

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

City of Hope
Years Ended September 30, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



City of Hope

Consolidated Financial Statements and
Supplementary Information

Years Ended September 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
City of Hope

Opinion

We have audited the consolidated financial statements of City of Hope, which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of City of Hope at September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Hope and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Hope’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Hope's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Hope's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 the 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 16, 2022

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 232,284	\$ 262,033
Investments	1,555,739	2,166,955
Self-insurance trust funds	3,959	3,608
Patient accounts receivable	464,078	319,133
Grants and other receivables	174,032	156,100
Current portion of donor-restricted unconditional promises to give, net	48,209	38,159
Prepaid and other	117,059	74,235
Total current assets	<u>2,595,360</u>	<u>3,020,223</u>
Property and equipment, net	2,052,723	1,412,291
Right-of-use finance lease assets	46,363	49,989
Right-of-use operating lease assets	188,390	151,314
Other assets:		
Investments held for long-term purposes	18,892	38,750
Board-designated assets	1,050,182	1,229,844
Bond trust funds	160,785	245,730
With donor restrictions:		
Investments	667,392	682,583
Unconditional promises to give, net	145,100	96,328
Contributions receivable from annuity and split-interest agreements, net	106,867	114,662
Other	20,321	9,655
Intangible assets	22,528	10,427
Goodwill	77,426	88,086
Other long-term assets	76,899	69,331
Total other assets	<u>2,346,392</u>	<u>2,585,396</u>
Total assets	<u><u>\$ 7,229,228</u></u>	<u><u>\$ 7,219,213</u></u>

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2022	2021
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 470,537	\$ 317,273
Accrued salaries, wages, and employee benefits	150,601	149,071
Long-term debt, current portion	7,190	6,940
Right-of-use finance leases, current portion	8,375	7,338
Right-of-use operating leases, current portion	27,541	19,480
Due to third-party payors	42,620	12,436
Contract liabilities	15,526	118,817
Total current liabilities	<u>722,390</u>	<u>631,355</u>
Long-term debt, net of current portion	1,934,846	1,295,386
Right-of-use finance leases, net of current portion	45,808	50,523
Right-of-use operating leases, net of current portion	163,381	143,704
Annuity and split-interest agreement obligations	27,854	27,707
Interest rate swaps	2,232	19,497
Other	69,352	82,341
Total liabilities	<u>2,965,863</u>	<u>2,250,513</u>
Net assets:		
Without donor restrictions:		
Controlling interests	3,276,446	4,026,274
Noncontrolling interests	29,277	29,621
With donor restrictions	957,642	912,805
Total net assets	<u>4,263,365</u>	<u>4,968,700</u>
Total liabilities and net assets	<u><u>\$ 7,229,228</u></u>	<u><u>\$ 7,219,213</u></u>

See accompanying notes.

City of Hope

Consolidated Statement of Activities

(In Thousands)

Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Net patient service revenues	\$ 2,925,453	\$ –	\$ 2,925,453
Research grants, contracts, and clinical trials	215,970	–	215,970
Contributions	55,778	176,209	231,987
Investment income	199,860	41,822	241,682
Net unrealized loss on investments	(576,869)	(74,357)	(651,226)
Royalty and licensing revenue	19,916	–	19,916
Other revenue	80,815	–	80,815
Total revenues, gains, and other support	2,920,923	143,674	3,064,597
Net assets released from restrictions	98,837	(98,837)	–
Total revenues, gains, and other support	3,019,760	44,837	3,064,597
Expenses:			
Salaries, wages, and employee benefits	1,360,040	–	1,360,040
Purchased services and professional fees	778,420	–	778,420
Supplies and pharmaceuticals	1,102,522	–	1,102,522
Royalty sharing	6,416	–	6,416
Interest, including changes in fair value of swap agreements	15,832	–	15,832
Depreciation and amortization	194,770	–	194,770
Hospital provider fee	37,730	–	37,730
Other expense	272,740	–	272,740
Total expenses	3,768,470	–	3,768,470
(Deficiency) excess of revenues, gains, and other support over expenses	(748,710)	44,837	(703,873)
Distribution to non controlling interest	(1,462)	–	(1,462)
Changes in net assets	(750,172)	44,837	(705,335)
Net assets, beginning of year	4,055,895	912,805	4,968,700
Net assets, end of year	\$ 3,305,723	\$ 957,642	\$ 4,263,365

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	\$ 1,851,375	\$ –	\$ 1,851,375
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	87,132	265	87,397
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 Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2022	2021
Operating activities		
Changes in net assets	\$ (705,335)	\$ 787,678
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	180,724	146,105
Amortization of goodwill and other intangibles	14,046	7,294
Amortization of bond costs, discount, and premium	(2,940)	(2,990)
Amortization of right-of-use operating lease assets	25,974	15,286
Distribution to noncontrolling interest	1,462	-
Net unrealized loss (gain) on investments	651,226	(440,136)
Change in value of interest rate swaps	(34,416)	(10,882)
Contribution proceeds restricted for endowment	(29,105)	(15,608)
Gain on sale of subsidiary	-	(77,327)
Other	-	656
Changes in assets and liabilities:		
Patient accounts receivable	(24,727)	(61,765)
Grants and other receivables	(8,125)	(1,714)
Unconditional promises to give, net	(58,822)	(19,039)
Contributions receivable from annuity and split-interest agreements, net	7,795	(99,534)
Other assets	(10,722)	(14,894)
Accounts payable and other accrued liabilities	63,229	51,202
Accrued salaries, wages, and employee benefits	(14,388)	(12,431)
Annuity and split-interest agreement obligations	147	7,858
Operating lease liabilities	(26,657)	(12,556)
Other liabilities	(140,540)	37,008
Net cash (used in) provided by operating activities before net sales of trading investments	(111,174)	284,211
Net sales of trading investments	629,881	285,756
Net cash provided by operating activities	518,707	569,967
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
Acquisition of business, net of cash acquired	(343,970)	-
(Increase) decrease in notes receivable	(633)	690
Additions to property and equipment	(493,286)	(365,879)
Proceeds from sale of contributed real property held for sale	47	240
Net purchases of alternative investments	(305,530)	(233,719)
Net cash used in investing activities	(1,143,372)	(571,654)

City of Hope

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	Year Ended September 30	
	2022	2021
Financing activities		
Repayments of line of credit	\$ -	\$ (450,000)
Proceeds from long-term debt borrowing, net	650,000	4,500
Issuance cost for Bridge Loan	(821)	-
Principal payments on long-term debt	(6,840)	(7,143)
Principal payments on finance leases	(10,009)	(7,363)
Distribution to noncontrolling interest	(1,462)	-
Contribution proceeds restricted for endowment	29,105	15,608
Net cash provided by (used in) financing activities	659,973	(444,398)
Net increase (decrease) in cash, cash equivalents, and restricted cash	35,306	(446,085)
Cash, cash equivalents, and restricted cash beginning of year	325,763	771,848
Cash, cash equivalents, and restricted cash end of year	\$ 361,069	\$ 325,763
Supplemental disclosure of cash flow information		
Interest paid during the year (net of capitalized interest)	\$ 52,377	\$ 41,909
Supplemental disclosure of noncash activity		
Finance lease obligation	\$ 4,303	\$ 610
Operating lease obligation	\$ 51,691	\$ 56,782
Noncash stock received	\$ -	\$ 15,310
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 76,375	\$ 76,433

See accompanying notes.

