1,714)	99,945
Balance as of September 30, 2020	3,465,438	30,584	3,496,022
Excess (deficiency) of revenues, gains, and other support over expenses	560,836	(963)	559,873
Balance as of September 30, 2021	\$ 4,026,274	\$ 29,621	\$ 4,055,895

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Contributions

All contributions are considered without donor restrictions, 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 contributions with donor restrictions.

Net assets with donor restrictions consist of assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulated that resources be maintained in perpetuity in a true endowment. All other contributions without donor restrictions are considered net assets without donor restrictions.

Restricted monetary gifts are held in net assets with donor restrictions until the designation is met. When the donor designation is met, a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same fiscal period as the contributions are received are also reflected as net assets released from restrictions on the accompanying consolidated statements of activities.

City of Hope is the beneficiary under various wills and trust agreements of which the total realizable amount is not readily determinable at the date of gift. In the case of wills, such amounts are recognized as contributions when the will is declared valid by a probate court and the proceeds are measurable. For the fiscal years ended September 30, 2021 and 2020, valid will and trust agreement amounts that became measurable totaled \$39,904 and \$34,598, respectively, and are included in contributions on the accompanying consolidated statements of activities.

Promises to Give

City of Hope reports unconditional promises to give as contributions with donor restrictions. 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.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The net unconditional promises to give in the accompanying consolidated statements of financial position consist of the following as of September 30:

	2021	2020
Unconditional promises to give	\$ 152,995	\$ 128,011
Less:		
Discounts	(5,967)	(4,527)
Allowance for uncollectible promises to give	(12,541)	(8,036)
Total unconditional promises to give, net	134,487	115,448
Less current portion	(38,159)	(47,557)
	\$ 96,328	\$ 67,891

The discounts on these amounts are computed using risk-free interest rates approximating the U.S. Treasury Note rate when the unconditional promise is made. The rates used in the fiscal years ended September 30, 2021 and 2020 were between 0.34% to 1.11% and 0.27% to 2.65%, respectively. The allowance for uncollectible promises to give was determined based on City of Hope's historical experience with collections. Changes in the allowance for uncollectible promises to give and the amortization of pledge discounts are included in contribution revenue to the extent previously recognized when collected. Subsequent changes in the collectability of promises to give are included in other expense on the accompanying consolidated statements of activities.

As of September 30, 2021, future cash flows anticipated from unconditional promises to give are as follows:

2022	\$ 38,159
2023	21,171
2024	17,520
2025	15,850
2026	10,624
Thereafter	49,671
	152,995
Discounts	(5,967)
Allowance for uncollectible promises to give	(12,541)
	\$ 134,487

City of Hope reports conditional promises to give as contribution revenue when the conditions stipulated by the donor are met, at which time the conditional promise becomes unconditional.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Prior to September 30, 2021, City of Hope received a conditional promise in the amount of \$35,000. There were specific project goals and milestones that must have been met to receive the payments under the agreement. City of Hope recorded \$4,167 in each of the fiscal years ended September 30, 2021 and 2020 in contribution revenue, in recognition of attaining specified project goals and milestones. As of September 30, 2021, this conditional promise to give has been fulfilled because all project goals and milestones have been met.

In addition to the conditional promise noted above, City of Hope has received cash payments in advance of meeting other specific project goals and milestones totaling \$749 and \$2,217 as of September 30, 2021 and 2020, respectively. These amounts are included within the contract liability balance on the accompanying consolidated statements of financial position.

Split-Interest Agreements

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 a trustee or 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 difference between the assets and liabilities represents the amount of the contribution revenue.

Some states have laws that mandate certain requirements regarding gift annuity reserves. These laws can be based on where the nonprofit entity is located or where the gift annuity donor resides. City of Hope has state-mandated reserves above the actuarial annuity reserves in the amount of \$682 and \$278 as of September 30, 2021 and 2020, respectively. Additionally, City of Hope has voluntary reserves in the amount of \$9,821 and \$6,588 as of September 30, 2021 and 2020, respectively, that are to protect the reserve fund against unexpected market fluctuations and actuarial changes. These voluntary reserves are included in investments and net assets without donor restrictions on the accompanying consolidated statements of financial position.

Under charitable trust arrangements in which City of Hope is not the trustee or is a co-trustee, City of Hope recognizes, in the period the agreement is executed, donor-restricted long-term

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

contribution receivables and contribution revenues at the present value of the estimated future benefits to be received when the trust assets are expected to be distributed. Trust distributions 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 donor-restricted contributions on the accompanying consolidated statements of activities. Receivables totaling \$114,662 as of September 30, 2021, are to be collected over the next 44.9 years and have an average remaining life of 13.7 years. For the fiscal year ended September 30, 2021, \$95,014 was recognized as contribution revenue related to split-interest agreements. No amounts were recognized for the fiscal year ended September 30, 2020.

Research Grants, Contracts, and Clinical Trials Revenue

Research grants, contracts, and clinical trials revenue includes federal, state, and local jurisdiction awards and other exchange transactions. An exchange transaction is one in which there is reciprocal benefit where each party receives approximate commensurate value. Research grants, contracts, and clinical trials revenue is recognized in the period it is earned based on when the applicable project expenses have been incurred and project milestones are achieved. Payments received in advance of related project expenses are recorded in contract liabilities on the accompanying consolidated statements of financial position.

Royalty and Licensing Revenue

City of Hope receives revenues from various licensing and royalty agreements. During the fiscal years ended September 30, 2021 and 2020, City of Hope recognized licensing and royalty revenue totaling \$114,247 and \$165,523, respectively. In 2021, this revenue consisted primarily of licensing revenue from TGen's proprietary TARDIS blood biopsy technology. In addition, royalties were generated from Genentech from sales of drugs, including Rituxan, Herceptin, Avastin, Humira, and others, using technology developed at the Institute and covered by the Cabilly patents. In 2020, this revenue consisted primarily of royalties generated from Genentech and other licenses of monoclonal antibodies.

On January 11, 2021, TGen and Exact Sciences Corporation ("Exact Sciences") entered into a worldwide exclusive license to TGen's rights in its proprietary TARDIS blood biopsy technology. TARDIS was developed to be highly sensitive and customizable for each patient to detect trace amounts of tumor DNA in a patient's blood after his or her initial treatment. Exact Sciences acquired the license for an up-front cash payment of \$25,000 and 191,336 shares of Exact

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Science's common stock valued at \$25,073 on the date of issuance. Accordingly, TGen recorded \$50,073 of licensing revenue for the fiscal year ended September 30, 2021. Under the terms of the license, Exact Sciences is required to pay cash of \$10,000 and \$35,000 upon achieving cumulative product revenue milestones of \$100,000 and \$250,000, respectively. These payments are contingent upon achievement of these cumulative revenues on or before December 31, 2030. As of September 30, 2021, no milestones have been achieved and, therefore, no milestone revenue has been recorded.

The Cabilly patents expired during the first quarter of fiscal year 2019, with some royalty revenue anticipated to continue beyond the fiscal year ended September 30, 2021. City of Hope recognizes estimated royalty revenue in the same period the sales occur, in accordance with ASU 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). As of and for the fiscal years ended September 30, 2021 and 2020, City of Hope's royalty revenue and royalty sharing expense are reported on an accrual basis to match the period of related sales that generate the royalties.

