

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

City of Hope  
Years Ended September 30, 2023 and 2022  
With Report of Independent Auditors

Ernst & Young LLP



City of Hope

Consolidated Financial Statements and  
Supplementary Information

Years Ended September 30, 2023 and 2022

**Contents**

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position .....	4
Consolidated Statement of Activities.....	6
Consolidated Statements of Cash Flows .....	8
Notes to Consolidated Financial Statements .....	10
Supplementary Information	
Consolidating Statements of Financial Position .....	64
Consolidating Statements of Activities .....	66



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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, 2023 and 2022, 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, 2023 and 2022, 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*

January 12, 2024

City of Hope

Consolidated Statements of Financial Position  
(In Thousands)

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 424,966	\$ 232,284
Short-term investments	1,603,511	1,555,739
Self-insurance trust funds	4,464	3,959
Patient accounts receivable, net	529,608	464,078
Grants and other receivables	217,663	174,032
Due from third-party payors	23,403	–
Current portion of donor-restricted unconditional promises to give, net	75,599	48,209
Interest rate swap	–	8,579
Prepaid and other	121,983	108,480
Total current assets	<u>3,001,197</u>	<u>2,595,360</u>
Property and equipment, net	2,361,679	2,052,723
Right-of-use finance lease assets	43,207	46,363
Right-of-use operating lease assets	172,832	188,390
Other assets:		
Long-term investments	3,880	18,892
Board-designated assets	1,208,842	1,050,182
Bond trust funds	75,522	160,785
With donor restrictions:		
Investments	747,923	667,392
Unconditional promises to give, net	209,710	145,100
Contributions receivable from annuity and split-interest agreements, net	101,313	106,867
Other	30,021	20,321
Goodwill and other intangible assets	74,562	99,954
Interest rate swap	12,443	8,574
Other long-term assets	78,314	68,325
Total other assets	<u>2,542,530</u>	<u>2,346,392</u>
Total assets	<u><u>\$ 8,121,445</u></u>	<u><u>\$ 7,229,228</u></u>

City of Hope

Consolidated Statements of Financial Position (continued)

(In Thousands)

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 149,913	\$ 105,962
Other accrued liabilities	296,628	364,575
Accrued salaries, wages, and employee benefits	146,527	150,601
Long-term debt, current portion	14,560	7,190
Right-of-use finance leases, current portion	9,106	8,375
Right-of-use operating leases, current portion	22,431	27,541
Short-term borrowings	123,408	–
Due to third-party payors	6,939	42,620
Contract liabilities	20,956	15,526
Total current liabilities	<u>790,468</u>	<u>722,390</u>
Long-term debt, net of current portion	2,515,673	1,934,846
Right-of-use finance leases, net of current portion	41,877	45,808
Right-of-use operating leases, net of current portion	156,566	163,381
Annuity and split-interest agreement obligations	33,053	27,854
Interest rate swap	–	2,232
Other	79,232	69,352
Total liabilities	<u>3,616,869</u>	<u>2,965,863</u>
Net assets:		
Without donor restrictions:		
Controlling interests	3,348,825	3,276,446
Noncontrolling interests	27,138	29,277
With donor restrictions	1,128,613	957,642
Total net assets	<u>4,504,576</u>	<u>4,263,365</u>
Total liabilities and net assets	<u>\$ 8,121,445</u>	<u>\$ 7,229,228</u>

See accompanying notes.

City of Hope

Consolidated Statement of Activities

(In Thousands)

Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Net patient service revenues	\$ 3,706,923	\$ –	\$ 3,706,923
Research grants, contracts and clinical trials	236,317	–	236,317
Contributions	55,104	238,825	293,929
Investment income	187,589	22,423	210,012
Net unrealized gain on investments	206,154	30,932	237,086
Royalty and licensing revenue	8,456	–	8,456
Other revenue	104,549	–	104,549
Total revenues, gains, and other support	4,505,092	292,180	4,797,272
Net assets released from restrictions	121,209	(121,209)	–
Total revenues, gains, and other support	4,626,301	170,971	4,797,272
Expenses:			
Salaries, wages, and employee benefits	1,611,198	–	1,611,198
Purchased services and professional fees	776,361	–	776,361
Supplies and pharmaceuticals	1,475,937	–	1,475,937
Royalty sharing	2,833	–	2,833
Interest, including changes in fair value of swap agreements	109,054	–	109,054
Depreciation and amortization	219,437	–	219,437
Hospital provider fee	48,921	–	48,921
Equipment rental and maintenance	82,789	–	82,789
Occupancy	72,146	–	72,146
Insurance	11,185	–	11,185
Other expense	146,261	–	146,261
Total expenses	4,556,122	–	4,556,122
Excess of revenues, gains, and other support over expenses	70,179	170,971	241,150
Distribution to noncontrolling interest	(1,272)	–	(1,272)
Contribution from noncontrolling interest	1,333	–	1,333
Changes in net assets	70,240	170,971	241,211
Net assets, beginning of year	3,305,723	957,642	4,263,365
Net assets, end of year	\$ 3,375,963	\$ 1,128,613	\$ 4,504,576