City of Hope

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

September 30, 2022

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”), and 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”), City of Hope Auxiliaries (the “Auxiliaries”) and COH HoldCo Inc. (“HoldCo”), the parent of Cancer Treatment Centers of America entities (“CTCA Entities”) (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 234 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. City of Hope consolidates SCRO, due to the Foundation's ability to exercise control as the result of its majority voting interest.

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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

1. Organization (continued)

During the fiscal year ended September 30, 2022, the Auxiliaries, located throughout the United States, as nonprofit public benefit unincorporated associations that coordinate fundraising activities to support the mission of City of Hope, ceased operating as organizations separate from City of Hope. Those revenues (\$23,900 and \$16,500 during fiscal years ended September 30, 2022 and 2021, respectively) are now reported as City of Hope's revenues and are included within the Obligated Group. This classification change has no impact at the consolidated City of Hope level.

HoldCo, a nonprofit Delaware corporation of which City of Hope is the sole corporate member, consolidates the CTCA Entities which were acquired on February 1, 2022. See Note 3, Business Combinations, for further details. HoldCo is the parent organization of the CTCA Entities and supports the activities of three hospitals, located in Arizona, Georgia, and Illinois, that provide comprehensive cancer care to patients, together with the associated physician groups, outpatient clinics, and intellectual property.

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. In the consolidated statement of activities, \$13,956 of specialty pharmacy revenue earned in fiscal year 2021 related to the Foundation was reclassified from other revenue to net patient service revenues. Further, in the consolidated statement of financial position, \$5,945 of accounts receivable related to specialty pharmacy for the Foundation as of September 30, 2021 was reclassified from grants and other receivables to patient accounts receivable.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies

New Accounting Standards Adopted

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 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. The ASU was adopted by City of Hope using the prospective transition method for the fiscal year ended September 30, 2022 with an immaterial impact 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 Nonfinancial 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, 2021. City of Hope adopted this ASU effective for the fiscal year ended September 30, 2022, using the retrospective transition method, with no impact to its consolidated financial statements for the years presented.

New Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*, to provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of LIBOR or by another reference rate expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01 to clarify the scope and application of the original guidance. City of Hope plans to adopt ASU 2020-04 and ASU 2021-01 when LIBOR is discontinued. City of Hope is currently evaluating the potential impact of adopting this guidance 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 October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. ASU 2021-08 requires that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, *Revenue from Contracts with Customers*. The ASU aligns the business combination accounting with the subsequent accounting for contract assets and liabilities under Accounting Standards Codification (“ASC”) 606. The amendments are effective for fiscal years beginning after December 15, 2023 and applied prospectively. City of Hope is evaluating the effect of this standard on its 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 payors; valuation of annuity and split-interest agreement obligations; fair value of interest rate swap agreements; fair value of treasury rate locks; 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 bond trust funds and represent funds set aside based on contractual arrangements.

Cash and cash equivalents, including restricted cash, that are held as a component of donor-restricted assets are reflected in 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 232,284	\$ 262,033
Restricted cash in bond trust funds	128,785	63,730
Total cash, cash equivalents, and restricted cash	<u>\$ 361,069</u>	<u>\$ 325,763</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, Fair Value of Financial Instruments). 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 (deficiency) 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>2022</u>	<u>2021</u>
Private equity	\$ 302,200	\$ 357,100
Private real assets:		
Real estate	184,200	195,300
Natural resources	15,200	20,800
Total unfunded commitments	<u>\$ 501,600</u>	<u>\$ 573,200</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.

During the fiscal year ended September 30, 2022, City of Hope executed three treasury rate lock agreements on March 2, 2022, March 15, 2022, and April 12, 2022, with an aggregate notional amount of \$261,000 to lock in the underlying U.S. Treasury interest rate component of the interest rate payments on anticipated debt issuances. These treasury lock agreements have an average fixed rate of 2.56% and are scheduled to terminate on November 10, 2022. As of September 30, 2022, the fair value of the treasury rate locks were \$49,418 (see Note 4, Fair Value of Financial Instruments), and included within current assets, investments on the accompanying consolidated statements of financial position. The treasury rate locks were not hedged, so the changes in fair value are recorded within net unrealized gain or loss on investments in the accompanying consolidated statements of activities. The treasury rate locks were subsequently terminated as scheduled (see Note 20, Subsequent Events).

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 Medicaid, privately sponsored contracted plans (including commercial, Medicare Advantage, and Medicaid 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. There are no 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.

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 receiving inpatient care services in the Center and the CTCA Entities and the performance obligation is measured 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 is 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.

Medicare and Medicaid reimburses the Center and the CTCA Entities for cost-reimbursable items at an interim rate, and final settlements are determined after an audit of the related annual cost reports by the Medicare and Medicaid 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 the fiscal years ended September 30, 2022 and 2021, the Center received information requiring changes in its estimates of settlements due for certain open cost report years and appeals. The Center recorded increases to net patient service revenues totaling \$16,542 and \$6,520 for the fiscal years ended September 30, 2022 and 2021, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Hospital Fee Programs

The state of California enacted legislation for a hospital fee program to fund certain Medicaid coverage expansions. The program charges hospitals a quality assurance fee that is used to obtain federal matching funds for Medicaid with the proceeds redistributed as supplemental payments to California hospitals that treat Medicaid patients. There were two programs with activity for the fiscal years ended September 30, 2022 and 2021: (1) a 30-month hospital fee program covering the periods from July 1, 2019 through December 31, 2021, and (2) a 12-month hospital fee program covering the periods from January 1, 2022 through December 31, 2022.

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 recognized net patient service revenue and hospital program expenses associated with the Hospital Assessment Program (HAP) for the State of Illinois.

City of Hope recognized \$91,722 and \$87,185 in net patient service revenues related to the hospital fee programs on the accompanying consolidated statements of activities for the fiscal years ended September 30, 2022 and 2021, respectively. Additionally, City of Hope recognized \$37,730 and \$26,493 in expenses related to the hospital fee programs for the fiscal years ended September 30, 2022 and 2021, respectively, which has been reflected in hospital provider fee expense on the accompanying consolidated statements of activities.

As of September 30, 2022 and 2021, \$71,395 and \$48,737 of hospital fee programs receivables is included in grants and other receivables, respectively, and \$30,426 and \$19,936 of hospital fee programs payables is included in accounts payable and other accrued liabilities, respectively, on the accompanying consolidated statements of financial position.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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	3 to 15 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, Leases).