City of Hope has entered into various licensing agreements whereby equity interests in the licensee are received as compensation. The stock and membership units related to these agreements are recorded at fair value.

Income Taxes

City of Hope is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. City of Hope, the Center, the Foundation, and the Institute are exempt from California state franchise and income tax under Section 23701(d) of the California Revenue and Taxation Code.

TGen is exempt from Arizona corporate income tax under Section 43-1201(A) of the Arizona Revised Statutes. The 100% wholly owned entities of TGen are single-member, limited liability companies and are considered disregarded entities for tax purposes.

AH is majority owned by City of Hope and is treated as a partnership for federal and state income tax purposes. All taxable income is allocated to the partners in accordance with the respective partnership agreement.

SCRO is treated as a partnership for federal and state income tax purposes where all taxable income is allocated to the partners in accordance with the respective partnership agreement; accordingly, federal and state taxes on income are the responsibility of the joint partners individually.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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. ASC 740 also provides guidance on de-recognition, measurement, classification, interest and penalties, disclosure, and transition. The guidance contained in 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 as of September 30, 2021 or 2020.

Derivative and Hedging Instruments

City of Hope recognizes all derivatives at fair value on the consolidated statements of financial position.

3. Business Combinations

Effective August 6, 2021, the Foundation entered into an Asset Purchase Agreement (“APA”) with a medical practice group headquartered in Southern California (“the Practice”) for substantially all the assets of the Practice as further defined in the APA. This acquisition added multiple practice locations to City of Hope, expanding City of Hope’s presence in Southern California. The business combination was recorded under the acquisition method of accounting and applied related accounting guidance as required in accordance with ASC 958-805, *Not-for-Profit Entities: – Business Combinations*.

The table below presents the consideration paid for the Practice and the fair value of assets acquired on August 6, 2021:

Cash purchase consideration	\$ 57,102
Fair value of net assets acquired:	
Inventory	\$ 6,813
Property and equipment	1,088
Other assets	45
Noncompete agreement	188
Tradename	1,436
Goodwill	47,532
Total acquired net assets	<u>\$ 57,102</u>

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

3. Business Combinations (continued)

The weighted average amortization period upon acquisition for the noncompete agreement, tradename and goodwill was two years, two years, and ten years, respectively. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill primarily represents, among other factors, the value of synergies expected to be realized and the assembly of workforce that enables City of Hope to increase treatment options, neither of which qualify as separate amortizable intangible assets. Intangible assets are recorded at estimated fair value, as determined by management based on available information. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions including future revenue and related operating profits, and other projected financial information.

4. Fair Value of Financial Instruments

The consolidated statements of financial position include the following financial instruments: cash and cash equivalents, patient accounts receivable, grants and other receivables, short- and long-term investments, prepaid and other, accounts payable and other accrued liabilities, estimated amounts due to third-party payors, interest rate swaps, and annuity and split-interest agreement obligations. City of Hope considers the carrying amounts of current assets and liabilities (except for investment securities, which are carried at fair value, as described in Note 2) on 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.

As defined by ASC 820, *Fair Value Measurement*, 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. 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 can be corroborated by market data.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

4. Fair Value of Financial Instruments (continued)

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 tables and discount rates that are consistent with Internal Revenue Service published rates and the American Council on Gift Annuities.

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 incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

4. Fair Value of Financial Instruments (continued)

City of Hope's assets and liabilities, measured at fair value on a recurring basis or at net asset value as of September 30 aggregated by the level in the fair value hierarchy, are as follows:

	Investments at Fair Value				Investments at Net Asset Value	Total	Valuation Technique (a, b, c)	
	Level 1	Level 2	Level 3	Fair Value				
2021								
Investments								
U.S. Government and agency obligations	\$ -	\$ 60,816	\$ -	\$ 60,816	\$ -	\$ 60,816	a, b	
Corporate obligations	-	243,730	-	243,730	-	243,730	a, b	
Asset-backed obligations	-	122,766	-	122,766	-	122,766	a, b	
Mortgage-backed obligations	-	115,377	-	115,377	-	115,377	a, b	
Marketable securities	1,201,633	-	-	1,201,633	-	1,201,633	a	
Public real assets	14	-	-	14	-	14	a	
Municipal obligations	-	1,220	-	1,220	-	1,220	a	
Preferred stock	-	-	612	612	-	612	c	
Hedge funds	-	-	-	-	376,865	376,865		
Equity commingled funds	-	-	-	-	1,187,670	1,187,670		
Private equity funds	-	-	-	-	523,866	523,866		
Private real assets	-	-	-	-	222,278	222,278		
Certificates of deposit	-	182,000	-	182,000	-	182,000	a, b	
Cash equivalents	143,161	-	-	143,161	-	143,161	a	
Total investments	\$ 1,344,808	\$ 725,909	\$ 612	\$ 2,071,329	\$ 2,310,679	\$ 4,382,008		
Other long-term assets								
Marketable securities	\$ 46,938	\$ -	\$ -	\$ 46,938	\$ -	\$ 46,938	a	
Cash equivalents	\$ 551	\$ -	\$ -	\$ 551	\$ -	\$ 551	a	
Total investments and other long-term assets	\$ 1,392,297	\$ 725,909	\$ 612	\$ 2,118,818	\$ 2,310,679	\$ 4,429,497		
Liabilities at fair value								
Annuity and split-interest obligations				\$ -	\$ -	\$ 27,707	\$ 27,707	c
Interest rate swaps				-	19,497	-	19,497	a, b
Total liabilities				\$ -	\$ 19,497	\$ 27,707	\$ 47,204	

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

4. Fair Value of Financial Instruments (continued)

	Investments at Fair Value				Investments at Net Asset Value	Total	Valuation Technique (a, b, c)	
	Level 1	Level 2	Level 3	Fair Value				
2020								
Investments								
U.S. Government and agency obligations	\$ -	\$ 63,598	\$ -	\$ 63,598	\$ -	\$ 63,598	a, b	
Corporate obligations	-	410,527	-	410,527	-	410,527	a, b	
Asset-backed obligations	-	143,273	-	143,273	-	143,273	a, b	
Mortgage-backed obligations	-	132,143	-	132,143	-	132,143	a, b	
Marketable securities	1,062,417	-	-	1,062,417	-	1,062,417	a	
Public real assets	13	-	-	13	-	13	a	
Municipal obligations	-	1,652	-	1,652	-	1,652	a	
Preferred stock	-	-	612	612	-	612	c	
Hedge funds	-	-	-	-	317,110	317,110		
Equity commingled funds	-	-	-	-	902,111	902,111		
Private equity funds	-	-	-	-	324,236	324,236		
Private real assets	-	-	-	-	162,808	162,808		
Certificates of deposit	-	306,000	-	306,000	-	306,000	a, b	
Cash equivalents	201,588	-	-	201,588	-	201,588	a	
Total investments	\$ 1,264,018	\$ 1,057,193	\$ 612	\$ 2,321,823	\$ 1,706,265	\$ 4,028,088		
Other long-term assets								
Marketable securities	\$ 35,377	\$ -	\$ -	\$ 35,377	\$ -	\$ 35,377	a	
Cash equivalents	\$ 542	\$ -	\$ -	\$ 542	\$ -	\$ 542	a	
Total investments and other long-term assets	\$ 1,299,937	\$ 1,057,193	\$ 612	\$ 2,357,742	\$ 1,706,265	\$ 4,064,007		
				Level 1	Level 2	Level 3	Total	
Liabilities at fair value								
Annuity and split-interest obligations				\$ -	\$ -	\$ 19,849	\$ 19,849	c
Interest rate swaps				-	30,379	-	30,379	a, b
Total liabilities				\$ -	\$ 30,379	\$ 19,849	\$ 50,228	

Other long-term assets consist of 457(b) plans that are funded by plan participants of City of Hope.