City of Hope

Consolidated Statement of Activities

(In Thousands)

Year Ended September 30, 2022

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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
Equipment rental and maintenance	64,865	–	64,865
Occupancy	61,429	–	61,429
Insurance	9,396	–	9,396
Other expense	137,050	–	137,050
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 noncontrolling 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 Statements of Cash Flows  
(In Thousands)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Changes in net assets	\$ 241,211	\$ (705,335)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	206,294	180,724
Amortization of goodwill and other intangibles	13,143	14,046
Amortization of bond costs, discount and premium	(1,281)	(2,940)
Amortization of right-of-use operating lease assets	30,249	25,974
Distribution to noncontrolling interest	1,272	1,462
Contribution from noncontrolling interest	(1,333)	–
Loss on disposal of fixed assets	6,202	–
Loss on impairment of intangibles and fixed assets	18,742	–
Net unrealized (gain) loss on investments	(237,086)	651,226
Change in value of interest rate swaps	(5,703)	(34,416)
Contribution proceeds restricted for endowment	(22,674)	(29,105)
Changes in assets and liabilities:		
Patient accounts receivable	(65,530)	(24,727)
Grants and other receivables	(43,631)	(8,125)
Unconditional promises to give, net	(92,000)	(58,822)
Contributions receivable from annuity and split-interest agreements, net	5,554	7,795
Other assets	(21,574)	(10,723)
Accounts payable and accrued liabilities	(61,731)	63,229
Accrued salaries, wages, and employee benefits	(4,074)	(14,388)
Annuity and split-interest agreement obligations	5,199	147
Operating lease liabilities	(29,872)	(26,657)
Other liabilities	(41,577)	(140,540)
Net cash used in operating activities before net sales of trading investments	(100,200)	(111,175)
Net sales of trading investments	62,730	629,880
Net cash (used in) provided by operating activities	(37,470)	518,705

City of Hope

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Investing activities</b>		
Acquisition of business, net of cash acquired	\$ —	\$ (343,970)
Increase in notes receivable	(290)	(633)
Additions to property and equipment	(481,382)	(493,286)
Proceeds from sale of contributed real property held for sale	—	47
Purchases of alternative investments	(545,764)	(1,022,434)
Proceeds from sale of alternative investments	479,664	716,904
Net cash used in investing activities	<u>(547,772)</u>	<u>(1,143,372)</u>
<b>Financing activities</b>		
Proceeds from Line of Credit	175,000	—
Repayment of Line of Credit	(175,000)	—
Proceeds from short-term debt borrowings, net	123,408	—
Proceeds from long-term debt borrowings, net	1,246,667	649,179
Repayment of Bridge Loan	(650,000)	—
Principal payments on long-term debt	(7,190)	(6,840)
Principal payments on finance leases	(10,959)	(10,009)
Distribution to noncontrolling interest	(1,272)	(1,462)
Contributions from noncontrolling interest	1,333	—
Contribution proceeds restricted for endowment	22,674	29,105
Net cash provided by financing activities:	<u>724,661</u>	<u>659,973</u>
Net increase in cash, cash equivalents, and restricted cash	139,419	35,306
Cash, cash equivalents, and restricted cash beginning of year	361,069	325,763
Cash, cash equivalents, and restricted cash end of year	<u>\$ 500,488</u>	<u>\$ 361,069</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid during the year (net of capitalized interest)	<u>\$ 103,636</u>	<u>\$ 52,377</u>
<b>Supplemental disclosure of non-cash activity</b>		
Finance lease obligations	<u>\$ 5,750</u>	<u>\$ 4,303</u>
Operating lease obligations	<u>\$ 13,030</u>	<u>\$ 51,691</u>
Additions to property and equipment included in accounts payable and accrued liabilities	<u>\$ 114,615</u>	<u>\$ 76,375</u>

See accompanying notes.

# City of Hope

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

September 30, 2023

### **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. City of Hope is the sole corporate member of the Center. The Center is licensed to operate at a capacity of 234 beds.