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, 2022 and 2021, 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 \$68,886 and \$63,589 in 2022 and 2021, 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, 2022 and 2021, capitalized interest income of \$9,732 and \$4,878, respectively, was earned on the 2019 bonds. Capitalized interest expense incurred during the same years was \$18,637 and \$20,394, respectively.

City of Hope

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

2. Summary of Significant Accounting Policies (continued)

Intangible Assets and Goodwill

Intangible assets consist of the following as of September 30:

	2022			Estimated Useful Life (in Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Intangible assets subject to amortization:				
Tradename	\$ 24,626	\$ (10,542)	\$ 14,084	2 to 7
Noncompete agreement	188	(110)	78	2
Electronic medical records	2,280	(2,280)	–	10
Favorable leasehold interests	1,280	(747)	533	8
Intellectual property and research and development costs related to TARDIS	4,600	(767)	3,833	10
Total intangible assets subject to amortization	<u>32,974</u>	<u>(14,446)</u>	<u>18,528</u>	
Intangible assets not subject to amortization:				
Tradename	4,000	–	4,000	Indefinite
Total intangible assets not subject to amortization	<u>4,000</u>	<u>–</u>	<u>4,000</u>	
	<u>\$ 36,974</u>	<u>\$ (14,446)</u>	<u>\$ 22,528</u>	
	2021			Estimated Useful Life (in Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Intangible assets subject to amortization:				
Tradename	\$ 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:				
Tradename	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)

Under ASC 350, *Intangibles – Goodwill and Other* (“ASU Topic 350”), goodwill and these intangibles are subject to an impairment assessment when significant indicators of impairment exist. There was no indication of an impairment in value for goodwill or intangibles as of September 30, 2022.

City of Hope recorded \$3,386 and \$594 of amortization expense for intangible assets and \$113 and \$151 in rent expense for favorable leasehold interests during the fiscal years ended September 30, 2022 and 2021, 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.

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, 2022 and 2021 was \$29,173 and \$18,513, respectively.

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

	<u>2022</u>	<u>2021</u>
Balance, beginning of fiscal year	\$ 88,086	\$ 47,254
Acquisitions (see Note 3, Business Combinations)	–	47,532
Amortization	<u>(10,660)</u>	<u>(6,700)</u>
Balance, end of fiscal year	<u>\$ 77,426</u>	<u>\$ 88,086</u>

City of Hope

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

2. Summary of Significant Accounting Policies (continued)

Future amortization of intangible assets subject to amortization for subsequent fiscal years is reflected below:

	Goodwill	Intangible Assets
2023	\$ 10,660	\$ 4,421
2024	10,660	3,661
2025	10,660	3,658
2026	10,660	3,658
2027	10,660	1,278
Thereafter	24,126	1,852
	<u>\$ 77,426</u>	<u>\$ 18,528</u>

Contract Liabilities

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:

	2022	2021
Fundraising events and other activities	\$ 3,486	\$ 3,446
Donor-restricted conditional contributions	1,032	749
Grants revenue	11,008	12,218
Accelerated and advance payment funds (see Note 18, COVID-19 Pandemic)	–	102,404
Total contract liabilities	<u>\$ 15,526</u>	<u>\$ 118,817</u>

For the fiscal years ended September 30, 2022 and 2021, \$15,025 and \$24,053, respectively, was recognized in revenue from contract liabilities.

City of Hope

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

2. Summary of Significant Accounting Policies (continued)

Net Assets Without Donor Restrictions

A rollforward of controlling interests and noncontrolling interests net assets without donor restrictions for the fiscal years ended September 30, 2022 and 2021 is as follows:

	Controlling Interests	Noncontrolling Interests	Total
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
Deficiency of revenues, gains, and other support over expenses	(749,828)	1,118	(748,710)
Distribution to noncontrolling interest	–	(1,462)	(1,462)
Balance as of September 30, 2022	\$ 3,276,446	\$ 29,277	\$ 3,305,723

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

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

Contributions

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, 2022 and 2021, valid will and trust agreement amounts that became measurable totaled \$35,391 and \$39,904, 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.

The net unconditional promises to give that are greater than one year reported in the accompanying consolidated statements of financial position consist of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Unconditional promises to give	\$ 217,293	\$ 152,995
Less:		
Discounts	(11,424)	(5,967)
Allowance for uncollectible promises to give	(12,560)	(12,541)
Total unconditional promises to give, net	<u>193,309</u>	<u>134,487</u>
Less current portion	(48,209)	(38,159)
	<u>\$ 145,100</u>	<u>\$ 96,328</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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, 2022 and 2021 were between 1.11% to 3.64% and 0.34% to 1.11%, 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, 2022, future cash flows anticipated for subsequent fiscal years from unconditional promises to give are as follows:

2023	\$ 48,209
2024	32,801
2025	31,873
2026	24,619
2027	26,982
Thereafter	<u>52,809</u>
	217,293
Discounts	(11,424)
Allowance for uncollectible promises to give	<u>(12,560)</u>
	<u>\$ 193,309</u>

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.

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 the fiscal year ended September 30, 2021 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 and, accordingly, all contribution revenue has been recognized.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 \$1,032 and \$749 as of September 30, 2022 and 2021, respectively. These amounts are included within contract liabilities 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 \$626 and \$682 as of September 30, 2022 and 2021, respectively. Additionally, City of Hope has voluntary reserves in the amount of \$5,188 and \$9,821 as of September 30, 2022 and 2021, 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 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 \$106,867 as of September 30, 2022 are to be collected over the next 45 years and have an average remaining life of 15.1 years. For the fiscal year ended September 30, 2021,

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

\$95,014 was recognized as contribution revenue related to split-interest agreements. There was no contribution revenue related to split-interest agreement recognized for the fiscal year ended September 30, 2022.

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, 2022 and 2021, City of Hope recognized licensing and royalty revenue totaling \$19,916 and \$114,247, respectively. In 2021, the licensing revenue was primarily from TGen's proprietary TARDIS blood biopsy technology. No additional revenue was received for TARDIS for the fiscal year ended September 30, 2022. In addition, royalties were generated from sales of drugs from Genentech using technology developed at the Institute and covered by the Cabilly patents.

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 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, 2022, no milestones have been achieved and, therefore, no milestone revenue has been recorded.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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, 2022. 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”). Accordingly, City of Hope’s royalty revenue and royalty sharing expense are reported on an accrual basis to match the period of related sales that generates the royalties.

Royalty and Licensing Revenue

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.

As of September 30, 2022, Holdco is exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Prior to Holdco’s conversion to a tax exempt organization, the entity was treated as a C-corporation for federal and state income tax purposes.

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, 2022 or 2021.

Derivative and Hedging Instruments

City of Hope recognizes all derivatives at fair value on the consolidated statements of financial position. The derivative instruments include interest swaps and treasury rate locks (see Note 4, Fair Value of Financial Instruments).