City of Hope

Notes to Consolidated Financial Statements (continued)
(Dollar Amounts Expressed in Thousands)

4. Fair Value of Financial Instruments (continued)

The table below sets forth a summary of changes in fair value of the Level 3 assets and liabilities for fiscal years ended September 30, 2021 and 2020:

	<u>Assets</u>	<u>Liabilities</u>
Beginning balance as of September 30, 2019	\$ 612	\$ 19,068
Additions	–	1,378
Investment activity	–	501
Distributions	–	(1,254)
Change in fair value	–	156
Beginning balance as of September 30, 2020	612	19,849
Additions	–	6,211
Investment activity	–	280
Distributions	–	(1,294)
Change in fair value	–	2,661
Ending balance as of September 30, 2021	<u>\$ 612</u>	<u>\$ 27,707</u>

The following reconciles fair value amounts to the consolidated statements of financial position as of September 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 262,033	\$ 727,366
Investments, current	2,166,955	2,032,681
Self-insurance trust funds	3,608	4,367
Investments held for long-term purposes	38,750	39,528
Board-designated assets	1,229,844	957,138
Bond trust funds	245,730	350,481
Donor-restricted investments	682,583	572,734
	<u>4,629,503</u>	4,684,295
Less investment at net asset value	(2,310,679)	(1,706,265)
Less amounts held in operating cash	(247,495)	(656,207)
Plus amounts in other long-term assets	47,489	35,919
Investments at fair value	<u>\$ 2,118,818</u>	<u>\$ 2,357,742</u>

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

5. Patient Accounts Receivable and Patient Services Revenues

The following table summarizes the percentages of gross accounts receivable from patients and third-party payors as of September 30:

	2021	2020
Medicare	21%	22%
Medi-Cal	6	8
Contracted plans (including commercial, Medicare Advantage, and Medi-Cal managed care)	70	67
Indemnity, self-pay, and other	3	3
	100%	100%

Net patient service revenues for the fiscal years ended September 30 are as follows:

	2021	2020
Medicare	\$ 492,664	\$ 386,601
Medi-Cal	134,116	159,693
Contracted plans (including commercial, Medicare Advantage, and Medi-Cal managed care)	1,197,540	1,128,667
Indemnity, self-pay, and other	13,099	32,307
Patient service revenues	\$ 1,837,419	\$ 1,707,268

6. Patient Charity Care

The Center and the Foundation provide care to patients who do not have the ability to pay and who qualify for charity care pursuant to established policies of the Center and the Foundation. Charity care is defined as services for which patients have the obligation to pay but do not have the ability to do so. Certain medically necessary services provided to Medi-Cal patients who are not reimbursed by the Medi-Cal program have been included in the estimated cost of patient charity care. The Center and the Foundation do not report charity care as net patient service revenue. The estimated cost for both patient charity care and Medi-Cal patients represents the total direct and indirect cost calculated at the medical procedure level and pertains specifically to the respective charity and Medi-Cal patient populations. Procedure-level cost includes the direct costs, such as

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

6. Patient Charity Care (continued)

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). The cost of charity care provided during the fiscal years ended September 30, 2021 and 2020 was \$8,745 and \$6,105, respectively.

See Note 17 for additional disclosure related to benefits for the broader community and support of governmental health care programs.

7. Property and Equipment, Net

A summary of the cost and accumulated depreciation and amortization of property and equipment as of September 30 is as follows:

	2021	2020
Land	\$ 54,512	\$ 54,512
Buildings	858,741	836,319
Leasehold improvements	65,451	55,564
Equipment and furniture	706,927	653,143
Software	304,414	295,945
	1,990,045	1,895,483
Accumulated depreciation and amortization	(1,159,684)	(1,040,785)
	830,361	854,698
Construction-in-progress	581,930	294,705
Total property and equipment, net	\$ 1,412,291	\$ 1,149,403

Depreciation and amortization expense on property and equipment totaled \$138,595 and \$128,588 for the fiscal years ended September 30, 2021 and 2020, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

8. Liquidity and Availability

City of Hope's financial assets available for general expenditure within one year of September 30 include the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 262,033	\$ 727,366
Investments	2,166,955	2,032,681
Patient accounts receivable	313,188	257,368
Grants and other receivables	162,045	156,163
Board-designated assets	1,229,844	957,138
	<u>\$ 4,134,065</u>	<u>\$ 4,130,716</u>

As part of City of Hope's liquidity management plan, cash in excess of any daily requirement is invested in long-term investments. The long-term investment portfolio contains liquid investments that can be drawn upon if necessary to meet liquidity needs.

Board-designated assets include funds set aside to function as institutionally designated endowments as established by the Board of Directors for future research, program services, and capital expenditures for City of Hope. Board-designated assets can be used for liquidity purposes related to research, program services, and capital expenditures upon the approval of the Board of Directors.

City of Hope invests in alternative investments to increase the investment portfolio's diversification. The nature of alternative investments generally restricts the liquidity and availability of these investments to be available for the general expenditures of City of Hope within one year of the consolidated statements of financial position. These investments and those assets limited as to use included in self-insurance trust funds, investments held for long-term purposes, bond trust funds, and donor-restricted funds have not been included in the amounts above.

Line of Credit

City of Hope had a consolidated unsecured revolving bank line of credit in the amount of \$50,000, which expired on June 30, 2020. Prior to the expiration date, City of Hope borrowed \$48,875 on this line of credit and on April 20, 2020, City of Hope paid off the then outstanding balance and terminated this line of credit.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

8. Liquidity and Availability (continued)

On April 21, 2020, City of Hope entered into a new syndicated unsecured revolving line of credit (the April 2020 Line of Credit) with two banking institutions for a combined amount of \$450,000, which expired on April 20, 2021. Prior to the expiration, City of Hope borrowed \$450,000. As of September 30, 2020, the balance of the April 2020 Line of Credit was \$450,000. City of Hope repaid the then-outstanding balance of \$450,000 on February 24, 2021 and amended this agreement with three banking institutions on April 21, 2021 to extend to April 20, 2022. As of September 30, 2021, City of Hope has not drawn on this line of credit. An unutilized fee of 0.25%, or \$288, was assessed during the fiscal year ended September 30, 2021.

Standby Letter of Credit

City of Hope maintains standby letters of credit as required by various agencies to which City of Hope is a party.