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. For fiscal year ended September 30, 2022, revenues reported by City of Hope and included within the Obligated Group were \$23,900. For the fiscal year ended September 30, 2023, there was no revenue reported.

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 Combination, 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. As of September 30, 2022, HoldCo was exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. As of October 1, 2022, the Internal Revenue Service granted the respective three hospitals tax-exempt status. The three hospitals are licensed to operate at a capacity of 161 beds.

### **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.

### **2. Summary of Significant Accounting Policies**

#### **New Accounting Standards Adopted**

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform On Financial Reporting*, to provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (“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, which was amended by ASU 2022-06 to extend the sunset date to December 31, 2024. City of Hope

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

adopted the ASU during the fiscal year ended September 30, 2023, with the transition from LIBOR to an eligible alternative reference rate, namely the Secured Overnight Financing Rate (“SOFR”) where applicable. The adoption of SOFR did not have a material impact on City of Hope’s consolidated financial statements.

#### **New Accounting Standards Not Yet Adopted**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended by ASU 2019-10. The ASU changes how entities account for credit losses for most financial assets and instruments not measured at fair value through net income and requires entities to estimate an expected lifetime credit loss on financial assets. This guidance is effective for fiscal years beginning after December 15, 2022, and will be applied prospectively. City of Hope anticipates that the adoption of the ASU will not have a material impact on its consolidated financial statements.

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 anticipates that the adoption of the ASU will not have a material impact on its consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. ASU 2023-01 amends ASC 842 to require all entities that are lessees to a lease among entities under a common control arrangement to amortize leasehold improvements over the useful life of the common control group as long as the lessee controls the use of the asset through a lease. The guidance is effective for fiscal years beginning after December 15, 2023, and may be applied retrospectively, or prospectively to only new lease improvements or new and existing lease improvements as of the adoption date. City of Hope anticipates that the adoption of the ASU will not have a material impact 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)**

##### **Use of Estimates**

The preparation of City of Hope's 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 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 financial statements.

##### **Performance Indicator**

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

##### **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 short-term 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, are reflected in bond trust funds 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)

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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 424,966	\$ 232,284
Restricted cash in bond trust funds	75,522	128,785
Total cash, cash equivalents, and restricted cash	<u>\$ 500,488</u>	<u>\$ 361,069</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 excess (deficiency) of revenues, gains, and other support over expenses on the consolidated statements of activities. Investment transactions are recorded on a settlement date basis.

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

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

City of Hope's hedge fund investments consist of direct and multi-manager "fund of funds" investments. Strategies include long/short equity, long/short credit, private credit, and other strategies. Investments in these funds have limited liquidity and may be subject to various lockup periods, redemption fees, and notice requirements. Open end 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, open end 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 from monthly, quarterly, or annually with notice requirements between 30 and 90 days. City of Hope also invests in closed end limited partnerships with private equity-like terms, including fund terms of eight years or greater, and capital calls on unfunded commitments, during its investment period. These select funds include credit strategies in which City of Hope may not withdraw, sell, assign, or transfer its interests, except in certain limited circumstances subject to consent by the general partners of the funds.

City of Hope's private equity investments consist of closed end 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 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 such investments at cost minus impairment, as the investments in privately held companies did not have readily determinable fair values given no observable transactions. No impairment was recorded for the fiscal years ended September 30, 2023 and 2022.

## 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, 2023, are as follows:

Private equity	\$ 387,900
Private real assets:	
Real estate	173,000
Natural resources	11,300
Private credit	63,100
Total unfunded commitments	<u>\$ 635,300</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 accompanying 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 rate lock agreements had an average fixed rate of 2.56%. As of September 30, 2022, the fair values of the treasury rate locks were \$49,418 (see Note 4, Fair Value of Financial Instruments), and are included within current assets, short-term investments on the accompanying consolidated statements of financial position. City of Hope elected not to apply hedge accounting, so the changes in fair value were recorded within net unrealized gain or loss on investments on the accompanying consolidated statements of activities. The treasury rate locks were terminated on November 10, 2022, which resulted in positive cash flow to City of Hope totaling \$59,044. As of September 30, 2023, there were no outstanding treasury rate lock agreements.

## 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 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 intermediaries. 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 from/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, 2023 and 2022, 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 \$50,948 and \$16,542 for the fiscal years ended September 30, 2023 and 2022, 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 three programs with activity for the fiscal years ended September 30, 2023 and 2022: (1) a 30-month hospital fee program covering the periods from July 1, 2019 through December 31, 2021, (2) a 12-month hospital fee program covering the period from January 1, 2022 through December 31, 2022, and (3) a 24-month hospital fee program covering the periods from January 1, 2023 through December 31, 2024.