3. Business Combinations

Acquisition of the CTCA Entities

On February 1, 2022, HoldCo, a nonprofit Delaware corporation of which City of Hope is the sole corporate member, acquired 100% of the outstanding shares and voting interest of the CTCA Entities. The CTCA Entities are a network of cancer treatment facilities in the Atlanta, Chicago, and Phoenix metropolitan areas. The primary reason for the business combination was to expand access to world-class research and cancer care to patients nationally.

City of Hope accounted for the transaction as a business combination in accordance with ASC 958-805, *Not-for-Profit Entities: Business Combinations*, and recorded the assets acquired and liabilities assumed at fair value. The amount, if any, by which the purchase price exceeded the fair value of the net assets acquired was recorded as goodwill. City of Hope utilized market-based and cost-based valuation approaches to perform the purchase price allocation.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

3. Business Combinations (continued)

No goodwill was recognized for the acquisition of the CTCA Entities, as the aggregate of consideration transferred equaled the acquisition date fair value of the net identifiable assets acquired:

Total cash consideration transferred	\$ 364,372
Net identifiable assets acquired at fair value	364,372

The following table summarizes the acquisition date fair value of the assets acquired and liabilities assumed using Level 3 inputs (refer to Note 4, Fair Value of Financial Instruments), which City of Hope recognized upon completing the transaction:

Identifiable assets:	
Cash and cash equivalents	\$ 20,402
Patient account receivable	120,218
Due from affiliates	473
Due from third-party payors	1,657
Grants and other receivables	9,807
Inventory	18,827
Prepaid and other	24,138
Property and equipment	320,787
Right-of-use operating lease assets	7,246
Intangible assets	15,600
Other long-term assets	90
Total identifiable assets	539,245
Liabilities assumed:	
Accounts payable and other accrued liabilities	89,738
Accrued salaries, wages, employee benefits	15,917
Contract liabilities	22,450
Due to affiliates	813
Due to related parties	2,731
Right-of-use operating leases, current portion	3,264
Due to third-party payors	32,892
Right-of-use operating leases, net of current portion	3,982
Other long-term liabilities	3,086
Total liabilities assumed	174,873
Net identifiable assets	\$ 364,372

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

3. Business Combinations (continued)

The intangible asset acquired in connection with the acquisition represents the tradename. The weighted-average amortization period for the acquired tradename was five years.

The following summarizes the financial results of the CTCA Entities included in the accompanying consolidated financial statements from the date of the acquisition through September 30, 2022:

Revenues, gains and other support	\$ 537,121
Changes in net assets without donor restrictions	(96,763)
Changes in net assets with donor restrictions	—

Supplemental Unaudited Pro Forma Information

The unaudited pro forma information presented below is for illustrative purposes only and does not purport to be indicative of the results of future operations or the results that would have occurred had City of Hope completed the acquisition on October 1, 2020.

The unaudited pro forma results for the years ended September 30, 2022 and 2021 include the historical results of the CTCA Entities for the four-month period ended January 31, 2022 and for the year ended September 30, 2021 prior to the acquisition, respectively. The unaudited pro forma results include pro forma adjustments related to nonrecurring transaction and integration costs, depreciation on acquired property and equipment, amortization of intangible assets at the date of the acquisition, accounting policy alignment for ASC 842, *Leases*, and interest expense associated with financing the transaction, as though the acquisition was completed on October 1, 2020. Below presents the unaudited pro forma results for the fiscal years ended September 30:

	2022		2021	
	Actual	Pro Forma (a)	Actual	Pro Forma (a)
Revenues, gains, and other support	\$ 3,064,597	\$ 3,334,917	\$ 3,337,975	\$ 4,169,033
Expenses	3,768,470	3,998,275	2,550,297	3,579,044
Changes in net assets without donor restrictions	(750,172)	(709,656)	559,873	362,184
Changes in net assets with donor restrictions	44,837	44,837	227,805	227,805

(a) Includes a pro forma adjustment for transaction and integration costs of approximately \$80,000 incurred during the fiscal year ended September 30, 2022, which is primarily related to advisory professional services provided by third parties. The pro forma adjustment moves the transaction and integration costs from fiscal year 2022 to fiscal year 2021, as though the acquisition had occurred as of the beginning of fiscal year 2021.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

3. Business Combinations (continued)

Acquisition of the Practice

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.

The table below presents the consideration paid for the Practice and the acquisition date fair value of the net identifiable assets acquired:

Cash consideration transferred	<u>\$ 57,102</u>
Net identifiable assets:	
Inventory	\$ 6,813
Property and equipment	1,088
Other assets	45
Noncompete agreement	188
Tradenname	1,436
Goodwill	<u>47,532</u>
Total net identifiable assets	<u>\$ 57,102</u>

The weighted average amortization period upon acquisition for the noncompete agreement, tradenname 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

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 treasury rate locks, 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.

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).

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

4. Fair Value of Financial Instruments (continued)

- (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 the floating-rate debt. City of Hope entered into treasury rate locks within the fiscal year September 30, 2022, as part of its investment strategy. 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 treasury rate locks are determined using comparable market transactions. 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'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:

City of Hope

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

4. Fair Value of Financial Instruments (continued)

2022	Investments at Fair Value				Investments at Net Asset Value	Total	Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Fair Value			
Investments							
U.S. Government and agency obligations	\$ -	\$ 11,266	\$ -	\$ 11,266	\$ -	\$ 11,266	a, b
Corporate obligations	-	510	-	510	-	510	a, b
Marketable securities	918,277	-	-	918,277	-	918,277	a
Public real assets	11	-	-	11	-	11	a
Municipal obligations	-	886	-	886	-	886	a
Preferred stock	-	-	612	612	-	612	c
Hedge funds	-	-	-	-	409,733	409,733	
Equity commingled funds	-	-	-	-	974,710	974,710	
Private equity funds	-	-	-	-	592,900	592,900	
Private real assets	-	-	-	-	260,205	260,205	
Certificates of deposit	-	32,000	-	32,000	-	32,000	a, b
Cash equivalents	212,491	-	-	212,491	-	212,491	a
Treasury rate locks	-	49,418	-	49,418	-	49,418	a
Total investments	\$ 1,130,779	\$ 94,080	\$ 612	\$ 1,225,471	\$ 2,237,548	\$ 3,463,019	
Prepaid and other current assets							
Interest rate swaps	\$ -	\$ 8,579	\$ -	\$ 8,579	\$ -	\$ 8,579	
Other long-term assets							
Marketable securities	\$ 44,441	\$ -	\$ -	\$ 44,441	\$ -	\$ 44,441	a
Cash equivalents	\$ 539	\$ -	\$ -	\$ 539	\$ -	\$ 539	a
Interest rate swaps	\$ -	\$ 8,574	\$ -	\$ 8,574	\$ -	\$ 8,574	
Total investments, prepaid and other current assets, and other long-term assets	\$ 1,175,759	\$ 111,233	\$ 612	\$ 1,287,604	\$ 2,237,548	\$ 3,525,152	
Liabilities at fair value							
			Level 1	Level 2	Level 3	Total	
Annuity and split-interest obligations			\$ -	\$ -	\$ 27,854	\$ 27,854	c
Interest rate swaps			-	2,232	-	2,232	a, b
Total liabilities			\$ -	\$ 2,232	\$ 27,854	\$ 30,086	