To secure its obligation under a long-term right-of-use finance lease agreement, TGen purchased an irrevocable standby letter of credit in the amount of up to \$25,000 for the benefit of the lessor. The standby letter of credit automatically reduces, without amendment, on various dates. As of September 30, 2021, the available amount on the standby letter of credit is \$20,000. The standby letter of credit is guaranteed by City of Hope and will renew annually based on a pre-agreed amortization schedule, unless terminated with a 60-day notice prior to the annual anniversary date by the lender. This letter of credit expires no later than October 1, 2035. As of September 30, 2021, no amounts are outstanding on the standby letters of credit.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

9. Long-Term Debt

The following is a summary of City of Hope's long-term debt as of September 30:

	2021	2020
City of Hope, 3.750% to 5.000% fixed rate Tax-Exempt Revenue Bonds Series 2012A, originally \$234,635, issued through the California Health Facilities Financing Authority, with varying maturities annually through November 15, 2039. Interest payable semiannually on May 15 and November 15 (Series 2012A Revenue Bonds)	\$ 194,635	\$ 201,175
City of Hope, 5.623% fixed rate Taxable Direct Obligation Notes, originally \$350,000. Interest payable semiannually on May 15 and November 15, principal payment due in full on November 15, 2043 (Series 2013 Notes)	350,000	350,000
City of Hope, Tax-Exempt Variable Rate Revenue Notes Series 2017A, originally \$32,680, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039 through November 15, 2042 (Series 2017A Revenue Notes)	32,680	32,680
City of Hope, Tax-Exempt Variable Rate Revenue Notes Series 2017B, originally \$32,680, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039 through November 15, 2042 (Series 2017B Revenue Notes)	32,680	32,680
City of Hope, 4.378% fixed rate Taxable Direct Obligation Notes, originally \$300,000. Interest payable semiannually on February 15 and August 15, principal payment due in full on August 15, 2048 (Series 2018 Notes)	300,000	300,000

City of Hope

Notes to Consolidated Financial Statements (continued)
(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

	<u>2021</u>	<u>2020</u>
City of Hope, 4.000%–5.000% fixed rate Tax-Exempt Revenue Bonds Series 2019, originally \$334,905, issued through the California Health Facilities Financing Authority. Interest payable semiannually on May 15 and November 15, principal payments annually beginning on November 15, 2024, through November 15, 2049 (Series 2019 Revenue Bonds)	\$ 334,905	\$ 334,905
TGen, 1.690%–4.220% fixed rate notes. Principal and interest due monthly or annually through April 2022 (TGen Notes)	<u>7,100</u>	3,200
	1,252,000	1,254,640
Less current maturities of long-term debt	(6,940)	(7,240)
Less unamortized bond issue costs	(3,696)	(3,884)
Less unamortized discount	(6,307)	(6,608)
Plus unamortized premium	60,329	63,806
	<u>\$ 1,295,386</u>	<u>\$ 1,300,714</u>

Long-term debt maturities as of September 30, 2021, and payments for subsequent fiscal years are as follows:

2022	\$ 6,940
2023	7,190
2024	14,560
2025	10,465
2026	11,000
Thereafter	<u>1,201,845</u>
	<u>\$ 1,252,000</u>

Series 2012 Revenue Bonds (Tax-Exempt) – In November 2012, City of Hope, as representative of the Obligated Group, issued \$234,635 of Tax-Exempt Series 2012A fixed rate Revenue Bonds, \$32,500 of Tax-Exempt Series 2012B Variable Rate Revenue Bonds, and \$32,500 of Tax-Exempt Series 2012C Variable Rate Revenue Bonds through the California Health Facilities Financing Authority. The Series 2012A Revenue Bonds were issued at a premium totaling \$29,887. The Series 2012 Revenue Bonds are secured by a gross receivables pledge.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

Series 2013 Notes (Taxable) – In July 2013, City of Hope, as representative of the Obligated Group, issued \$350,000 of Series 2013 fixed rate Direct Obligation Notes. The proceeds from the Series 2013 Notes are used for the Obligated Group’s capital needs in furtherance of the implementation of the Obligated Group’s strategic plan. The Series 2013 Notes are secured by a gross receivables pledge.

Series 2017 Revenue Notes (Tax-Exempt) – In February 2017, City of Hope, as representative of the Obligated Group, refunded the Series 2012B Variable Rate Revenue Bonds in the amount of \$32,500 and Series 2012C Variable Rate Revenue Bonds in the amount of \$32,500 with two new issues through the California Health Facilities Financing Authority, Variable Rate Revenue Notes Series 2017A Variable Rate Revenue Notes in the amount of \$32,680 and Series 2017B Variable Rate Revenue Notes in the amount of \$32,680. The Series 2017 Revenue Notes were directly purchased by a commercial bank and have the same maturity and approximate principal amortization as the refunded Series 2012B and Series 2012C Revenue Bonds and bear interest based on 70% of the one-month London Interbank Offered Rate (LIBOR) plus a spread. The Series 2017 Revenue Notes are secured by a gross receivables pledge.

Series 2018 Notes (Taxable) – In May 2018, City of Hope as representative of the Obligated Group, issued \$300,000 of Series 2018 Notes. The proceeds from the Series 2018 Notes are used for the Obligated Group’s capital needs in furtherance of the implementation of the Obligated Group’s strategic plan, including geographic expansion, addressing patient capacity, informatics, developing precision medicine, and funding research to support the development of innovative treatments. The Series 2018 Notes are secured by a gross receivables pledge.

Series 2019 Revenue Bonds (Tax-Exempt) – In July 2019, City of Hope, as representative of the Obligated Group, issued \$334,905 of Series 2019 Revenue Bonds through the California Health Facilities Financing Authority. The proceeds from the Series 2019 Revenue Bonds are being used for the construction and equipping of an outpatient clinic; a parking structure to support the outpatient clinic and balance parking requirements across the campus; and the construction of a building that will provide accommodations for patients, family members, and guests. The Series 2019 Revenue Bonds were issued at a premium totaling \$49,624 and are secured by a gross receivables pledge.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

TGen Notes – TGen Notes comprise notes payable with a bank for laboratory equipment and a promissory note for the purchase of the outstanding 50% interest in a subsidiary company. The TGen Notes for laboratory equipment are secured by the equipment financed.

Interest Rate Swap Transactions – In November 2012, the Obligated Group entered into two interest rate swap contracts, with a notional amount of \$65,000, to synthetically convert the Series 2012B and Series 2012C Revenue Bonds from a variable rate to a fixed rate of 2.715% and 2.720%, 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.

In February 2020, City of Hope entered into two forward-starting interest rate swap agreements with a notional amount of \$142,700 that will commence amortizing on the November 15, 2022, effective date over 16 years with payments set to begin on the effective date also. The Obligated Group will receive a variable rate of 70% of the Federal Funds rate and will pay a fixed rate of 0.8785% and 0.8805% to its swap counterparties.

The swaps were not designated as cash flow hedges, so the changes in fair value are recorded within interest expense on the accompanying consolidated statements of activities. For the fiscal year ended September 30, 2021, the fair value of the interest rate swap liability decreased \$10,882, and for the fiscal year ended September 30, 2020, the fair value of the interest rate swap liability increased \$10,890. The effect of counterparty payments and receipts on interest expense was an expense increase of \$1,713 and \$1,289 for the fiscal years ended September 30, 2021 and 2020, respectively.

Financial Covenants – Under the Series 2012 Revenue Bonds, the Series 2013 Notes, the Series 2017 Revenue Notes, the Series 2018 Notes, and the Series 2019 Revenue Bonds, the Obligated Group was in compliance with its financial covenants as of September 30, 2021.

TGen was in compliance with its financial covenants related to its TGen Notes and its right-of-use finance lease liability as of September 30, 2021.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

10. Endowment

City of Hope's endowment consists of 136 individual funds established for a variety of purposes. The endowments include both donor-restricted "true" endowment funds, which are classified as net assets with donor restrictions, and funds designated by the Board of Directors to function as an endowment, which are classified as net assets without donor restrictions. City of Hope's endowment is invested in an investment pool.