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		Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Fair Value	Asset Value	Total	
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	

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 the fiscal years ended September 30, 2022 and 2021:

	Assets	Liabilities
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
Beginning balance as of September 30, 2021	612	27,707
Additions	–	3,875
Investment activity	–	359
Distributions	–	(1,516)
Change in fair value	–	(2,571)
Ending balance as of September 30, 2022	\$ 612	\$ 27,854

As of September 30, 2022, City of Hope has certain equity investments where it does not have significant influence. In accordance with ASC 321, *Investments – Equity Securities*, City of Hope has elected to measure at cost minus impairment as the investments in privately held companies did not have a readily determinable fair values given no observable transactions, and no impairment was recorded as of September 30, 2022.

City of Hope

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

4. Fair Value of Financial Instruments (continued)

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 232,284	\$ 262,033
Investments, current	1,555,739	2,166,955
Self-insurance trust funds	3,959	3,608
Investments held for long-term purposes	18,892	38,750
Board-designated assets	1,050,182	1,229,844
Bond trust funds	160,785	245,730
Donor-restricted investments	667,392	682,583
	<u>3,689,233</u>	<u>4,629,503</u>
Less investment at net asset value	(2,237,548)	(2,310,679)
Less amounts held in operating cash	(226,214)	(247,495)
Plus amounts in other long-term assets	53,554	47,489
Plus amounts in prepaid and other	8,579	—
Investments at fair value	<u>\$ 1,287,604</u>	<u>\$ 2,118,818</u>

5. Patient Accounts Receivable and Patient Service Revenues

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

	<u>2022</u>	<u>2021</u>
Medicare	23%	21%
Medicaid	4	6
Contracted plans (including commercial, Medicare Advantage, and Medicaid managed care)	68	70
Indemnity, self-pay, and other	5	3
	<u>100%</u>	<u>100%</u>

City of Hope

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

5. Patient Accounts Receivable and Patient Services Revenues (continued)

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

	2022	2021
Medicare	\$ 737,279	\$ 496,406
Medicaid	191,915	135,134
Contracted plans (including commercial, Medicare Advantage, and Medicaid managed care)	1,925,593	1,206,636
Indemnity, self-pay, and other	70,666	13,199
Patient service revenues	\$ 2,925,453	\$ 1,851,375

6. Patient Charity Care

The Center, the Foundation, and the CTCA Entities 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, the Foundation and the CTCA Entities. 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 Medicaid patients who are not reimbursed by the Medicaid program have been included in the estimated cost of patient charity care. The Center, the Foundation and the CTCA Entities do not report charity care as net patient service revenue. The estimated cost for both patient charity care and Medicaid patients represents the total direct and indirect cost calculated at the medical procedure level and pertains specifically to the respective charity and Medicaid patient populations. Procedure-level cost includes the direct costs, such as labor and supplies, involved in providing the specific service, as well as an applicable allocation of departmental overhead (e.g., departmental management) and institutional overhead (e.g., administration, depreciation, and utilities).

The cost of charity care provided during the fiscal years ended September 30, 2022 and 2021 was \$25,726 and \$18,486, respectively. For the fiscal year ended September 30, 2022, \$6,313 related to the CTCA Entities. See Note 17, Community Benefit Expense (Unaudited), for additional disclosure related to benefits for the broader community and support of governmental health care programs (excluding the CTCA Entities).

City of Hope

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

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:

	2022	2021
Land	\$ 90,555	\$ 54,512
Buildings	1,334,745	858,741
Leasehold improvements	209,656	65,451
Equipment and furniture	911,389	706,927
Software	384,515	304,414
	2,930,860	1,990,045
Accumulated depreciation and amortization	(1,329,777)	(1,159,684)
	1,601,083	830,361
Construction-in-progress	451,640	581,930
Total property and equipment, net	\$ 2,052,723	\$ 1,412,291

Depreciation and amortization expense on property and equipment totaled \$172,812 and \$138,595 for the fiscal years ended September 30, 2022 and 2021, respectively.

8. Liquidity and Availability

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

	2022	2021
Cash and cash equivalents	\$ 232,284	\$ 262,033
Investments	1,555,739	2,166,955
Patient accounts receivable	464,078	319,133
Grants and other receivables	174,032	156,100
Board-designated assets	1,050,182	1,229,844
	\$ 3,476,315	\$ 4,134,065

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

8. Liquidity and Availability (continued)

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

On April 21, 2020, City of Hope entered into a 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. City of Hope repaid the outstanding balance of \$450,000 on February 24, 2021 and amended this agreement with three banking institutions on April 21, 2021 to extend the line of credit to April 20, 2022. Prior to expiration, City of Hope extended its syndicated unsecured revolving line of credit with four banking institutions with an additional term of three years (April 2025). As of September 30, 2022, City of Hope has not drawn on this line of credit. An unutilized fee of 0.275% or \$838, was assessed during the fiscal year ended September 30, 2022.

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.

City of Hope

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

8. Liquidity and Availability (continued)

As of September 30, 2022, the available amount on the standby letter of credit is \$15,000. 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, 2022, no amounts are outstanding on the standby letters of credit.

9. Long-Term Debt

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

	2022	2021
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)	\$ 187,795	\$ 194,635
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

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

9. Long-Term Debt (continued)

	2022	2021
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, 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)	7,000	7,100
Bridge Loan, variable rate interest due monthly and principal due on January 30, 2023	649,590	–
	1,894,650	1,252,000
Less current maturities of long-term debt	(7,190)	(6,940)
Less unamortized bond issue costs	(3,513)	(3,696)
Less unamortized discount	(6,007)	(6,307)
Plus unamortized premium	56,906	60,329
	\$ 1,934,846	\$ 1,295,386

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

Long-term debt maturities as of September 30, 2022, and payments for subsequent fiscal years are as follows:

2023	\$ 7,190
2024	664,150
2025	7,950
2026	10,870
2027	11,430
Thereafter	1,193,060
	<u>\$ 1,894,650</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. The Series 2012B and Series 2012C Bonds were subsequently refunded by the Series 2017 Bonds as further described below.

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 the 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

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.

Bridge Loan – On January 31, 2022, HoldCo entered into a \$650,000 bridge loan (the “Bridge Loan”): (1) to finance the purchase of the CTCA Entities; (2) to provide working capital; and (3) for general corporate purposes. The Bridge Loan matures on January 30, 2023 (see Note 20, Subsequent Events, regarding issuance of bonds to pay off the Bridge Loan). The Bridge Loan is guaranteed by the Obligated Group and is secured by an obligation issued under the Obligated Group’s Master Trust Indenture

Interest Rate Swap Transactions – The Obligated Group entered into two interest rate swap agreements, 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. The Series 2012B and Series 2012C Revenue Bonds were subsequently refunded by Series 2017 Revenue Notes; however, the related swap transactions remain in place as a hedge against the variable interest rate payments on the 2017 Bonds.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

9. Long-Term Debt (continued)

In February 2020, City of Hope entered into two forward-starting interest rate swap agreements with each having a notional amount of \$71,355 (total \$142,710) that became effective on November 15, 2022. These swaps were entered into in anticipation of a current refunding of a portion the Series 2012A Bonds. 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%, respectively, to its swap counterparties. On the effective date, the swap transactions are expected to produce positive cashflow payments to City of Hope. One of the swap agreements was subsequently terminated on its effective date (see Note 20, Subsequent Events).

For the fiscal years ended September 30, 2022 and 2021, the change in the fair value of the interest rate swaps resulted in an unrealized gain of \$34,416 and \$10,882, respectively (see Note 4, Fair Value of Financial Instruments). The swaps were included within long-term liability, prepaid and other, and other long term assets on the accompanying consolidated statements of financial position and 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. The effect of the counterparty payments and receipts on interest expense for the swaps was an increase of \$1,405 and \$1,713 for the fiscal years ended September 30, 2022 and 2021, 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, 2022.

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, 2022.

10. Endowment

City of Hope's endowment consists of 132 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

10. Endowment (continued)

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: (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) 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, 2022, twelve funds were deficient with an original gift value of \$14,822 that were deficient by \$1,436. As of September 30, 2021, no funds were deficient.

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 objectives 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)

Strategies and Endowment Payout

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, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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
Investment income	11,895	3,712	15,607
Net depreciation	(190,987)	(43,543)	(234,530)
Change in donor designation	–	6,493	6,493
Contributions	–	35,659	35,659
Appropriation for expenditures	(570)	(9,195)	(9,765)
Endowment net assets, September 30, 2022	\$ 1,050,182	\$ 340,137	\$ 1,390,319

11. Net Assets With Donor Restrictions

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

	2022	2021
Time restricted under annuity and split-interest obligations and other	\$ 323,022	\$ 263,378
Patient care	46,542	50,079
Education	32,341	36,975
Research	538,552	548,659
Medical equipment and buildings	17,185	13,714
Total net assets with donor restrictions	\$ 957,642	\$ 912,805

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:

	<u>2022</u>	<u>2021</u>
Time restricted under annuity and split-interest obligations and other	\$ 9,923	\$ 15,915
Patient care	3,168	4,190
Education	1,930	2,849
Research	83,461	85,805
Equipment and buildings	355	2,691
Total donor-restricted net assets released from restrictions	<u>\$ 98,837</u>	<u>\$ 111,450</u>

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 \$305 in 2022. 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 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 \$305 in 2022. The participants have the option to direct these contributions into various funds offered through the RSO TDA Plan. Further, the subsidiaries (TGen, SCRO and the CTCA Entities) have their respective defined contribution profit sharing plans provided to eligible employees with matching contributions subject to certain eligibility criteria as stated in the plan document. Contribution expense for the plans defined totaled \$43,734 and \$35,483 for the fiscal years ended September 30, 2022 and 2021, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

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.

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
2022						
Salaries, wages, and employee benefits	\$ 693,959	\$ 305,332	\$ 13,859	\$ 327,323	\$ 19,567	\$ 1,360,040
Purchased services and professional fees	335,450	156,298	17,173	255,099	14,400	778,420
Supplies and pharmaceuticals	993,877	77,530	856	21,840	8,419	1,102,522
Royalty sharing	7	6,409	-	-	-	6,416
Interest, including changes in fair value of swap agreements	11,281	1,951	173	2,427	-	15,832
Depreciation and amortization	100,074	43,297	1,329	49,559	511	194,770
Hospital provider fee	37,730	-	-	-	-	37,730
Other expense	83,007	59,059	15,852	109,185	5,637	272,740
Total expenses	<u>\$ 2,255,385</u>	<u>\$ 649,876</u>	<u>\$ 49,242</u>	<u>\$ 765,433</u>	<u>\$ 48,534</u>	<u>\$ 3,768,470</u>

	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	<u>\$ 1,476,780</u>	<u>\$ 527,734</u>	<u>\$ 18,667</u>	<u>\$ 485,364</u>	<u>\$ 41,752</u>	<u>\$ 2,550,297</u>

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 \$23,958 and \$24,003 has been recorded as of September 30, 2022 and 2021, respectively. The estimated current portion of the liability, totaling \$4,605 and \$4,369 as of September 30, 2022 and 2021, 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 \$19,353 and \$19,634 as of September 30, 2022 and 2021, 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 4% and 1% discount factor as of September 30, 2022 and 2021, respectively.

Expected insurance recoveries related to workers' compensation totaling \$3,632 and \$4,472 as of September 30, 2022 and 2021, respectively, have been reflected on the accompanying consolidated statements of financial position in other assets. Workers' compensation expense totaled \$6,848 and \$6,120 for the fiscal years ended September 30, 2022 and 2021, 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, 2022, with limits up to \$50,000 with a deductible of \$100 through June 30, 2014, and \$250 between July 1, 2014 and September 30, 2022. Accruals for uninsured claims and claims incurred but not reported are estimated by an actuary based on prior claims experience. Such accruals were recorded using a 4% and 1% discount factor as of September 30, 2022 and 2021, respectively. An estimated liability of \$2,273 and \$2,533 as of September 30, 2022 and 2021, respectively, is included within accounts payable and other accrued liabilities as well as other liabilities 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 \$546 and \$743 as of September 30, 2022 and 2021, 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, 2018 through September 30, 2022, with limits up to \$10,000 per occurrence and a deductible of \$10 for each claim.

The CTCA Entities maintain health care professional liability insurance that provides coverage for claims that occurred from February 2, 2022 through September 30, 2022, with limits up to \$40,000 and a deductible of \$1,000 in Arizona and Georgia and \$2,000 in Illinois for each claim.

The professional liability insurance expense included in other expense on the consolidated statements of activities amounted to \$1,982 and \$2,256 for the fiscal years ended September 30, 2022 and 2021, 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

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

15. Leases (continued)

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. The discount rates applied for existing leases uses various risk-free rates depending upon the lease term for right-of-use operating lease liabilities.