Interpretation of Relevant Law

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"). City of Hope classifies donor-restricted true endowment funds to include (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is the accumulated appreciation on donor restricted true endowment funds, which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and any deficiencies associated with investments where the value of the fund has fallen below the original value of the gift.

In accordance with UPMIFA, City of Hope considers the following factors when appropriating or accumulating donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of City of Hope
- The investment policies of City of Hope

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

10. Endowment (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted true endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in donor-restricted true endowment net assets. As of September 30, 2021, no funds were deficient compared with seven funds with an original gift value of \$10,459 that were deficient by \$717 as of September 30, 2020.

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 and Endowment Payout

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 objections within prudent risk constraints. In accordance with City of Hope's total return objective, up to 5% of the annual fair value as measured on January 1 each year is available for expenditure in the form of endowment payout for expenditures or purposes as defined by the endowment agreements.

City of Hope

Notes to Consolidated Financial Statements (continued)
(Dollar Amounts Expressed in Thousands)

10. Endowment (continued)

Changes in the fair value of City of Hope’s endowment investments and other endowment net assets by type of fund for the fiscal years ended September 30, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2019	\$ 895,110	\$ 265,498	\$ 1,160,608
Investment income	9,602	2,599	12,201
Net appreciation	53,075	14,322	67,397
Contributions	–	3,856	3,856
Appropriation for expenditures	(649)	(6,915)	(7,564)
Endowment net assets, September 30, 2020	957,138	279,360	1,236,498
Investment income	8,548	2,838	11,386
Net appreciation	264,688	75,769	340,457
Change in donor designation	–	(10,000)	(10,000)
Contributions	–	6,798	6,798
Appropriation for expenditures	(530)	(7,754)	(8,284)
Endowment net assets, September 30, 2021	\$ 1,229,844	\$ 347,011	\$ 1,576,855

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are available to fund the following purposes as of September 30:

	2021	2020
Time restricted under annuity and split-interest obligations and other	\$ 263,378	\$ 134,727
Patient care	50,079	38,718
Education	36,975	30,451
Research	548,659	468,142
Medical equipment and buildings	13,714	12,962
Total net assets with donor restrictions	\$ 912,805	\$ 685,000

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

11. Net Assets With Donor Restrictions (continued)

Net assets were released from donor restrictions by satisfying the following restricted purposes in the fiscal years ended September 30:

	2021	2020
Time restricted under annuity and split-interest obligations and other	\$ 15,915	\$ 13,347
Patient care	4,190	1,144
Education	2,849	1,464
Research	85,805	88,672
Equipment and buildings	2,691	3,623
Total donor-restricted net assets released from restrictions	\$ 111,450	\$ 108,250

12. Retirement Plans

City of Hope, the Center, the Foundation, AH, 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 salary, and are calculated on an employee’s biweekly base salary up to and above the annual Social Security Taxable wage base, not to exceed the maximum covered compensation of \$290 in 2021. Employees are eligible to participate in the Plan upon the completion of one year of service in which they have worked at least 1,000 hours. The participants have the option to direct these contributions into various funds offered through the Plan.

The Center and the Institute also participate in City of Hope Research Staff Organization (“RSO”) Tax Deferred Annuity Plan (“the RSO TDA Plan”), which was established in 1983 to provide benefits to eligible members of City of Hope RSO as defined in the plan document. Employer contributions of 15% of each participant’s biweekly eligible salary are made up to a defined annual maximum base salary of \$290 in 2021. The participants have the option to direct these contributions into various funds offered through the RSO TDA Plan.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

12. Retirement Plans (continued)

TGen has a defined contribution Profit Sharing Plan (“the PSP Plan”) that covers all employees who are 21 years of age and older and who have completed one month of service. Under the terms of the PSP Plan, employees may make voluntary contributions, subject to Internal Revenue Service limitations. TGen matches employee contributions up to 4% of the employee’s annual compensation, subject to certain eligibility criteria as stated in the plan document.

SCRO has a Defined Contribution Plan (“the DC Plan”) that covers all employees who are 21 years of age and older and who have completed six months of service. Under the terms of the DC Plan, employees may make voluntary contributions subject to Internal Revenue Service limitations. SCRO matches 100% of employee contributions up to 3% of the employee’s eligible compensation and then matches 50% of the next 2% of the employee’s eligible compensation subject to certain eligibility criteria as stated in the plan document.

Contribution expense for the plans defined above totaled \$35,483 and \$32,176 for the fiscal years ended September 30, 2021 and 2020, respectively.

13. Functional Classification of Expenses

City of Hope’s primary program services consist of patient care, research, and public information and education. Expenses in general support of the program services of City of Hope are considered support services and include administrative and fundraising activities. Natural expenses that are attributable to more than one functional expense category are allocated using a variety of cost allocation methodologies, including headcount, square footage, and time and effort.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

13. Functional Classification of Expenses (continued)

The expenses reported on the consolidated statements of activities supported the following programs and functions for the fiscal years ended September 30:

	Patient Care	Research	Public Information and Education	Administrative	Fundraising	Total
2021						
Salaries, wages, and employee benefits	\$ 509,785	\$ 264,923	\$ 9,246	\$ 216,350	\$ 17,287	\$1,017,591
Purchased services and professional fees	253,274	100,163	3,243	176,034	18,545	551,259
Supplies and pharmaceuticals	531,729	61,257	188	7,309	3,948	604,431
Royalty sharing	21	36,585	-	-	-	36,606
Interest, including changes in fair value of swap agreements	22,317	5,241	259	4,496	-	32,313
Depreciation and amortization	72,616	33,364	856	46,488	75	153,399
Hospital provider fee	26,493	-	-	-	-	26,493
Other expense	60,545	26,201	4,875	34,687	1,897	128,205
Total expenses	\$1,476,780	\$ 527,734	\$ 18,667	\$ 485,364	\$ 41,752	\$2,550,297

	Patient Care	Research	Public Information and Education	Administrative	Fundraising	Total
2020						
Salaries, wages, and employee benefits	\$ 425,329	\$ 241,600	\$ 10,110	\$ 244,105	\$ 18,576	\$ 939,720
Purchased services and professional fees	195,524	102,264	12,385	181,054	10,576	501,803
Supplies and pharmaceuticals	457,306	62,497	555	13,877	2,681	536,916
Royalty sharing	12	51,405	-	-	-	51,417
Interest, including changes in fair value of swap agreements	30,448	14,730	526	6,759	-	52,463
Depreciation and amortization	66,961	40,368	972	34,387	458	143,146
Hospital provider fee	31,442	-	-	-	-	31,442
Other expense	39,116	26,318	519	31,144	3,030	100,127
Total expenses	\$1,246,138	\$ 539,182	\$ 25,067	\$ 511,326	\$ 35,321	\$2,357,034

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

14. Insurance Programs

Workers' Compensation Program

City of Hope, the Center, the Foundation, AH, and the Institute have elected to self-insure their workers' compensation liability. Reinsurance has been obtained for this program to cover claims that exceed \$250 between 1991 and 2002, \$500 in 2003, and \$1,000 per individual claim beginning in 2004. An estimated liability of \$24,003 and \$22,147 has been recorded as of September 30, 2021 and 2020, respectively. The estimated current portion of the liability, totaling \$4,369 and \$4,042 as of September 30, 2021 and 2020, respectively, is included in accrued salaries, wages, and employee benefits on the consolidated statements of financial position and the estimated long-term portion of the liability, totaling \$19,634 and \$18,105 as of September 30, 2021 and 2020, respectively, is included in other long-term liabilities on 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, 2021 and 2020.