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

	2022	2021
Right-of-use operating leases remaining lease term	12.6 years	14.6 years
Right-of-use finance leases remaining lease term	10.4 years	11.8 years
Right-of-use operating leases discount rate	1.7 %	1.6%
Right-of-use finance leases discount rate	3.5 %	3.5%

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:

	2022	2021
Right-of-use operating:		
Operating lease expense	\$ 28,990	\$ 20,425
Variable lease expense	4,775	2,517
Short-term lease expense	2,325	2,821
Sublease income	(1,082)	(302)
Right-of-use finance:		
Amortization of leased assets	7,912	7,510
Interest on lease liabilities	2,012	2,100
Total lease expense	\$ 44,932	\$ 35,071

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>2022</u>	<u>2021</u>
Operating cash flows for operating leases	\$ 26,657	\$ 12,556
Operating cash flows for finance leases	2,012	2,143
Financing cash flows for finance leases	10,009	7,363

The following table summarizes the maturity of right-of-use lease liabilities under operating and finance leases for subsequent fiscal years as of September 30, 2022:

	<u>Operating</u>	<u>Financing</u>
2023	\$ 30,061	\$ 10,196
2024	21,161	9,666
2025	20,475	8,786
2026	16,376	4,875
2027	15,821	4,335
Thereafter	127,091	28,519
Total lease payments	230,985	66,377
Less: interest	(40,063)	(12,194)
Total lease liabilities	190,922	54,183
Less: current portion, lease liabilities	(27,541)	(8,375)
Long-term portion, lease liabilities	<u>\$ 163,381</u>	<u>\$ 45,808</u>

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. Finance lease obligations are capitalized using the rate implicit in the lease agreement if the rate is readily determinable. Otherwise, City of Hope uses the risk-free rate available on the commencement date of the lease.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

15. Leases (continued)

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. As of September 30, 2022, City of Hope took control of the Corona Medical Office Building, commencing the start of a lease agreement with a right-of-use asset and lease liability related to the lease recorded as of September 30, 2022.

16. Commitments and Contingencies

Medicare and Medicaid 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 Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. City of Hope believes it is in compliance with all applicable laws and regulations, and is 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, 2022. Two of the nine agreements expired during the fiscal year ended September 30, 2022; a new agreement with the California Nurses Association was negotiated and is in effect through April 30, 2024 and the second agreement remains in negotiation and is expected to be renewed for one to three years. Five of the nine agreements will expire in the following year and shall be renegotiated prior to expiration.

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 plus mandatory penalties of up to \$11 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, 2022, City of Hope has committed to spend \$573,789 through 2023 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 Medicaid 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 – Medicaid and Medicare expense, at full cost, in terms of service to those patients covered under these programs for the fiscal years ended September 30:

	<u>2022</u>	<u>2021</u>
Benefits for the Broader Community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of \$214,403 and \$183,467 in 2022 and 2021, respectively:		
Center	\$ 106,100	\$ 122,306
Institute	237,186	214,615
TGen	<u>53,803</u>	<u>46,458</u>
Total estimated benefits for the broader community, at cost	<u>397,089</u>	383,379
Support of Governmental Health Care Programs (unaudited)		
Estimated unreimbursed cost of the Medicaid Program, less net impact of the hospital fee program of \$59,844 and \$60,692 in 2022 and 2021, respectively	12,593	19,284
Estimated unreimbursed cost of the Medicare Program	<u>233,476</u>	<u>188,054</u>
	<u>246,069</u>	<u>207,338</u>
Total estimated benefits for the broader community and unreimbursed costs to governmental health care programs	<u>\$ 643,158</u>	<u>\$ 590,717</u>

The numbers above exclude the CTCA Entities, primarily as HoldCo. was considered a for-profit organization prior to HoldCo’s conversion to 501(c)(3) status at September 30, 2022.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

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 January 2022, City of Hope received \$60,601 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 attest to the terms and conditions specified by HHS. City of Hope was required to demonstrate that the distributions received have been used for health care 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, 2022, City of Hope has attested to meeting the applicable terms and conditions required to retain all provider relief funds received as of the periods presented. 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, 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	–
Provider relief funds received	12,630
Revenue recognized as a result of satisfaction of terms and conditions	<u>(12,630)</u>
Provider relief funds deferred as of September 30, 2022	<u><u>\$ –</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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

18. COVID-19 Pandemic (continued)

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. Through September 30, 2022, City of Hope has received \$151,718 in advance payments. During the fiscal years ended September 30, 2022 and 2021, City of Hope applied \$102,404 and \$49,314, respectively, toward Medicare claims processed bringing the remaining balance to zero as of September 30, 2022.

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 provided additional current liquidity to City of Hope. As of September 30, 2021, City of Hope has deferred \$25,882 (50%, or \$12,941, which 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. In December 2021, \$12,181 was paid with the remaining balance of \$13,701 deferred as of September 30, 2022.

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. The COVID-19 pandemic continued to impact City of Hope’s operations through September 30, 2022. The impact of the pandemic and continued emergence of various variants is expected to continue to affect City of Hope’s operations and financial position, including market volatility on the investment portfolio, uncertainty in the labor market, and ongoing pressures felt in revenue generation and expense containment. 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

19. Sale of Subsidiary

During the fiscal year ended September 30, 2022, there was no disposal activity. During the fiscal year ended September 30, 2021, TGen entered into an agreement in February 2021 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, which was comprised of 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, 2022, due to qualitative factors outside of TGen’s control.

20. Subsequent Events

City of Hope has evaluated events occurring between September 30, 2022 and December 16, 2022, the date these consolidated financial statements were issued.

In October 2022 and November 2022, City of Hope has drawn a total of \$175,000 on its existing syndicated unsecured revolving line of credit (the April 2020 Line of Credit) of \$450,000. The proceeds will be used for general operating needs.

On November 10, 2022, City of Hope terminated three treasury rate lock agreements with an aggregate notional amount of \$261,000 that were tied to the underlying U.S. Treasury interest rate component of interest rate payments on anticipated debt issuances. These treasury rate lock agreements had an average fixed rate of 2.56%. The termination of the treasury rate lock agreements resulted in positive cash flow to City of Hope in the amount of \$59,044. This termination occurred concurrently with the pricing of the 2022 Notes described below.

City of Hope

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

20. Subsequent Events (continued)

On November 10, 2022, City of Hope priced \$600,000 of taxable notes (“2022 Notes”) that are expected to be purchased by six institutional investors. A portion of the 2022 Notes in the amount of \$525,000 was purchased on December 15, 2022 and will mature in tranches in the following amounts and dates, \$57,500 on November 15, 2027, \$175,000 on November 15, 2032, and \$292,500 on November 15, 2052. The remaining portion of the 2022 Notes in the amount of \$75,000 is expected to be purchased on January 18, 2023 and will mature on November 15, 2027. The 2022 Notes will be issued as obligations under the Obligated Group’s Master Trust Indenture. The proceeds of the of the 2022 Notes will be used for general corporate purposes.

On November 15, 2022, the Illinois Finance Authority issued a \$650,000 taxable bond and loaned the proceeds to HoldCo pursuant to a loan agreement (“IFA Loan”). The proceeds of the IFA Loan were used to pay off a prior Bridge Loan entered into on January 31, 2022. The proceeds from the original Bridge Loan were used: (1) to finance the purchase of the CTCA Entities; (2) to provide working capital; and (3) for general corporate purposes. The IFA Loan matures on November 14, 2023. The IFA Loan is guaranteed by the Obligated Group and is secured by an obligation issued under the Obligated Group’s Master Trust Indenture.

On November 16, 2022, City of Hope and its counterparty terminated one of two swap agreements previously entered into in February 2020, with a notional amount of \$71,355. The termination resulted in positive cash flow to City of Hope in the amount of \$8,181.

Supplementary Information

City of Hope

Consolidating Statements of Financial Position

(In Thousands)

September 30, 2022 and 2021

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2022	Consolidated 2021
Assets					
Current assets:					
Cash and cash equivalents	\$ 22,001	\$ 210,283	\$ –	\$ 232,284	\$ 262,033
Investments	1,496,108	59,631	–	1,555,739	2,166,955
Self-insurance trust funds	3,959	–	–	3,959	3,608
Patient accounts receivable	349,856	114,222	–	464,078	319,133
Due from affiliates	15,154	46,096	(61,250)	–	–
Grants and other receivables	156,216	17,816	–	174,032	156,100
Donor-restricted unconditional promises to give, net	46,951	1,258	–	48,209	38,159
Prepaid and other	70,595	46,464	–	117,059	74,235
Total current assets	2,160,840	495,770	(61,250)	2,595,360	3,020,223
Property and equipment, net	1,722,993	329,730	–	2,052,723	1,412,291
Right-of-use finance lease assets	7,472	38,891	–	46,363	49,989
Right-of-use operating lease assets	171,208	17,182	–	188,390	151,314
Other assets:					
Investments held for long-term purposes	18,892	–	–	18,892	38,750
Board-designated assets	1,050,182	–	–	1,050,182	1,229,844
Bond trust funds	160,785	–	–	160,785	245,730
With donor restrictions:					
Investments	641,801	25,591	–	667,392	682,583
Unconditional promises to give, net	140,817	4,283	–	145,100	96,328
Contributions receivable from annuity and split-interest agreements, net	106,867	–	–	106,867	114,662
Other	20,321	–	–	20,321	9,655
Intangible assets	677	21,851	–	22,528	10,427
Goodwill	41,986	35,440	–	77,426	88,086
Other long-term assets	183,074	1,521	(107,696)	76,899	69,331
Total other assets	2,365,402	88,686	(107,696)	2,346,392	2,585,396
Total assets	<u>\$ 6,427,915</u>	<u>\$ 970,259</u>	<u>\$ (168,946)</u>	<u>\$ 7,229,228</u>	<u>\$ 7,219,213</u>

City of Hope

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

September 30, 2022 and 2021

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2022	Consolidated 2021
Liabilities and net assets					
Current liabilities:					
Accounts payable and other accrued liabilities	\$ 366,865	\$ 103,672	\$ –	\$ 470,537	\$ 317,273
Accrued salaries, wages, and employee benefits	119,054	31,547	–	150,601	149,071
Long-term debt, current portion	7,190	–	–	7,190	6,940
Right-of-use finance leases, current portion	5,929	2,446	–	8,375	7,338
Right-of-use operating leases, current portion	20,838	6,703	–	27,541	19,480
Due to third-party payors	27,153	15,467	–	42,620	12,436
Contract liabilities	12,569	2,957	–	15,526	118,817
Due to affiliates	11,096	15,154	(26,250)	–	–
Total current liabilities	570,694	177,946	(26,250)	722,390	631,355
Long-term debt, net of current portion	1,278,256	691,590	(35,000)	1,934,846	1,295,386
Right-of-use finance leases, net of current portion	9,949	35,859	–	45,808	50,523
Right-of-use operating leases, net of current portion	152,609	10,772	–	163,381	143,704
Annuity and split-interest agreement obligations	27,854	–	–	27,854	27,707
Interest rate swap	2,232	–	–	2,232	19,497
Other	64,907	4,445	–	69,352	82,341
Total liabilities	2,106,501	920,612	(61,250)	2,965,863	2,250,513
Net assets:					
Without donor restrictions:					
Controlling interests	3,393,694	(9,552)	(107,696)	3,276,446	4,026,274
Noncontrolling interests	–	29,277	–	29,277	29,621
With donor restrictions	927,720	29,922	–	957,642	912,805
Total net assets	4,321,414	49,647	(107,696)	4,263,365	4,968,700
Total liabilities and net assets	\$ 6,427,915	\$ 970,259	\$ (168,946)	\$ 7,229,228	\$ 7,219,213

City of Hope

Consolidating Statements of Activities (In Thousands)

Years Ended September 30, 2022 and 2021

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2022	Consolidated 2021
Revenues, gains, and other support:					
Net patient service revenues	\$ 2,394,401	\$ 531,052	\$ –	\$ 2,925,453	\$ 1,851,375
Research grants, contracts, and clinical trials	186,531	29,439	–	215,970	183,467
Contributions	206,555	40,728	(15,296)	231,987	275,912
Investment income	237,346	4,336	–	241,682	308,114
Net unrealized (loss) gain on investments	(640,402)	(10,824)	–	(651,226)	440,136
Royalty and licensing revenue	19,916	–	–	19,916	114,247
Gain on sale of subsidiary	–	–	–	–	77,327
Other revenue	62,375	43,641	(25,201)	80,815	87,397
Total revenues, gains, and other support	2,466,722	638,372	(40,497)	3,064,597	3,337,975
Expenses:					
Salaries, wages, and employee benefits	1,073,727	286,313	–	1,360,040	1,017,591
Purchased services and professional fees	705,599	100,017	(27,196)	778,420	551,259
Supplies and pharmaceuticals	872,688	229,834	–	1,102,522	604,431
Royalty sharing	6,416	–	–	6,416	36,606
Interest, including changes in fair value of swap agreements	2,904	12,928	–	15,832	32,313
Depreciation and amortization	147,058	47,712	–	194,770	153,399
Hospital provider fee	27,081	10,649	–	37,730	26,493
Other expense	154,145	118,595	–	272,740	128,205
Total expenses	2,989,618	806,048	(27,196)	3,768,470	2,550,297
(Deficiency) excess of revenues, gains, and other support over expenses	(522,896)	(167,676)	(13,301)	(703,873)	787,678
Distributions (to) from affiliates	(205)	(15,091)	15,296	–	–
Distributions to noncontrolling interest	–	(2,930)	1,468	(1,462)	–
Changes in net assets	(523,101)	(185,697)	3,463	(705,335)	787,678
Net assets, beginning of year	4,844,514	235,345	(111,159)	4,968,700	4,181,022
Net assets, end of year	\$ 4,321,413	\$ 49,648	\$ (107,696)	\$ 4,263,365	\$ 4,968,700

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