Insurance recoveries related to workers' compensation totaling \$4,472 and \$4,049 as of September 30, 2021 and 2020, respectively, have been reflected on the accompanying consolidated statements of financial position in other assets.

Workers' compensation expense totaled \$6,120 and \$5,071 for the fiscal years ended September 30, 2021 and 2020, respectively.

Professional Liability Insurance

The Center, the Foundation, AH, and the Institute 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, 2021, with limits up to \$50,000 with a deductible of \$100 through June 30, 2014, and \$250 between July 1, 2014 and September 30, 2021. 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 as of September 30, 2021 and 2020. An estimated liability of \$2,533 and \$1,967 as of September 30, 2021 and 2020, respectively, is included on the consolidated statements of financial position.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

14. Insurance Programs (continued)

The Center, the Foundation, AH, and the Institute recorded insurance recoveries related to professional liability totaling \$743 and \$644 as of September 30, 2021 and 2020, respectively, which have been reflected on the accompanying consolidated statements of financial position in other assets.

SCRO maintains health care professional liability insurance that provides coverage for claims arising that occurred from March 31, 2019 through September 30, 2021, with limits up to \$10,000 per occurrence and a deductible of \$10 for each claim.

The professional liability insurance expense included in other expense on the consolidated statements of activities amounted to \$2,256 and \$2,239 for the fiscal years ended September 30, 2021 and 2020, respectively.

15. Leases

City of Hope enters into right-of-use operating and finance leases primarily for buildings and equipment. For leases with terms greater than 12 months, City of Hope records the related right-of-use asset and liability at the present value of the lease payments over the contract term using a risk-free interest rate. City of Hope elected the practical expedient not to separate contract lease and non-lease components. Building lease agreements generally require City of Hope to pay maintenance, repairs, property taxes, and insurance costs, which are variable amounts based on actual costs incurred during each applicable lease period. Such costs are not included in the determination of right-of-use assets or liabilities. Variable lease costs also include escalating rent payments over the lease term based on changes in the Consumer Price Index or other measures of inflation. Most leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then-market rate of rental payments. City of Hope does not include the renewal options in the lease term for calculating the lease liability due to the uncertainty at the time of lease commencement as to whether the renewal option is reasonably certain to be executed. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at City of Hope's discretion and are evaluated at the commencement of the lease, with only those options that are reasonably certain of exercise included in the determination of the appropriate lease term. Upon adoption of ASC 842, discount rates for existing leases were established on October 1, 2019, using various risk-free rates depending upon the lease term for right-of-use operating lease liabilities and existing right-of-use finance lease liabilities retained the discount rate applied at original commencement.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

15. Leases (continued)

The weighted average lease term and discount rate are as follows as of September 30:

	2021	2020
Right-of-use operating leases remaining lease term	14.6 years	17.5 years
Right-of-use finance leases remaining lease term	11.8 years	13.0 years
Right-of-use operating leases discount rate	1.6%	1.6%
Right-of-use finance leases discount rate	3.5%	3.7%

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense and rent expense are as follows for the fiscal years ended September 30:

	2021	2020
Right-of-use operating:		
Operating lease expense	\$ 20,425	\$ 13,637
Variable lease expense	2,517	2,071
Short-term lease expense	2,821	3,286
Sublease income	(302)	(615)
Right-of-use finance:		
Amortization of leased assets	7,510	8,225
Interest on lease liabilities	2,100	2,277
Total lease expense	\$ 35,071	\$ 28,881

City of Hope

Notes to Consolidated Financial Statements (continued)
(Dollar Amounts Expressed in Thousands)

15. Leases (continued)

Cash paid for amounts included in the measurement of lease liabilities for the fiscal years ended September 30 is as follows:

	<u>2021</u>	<u>2020</u>
Operating cash flows for operating leases	\$ 12,556	\$ 12,755
Operating cash flows for finance leases	2,143	2,172
Financing cash flows for finance leases	7,363	7,934

Supplemental cash flow information related to right-of-use operating and finance leases is as follows for the fiscal year ended September 30:

Lease assets obtained in exchange for new operating lease liabilities	56,782	12,664
Lease assets obtained in exchange for new finance lease liabilities	610	–

The following table summarizes the maturity of right-of-use lease liabilities under operating and finance leases as of September 30, 2021:

	<u>Operating</u>	<u>Financing</u>
2022	\$ 20,958	\$ 9,315
2023	20,585	9,343
2024	17,306	8,793
2025	13,921	7,913
2026	11,319	4,120
Thereafter	114,916	32,355
Total lease payments	199,005	71,839
Less: interest	(35,821)	(13,978)
Total lease liabilities	163,184	57,861
Less: current portion, lease liabilities	(19,480)	(7,338)
Long-term portion, lease liabilities	<u>\$ 143,704</u>	<u>\$ 50,523</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

15. Leases (continued)

Right-of-Use Finance Lease Obligations – City of Hope has entered into various right-of-use finance lease agreements for equipment and program and administrative facilities. Assets are capitalized using a risk-free rate on the date of the right-of-use lease commencement.

Assets Constructed by Landlord – Under ASC 842, *Leases*, a build to suit arrangement exists when a lessee owns or controls the underlying assets, or the lessor has an enforceable right to payment for its performance to date.

If the lessee is determined to be the owner during the construction period, all costs incurred by the lessor to construct the asset will be recorded as construction-in-progress and a related long-term liability. Upon completion of construction, projects will be evaluated for sales leaseback treatment, and should the criteria not be met, City of Hope will carry and amortize the financing obligation to the extent that lease payments are applied to the liability and depreciate the building over the estimated useful life.

On October 23, 2018, the Foundation entered into a 15-year lease agreement with a developer for a medical office building. This lease was subject to build to suit accounting under ASC 840. With the adoption of ASC 842, effective October 1, 2019, this lease no longer qualifies as a build to suit under the new criteria. The Foundation expects to begin operating a multidisciplinary community cancer center at this location in 2021. As of September 30, 2021, City of Hope had not taken control of the space and the lease had not commenced. Accordingly, no right-of-use asset or lease liability related to the lease has been recorded.

16. Commitments and Contingencies

Medicare and Medi-Cal Laws and Regulations

City of Hope is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal 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 Medi-Cal programs. City of Hope believes it is in compliance with all applicable laws and regulations, and they are not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

City of Hope

Notes to Consolidated Financial Statements (continued) *(Dollar Amounts Expressed in Thousands)*

16. Commitments and Contingencies (continued)

Collective Bargaining Agreements

City of Hope is subject to nine collective bargaining agreements related to certain members of its labor force. Approximately 50% of employees are covered under collective bargaining agreements as of September 30, 2021. Two of the nine agreements will expire within one year of September 30, 2021, and of these agreements, one is for the California Nurses Association. A new agreement with the California Nurses Association has been negotiated subsequent to September 30, 2021 and is in effect from May 1, 2021 through April 30, 2024. The second agreement is expected to be renegotiated and renewed for one to three years.

Litigation and Administrative Actions

From time to time, City of Hope is subject to claims arising in the ordinary course of business. In the opinion of management, the ultimate resolution of legal proceedings and other claims currently pending will not have a material adverse effect on the consolidated financial position, statements of activities, or cash flows of City of Hope.

Health Care Regulations

City of Hope is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, licensure, accreditation, governmental 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 City of Hope 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.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

16. Commitments and Contingencies (continued)

Capital Commitments (Unaudited)

As of September 30, 2021, City of Hope has committed to spend approximately \$709,994 through 2022 and beyond for building renovations, multiple campus facility renovations, and various information technology projects.

17. Community Benefit Expense (Unaudited)

City of Hope supports a variety of programs and services that 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

City of Hope supports a variety of clinical and basic science research activities focused on finding cures and treatments for cancer and other life-threatening diseases and the development of diagnostics for which research grants, contracts, and clinical trial funding are 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 Center and the Foundation accept all patients who are covered by governmental subsidized programs – primarily Medi-Cal and Medicare fee for service, and who meet certain clinical criteria. 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 patients less payments received for these costs. The residual amount of costs in excess of payments has been included as a component of community benefit.

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

17. Community Benefit Expense (Unaudited) (continued)

The following is a summary of the estimated benefits for the broader community through internally funded research support and support of governmental health care programs – Medi-Cal and Medicare expense, at full cost, in terms of service to those patients covered under these programs for the fiscal years ended September 30:

	2021	2020
Benefits for the Broader Community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of \$183,467 and \$170,549 in 2021 and 2020, respectively:		
Center	\$ 122,306	\$ 104,131
Institute	214,615	202,015
TGen	46,458	63,408
Total estimated benefits for the broader community, at cost	383,379	369,554
Support of Governmental Health Care Programs (unaudited)		
Estimated unreimbursed cost of the Medi-Cal Program, less net impact of the California hospital fee program of \$60,692 and \$76,070 in 2021 and 2020, respectively	19,284	2,907
Estimated unreimbursed cost of the Medicare Program	188,054	159,781
	207,338	162,688
Total estimated benefits for the broader community and unreimbursed costs to governmental health care programs	\$ 590,717	\$ 532,242

18. COVID-19 Pandemic

In March 2020, the World Health Development Organization declared the global novel coronavirus disease (“COVID-19”) a pandemic. Following guidelines from federal, state, and local governments, City of Hope decided to postpone elective procedures; however, as a medical center primarily treating cancer, City of Hope has relatively fewer medical procedures that could be deferred. City of Hope continued to provide services for those patients whose treatment protocol could not be interrupted.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“the CARES Act”) was enacted in response to the COVID-19 emergency.

From April 2020 through December 2020 City of Hope received \$47,971 from the Department of Health and Human Services (“HHS”) from the provider relief funds created under the CARES Act. City of Hope is not required to pay the funds received as long as it agrees to comply with and

City of Hope

Notes to Consolidated Financial Statements (continued) (Dollar Amounts Expressed in Thousands)

18. COVID-19 Pandemic (continued)

attest to the terms and conditions specified by HHS. City of Hope was required to demonstrate that the distributions received have been used for healthcare-related expenses or lost revenues attributable to COVID-19. Based on an analysis of the compliance and reporting requirements of the provider relief fund and the impact of the pandemic on City of Hope’s operating results through September 30, 2021, City of Hope has attested to meeting the applicable terms and conditions required to retain all provider relief funds received as of September 30, 2021. As such, the table below sets forth a summary of the provider relief funds received and expended as of September 30:

Provider relief funds deferred as of September 30, 2019	\$	–
Provider relief funds received		29,187
Revenue recognized as a result of satisfaction of terms and conditions		<u>(23,639)</u>
Provider relief funds deferred as of September 30, 2020		5,548
Provider relief funds received		18,784
Revenue recognized as a result of satisfaction of terms and conditions		<u>(24,332)</u>
Provider relief funds deferred as of September 30, 2021	\$	<u>–</u>

City of Hope will continue to monitor the terms and conditions of the CARES Act funding and the impact of COVID-19 on revenues and expenses. If City of Hope is unable to comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

The Centers for Medicare & Medicaid Services (“CMS”) expanded its Accelerated and Advance Payment Program to provide financial relief to Medicare providers that treat patients during the pandemic. The expansion of this program is limited to the duration of the pandemic and provides City of Hope with advance funding for future Medicare claims. As of September 30, 2021, City of Hope has received \$151,718 in advance payments. During the fiscal year ended September 30, 2021, City of Hope applied \$49,314 toward Medicare claims processed. The remaining balance of \$102,404 has been recorded as contract liabilities pending future Medicare claim submissions on the consolidated statement of financial position as of September 30, 2021. As of October 1, 2020, the terms and conditions have been revised whereby recoupment is extended to 29 months from the date of receipt, at which time the remaining unpaid amounts are subject to interest of 4%.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

18. COVID-19 Pandemic (continued)

City of Hope took advantage of the payroll tax deferral of the employer's share of Social Security tax, offered as a part of the COVID-19 relief program. This represented 6.2% of wages up to the current social security wage base (\$138 in 2020). The deferral is in effect for employer payroll taxes incurred between March 27, 2020 (the date of the enactment) and December 31, 2020. City of Hope is required to reimburse 50% of this deferral amount by December 31, 2021; the remaining 50% is due by December 31, 2022. This deferral provides additional current liquidity to City of Hope. As of September 30, 2021 and 2020, City of Hope has deferred \$25,882 (50%, or \$12,941, is shown in other in the long-term portion of total liabilities on the accompanying consolidated statements of financial position) and \$17,300, respectively, of payroll taxes that are recorded as accrued salaries, wages, and employee benefits on the accompanying consolidated statements of financial position.

City of Hope began experiencing gradual improvement in patient volumes in May and June 2021; at the same time, the delta variant of the coronavirus started to arise. States eased stay-at-home restrictions and announced plans to resume delayed health care services that could be deferred while City of Hope prepared for the COVID-19 surge. COVID-19 could still negatively affect the operations and financial results of City of Hope as the pandemic continues and variants emerge, and the duration and extent of its impact are unknown.

19. Sale of Subsidiary

In February 2021, TGen entered into an agreement with Exact Sciences to sell Ashion Analytics, LLC ("Ashion Analytics"), through its wholly owned subsidiary PMED Management, LLC for the purpose of accelerating worldwide patient care and precision medicine through sales channels and distribution networks. Regulatory approval was received and the sale was finalized in April 2021. TGen received gross proceeds of \$87,310 comprising cash of \$72,000 and 125,444 common stock shares of Exact Sciences with a fair value on the acquisition date of the stock of \$15,310. TGen recorded a gain on the sale of Ashion Analytics of \$77,327, which is included on the accompanying consolidated statement of activities for the fiscal year ended September 30, 2021.

Additional contingent consideration totaling \$50,000 will be paid upon the achievement of specific commercial launch and cumulative revenue milestones, as defined in the agreement. The commercial launch milestone was evaluated as a derivative under ASC 815, *Derivatives and Hedging*, with no value recorded as of September 30, 2021, due to qualitative factors outside of TGen's control.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

20. Subsequent Events

On November 29, 2021, COH HoldCo Inc. (“HoldCo”), a nonprofit Delaware corporation of which City of Hope is the sole corporate member, entered into definitive agreements (“the Agreements”) providing for the acquisition of the Cancer Treatment Centers of America Global, Inc. (“CTCA”) and additional companies affiliated with the CTCA enterprise, as well as certain intellectual property rights used or held for use in the operation of CTCA and the additional affiliated companies (collectively, “the Acquisition”). As a result of the Acquisition, new hospital campuses will be added to the City of Hope system in the Atlanta, Chicago and Phoenix metropolitan areas. Pursuant to the Agreements, HoldCo will purchase the Acquisition for \$390,000, subject to certain customary adjustments. HoldCo intends to finance the Acquisition with the proceeds of a loan from a commercial bank, which loan will be guaranteed by the Obligated Group. The Acquisition is expected to close during the second quarter of fiscal year ended September 30, 2022, subject to certain regulatory approvals.

This transaction will be accounted for as a business combination in accordance ASC 958-805, *Not-for-Profit Entities Business Combinations*. The purchase price will be allocated based on the fair values of the assets acquired and liabilities assumed on the date the Acquisition is closed.

City of Hope has evaluated events occurring between September 30, 2021 and December 20, 2021, the date these consolidated financial statements were issued.

Supplementary Information

City of Hope

Consolidating Statements of Financial Position (In Thousands)

September 30, 2021 and 2020

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2021	Consolidated 2020
Assets					
Current assets:					
Cash and cash equivalents	\$ 94,077	\$ 167,956	\$ —	\$ 262,033	\$ 727,366
Investments	2,166,955	—	—	2,166,955	2,032,681
Self-insurance trust funds	3,608	—	—	3,608	4,367
Patient accounts receivable	313,188	—	—	313,188	257,368
Due from affiliates	18,371	9,478	(27,849)	—	—
Grants and other receivables	155,463	6,582	—	162,045	156,163
Donor-restricted unconditional promises to give, net	37,202	957	—	38,159	47,557
Prepaid and other	71,485	2,750	—	74,235	67,263
Total current assets	2,860,349	187,723	(27,849)	3,020,223	3,292,765
Property and equipment, net	1,388,537	23,754	—	1,412,291	1,149,403
Right-of-use finance lease assets	10,529	39,460	—	49,989	56,890
Right-of-use operating lease assets	143,175	8,139	—	151,314	109,818
Other assets:					
Investments held for long-term purposes	38,904	(154)	—	38,750	39,528
Board-designated assets	1,229,844	—	—	1,229,844	957,138
Bond trust funds	245,730	—	—	245,730	350,481
With donor restrictions:					
Investments	652,602	29,981	—	682,583	572,734
Unconditional promises to give, net	92,984	3,344	—	96,328	67,891
Contributions receivable from annuity and split-interest agreements, net	114,662	—	—	114,662	15,128
Other	9,655	—	—	9,655	3,477
Intangible assets	1,489	8,938	—	10,427	9,548
Goodwill	46,739	41,347	—	88,086	47,254
Other long-term assets	178,851	1,639	(111,159)	69,331	63,233
Total other assets	2,611,460	85,095	(111,159)	2,585,396	2,126,412
Total assets	\$ 7,014,050	\$ 344,171	\$ (139,008)	\$ 7,219,213	\$ 6,735,288

City of Hope

Consolidating Statements of Financial Position (continued) (In Thousands)

September 30, 2021 and 2020

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2021	Consolidated 2020
Liabilities and net assets					
Current liabilities:					
Accounts payable and other accrued liabilities	\$ 297,792	\$ 19,481	\$ –	\$ 317,273	\$ 224,419
Accrued salaries, wages, and employee benefits	137,660	11,411	–	149,071	161,502
Long-term debt, current portion	6,840	100	–	6,940	7,240
Right-of-use finance leases, current portion	5,363	1,975	–	7,338	7,243
Right-of-use operating leases, current portion	17,030	2,450	–	19,480	14,066
Line of credit	–	–	–	–	450,000
Due to third-party payors	12,436	–	–	12,436	6,143
Contract liabilities	114,657	4,160	–	118,817	114,349
Due to affiliates	9,478	18,371	(27,849)	–	–
Total current liabilities	601,256	57,948	(27,849)	631,355	984,962
Long-term debt, net of current portion	1,288,386	7,000	–	1,295,386	1,300,714
Right-of-use finance leases, net of current portion	14,085	36,438	–	50,523	57,375
Right-of-use operating leases, net of current portion	137,782	5,922	–	143,704	104,892
Annuity and split-interest agreement obligations	27,707	–	–	27,707	19,849
Interest rate swap	19,497	–	–	19,497	30,379
Other	80,823	1,518	–	82,341	56,095
Total liabilities	2,169,536	108,826	(27,849)	2,250,513	2,554,266
Net assets:					
Without donor restrictions:					
Controlling interests	3,964,659	172,774	(111,159)	4,026,274	3,465,438
Noncontrolling interests	–	29,621	–	29,621	30,584
With donor restrictions	879,855	32,950	–	912,805	685,000
Total net assets	4,844,514	235,345	(111,159)	4,968,700	4,181,022
Total liabilities and net assets	\$ 7,014,050	\$ 344,171	\$ (139,008)	\$ 7,219,213	\$ 6,735,288

City of Hope

Consolidating Statements of Activities (In Thousands)

Years Ended September 30, 2021 and 2020

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2021	Consolidated 2020
Revenues, gains, and other support:					
Net patient service revenues	\$ 1,837,419	\$ –	\$ –	\$ 1,837,419	\$ 1,707,268
Research grants, contracts, and clinical trials	156,518	26,949	–	183,467	170,549
Contributions	263,086	24,233	(11,407)	275,912	196,400
Investment income	317,466	(9,352)	–	308,114	71,828
Net unrealized gain on investments	439,940	196	–	440,136	118,795
Royalty and licensing revenue	64,174	50,073	–	114,247	165,523
Gain on sale of subsidiary	–	77,327	–	77,327	–
Other revenue	83,805	45,107	(27,559)	101,353	87,150
Total revenues, gains, and other support	3,162,408	214,533	(38,966)	3,337,975	2,517,513
Expenses:					
Salaries, wages, and employee benefits	950,510	67,081	–	1,017,591	939,720
Purchased services and professional fees	548,197	31,588	(28,526)	551,259	501,803
Supplies and pharmaceuticals	587,961	16,470	–	604,431	536,916
Royalty sharing	20,335	16,271	–	36,606	51,417
Interest, including changes in fair value of swap agreements	30,400	1,913	–	32,313	52,463
Depreciation and amortization	134,849	18,550	–	153,399	143,146
Hospital provider fee	26,493	–	–	26,493	31,442
Other expense	116,447	11,758	–	128,205	100,127
Total expenses	2,415,192	163,631	(28,526)	2,550,297	2,357,034
Excess of revenues, gains, and other support over expenses					
	747,216	50,902	(10,440)	787,678	160,479
Distributions (to) from affiliates	(6,723)	(4,684)	11,407	–	–
Changes in net assets	740,493	46,218	967	787,678	160,479
Net assets, beginning of year					
	4,104,021	189,127	(112,126)	4,181,022	4,020,543
Net assets, end of year					
	\$ 4,844,514	\$ 235,345	\$ (111,159)	\$ 4,968,700	\$ 4,181,022

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