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 also recognized net patient service revenue and hospital provider fee expenses associated with the Hospital Assessment Program for the state of Illinois.

City of Hope recognized \$115,057 and \$91,722 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, 2023 and 2022, respectively. Additionally, City of Hope recognized \$48,921 and \$37,730 in expenses related to the hospital fee programs for the fiscal years ended September 30, 2023 and 2022, respectively, which has been reflected in hospital provider fee expense on the accompanying consolidated statements of activities.

As of September 30, 2023 and 2022, \$90,875 and \$71,395 of hospital fee programs receivable is included in grants and other receivables, respectively, and \$32,360 and \$30,426 of hospital fee programs payable is included in 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 revenue or expense, respectively, on the accompanying consolidated statements of activities. The costs of 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. Refer to Note 7, Property and Equipment, Net, for further detail.

##### Interest and Capitalized Interest

Total interest cost incurred on all financing vehicles (excluding changes in fair value of interest rate swap agreements) totaled \$126,994 and \$68,886 in 2023 and 2022, 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. Capitalization of interest ceases when construction is complete and the asset is ready for its intended use. For the fiscal years ended September 30, 2023 and 2022, capitalized interest income of \$3,539 and \$9,732, respectively, was earned on the 2019 bonds. Capitalized interest expense incurred during the same fiscal years was \$12,237 and \$18,637, 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:

	2023				
	Gross Carrying Value	Accumulated Amortization	Impairment Loss	Net Carrying Value	Estimated Useful Life (in Years)
Intangible assets subject to amortization:					
Trade name	\$ 17,036	\$ (4,874)	\$ (12,162)	\$ –	–
Noncompete agreement	188	(188)	–	–	–
Favorable leasehold interests	1,073	(650)	–	423	20
Intellectual property and research and development costs related to TARDIS	4,600	(1,227)	–	3,373	10
Total intangible assets subject to amortization	22,897	(6,939)	(12,162)	3,796	
Intangible assets not subject to amortization:					
Trade name	4,000	–	–	4,000	Indefinite
Total intangible assets not subject to amortization	4,000	–	–	4,000	
	\$ 26,897	\$ (6,939)	\$ (12,162)	\$ 7,796	

	2022				
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life (in Years)	
Intangible assets subject to amortization:					
Trade name	\$ 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	20	
Intellectual property and research and development costs related to TARDIS	4,600	(767)	3,833	10	
Total intangible assets subject to amortization	32,974	(14,446)	18,528		
Intangible assets not subject to amortization:					
Trade name	4,000	–	4,000	Indefinite	
Total intangible assets not subject to amortization	4,000	–	4,000		
	\$ 36,974	\$ (14,446)	\$ 22,528		

## 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*, these intangibles are subject to an impairment assessment when significant indicators of impairment exist. During the fiscal year ended September 30, 2023, City of Hope recorded \$12,162 of impairment loss related to the remaining carrying value of the trade name recognized as part of the acquisition of the CTCA Entities (refer to Note 3, Business Combination) due to the decision to rebrand to the City of Hope name. The impairment loss is included in other expense on the accompanying consolidated statement of activities. There was no impairment recognized on intangibles assets for the fiscal year ended September 30, 2022.

City of Hope recorded \$2,457 and \$3,386 of amortization expense for intangible assets and \$111 and \$113 in rent expense for favorable leasehold interests during the fiscal years ended September 30, 2023 and 2022, respectively, which is included in depreciation and amortization on the accompanying consolidated statements of activities.

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, 2023 and 2022, was \$39,833 and \$29,173, respectively. There was no indication of an impairment in value for goodwill as of September 30, 2023 or 2022.

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

	<u>2023</u>	<u>2022</u>
Balance, beginning of fiscal year	\$ 77,426	\$ 88,086
Amortization	(10,660)	(10,660)
Balance, end of fiscal year	<u>\$ 66,766</u>	<u>\$ 77,426</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:

	<b>Goodwill</b>	<b>Intangible Assets</b>
2024	\$ 10,660	\$ 489
2025	10,660	485
2026	10,660	485
2027	10,660	485
2028	10,660	485
Thereafter	13,466	1,367
	<u>\$ 66,766</u>	<u>\$ 3,796</u>

**Contract Liabilities**

City of Hope defers recognition of revenue received in advance of certain performance obligations, 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:

	<b>2023</b>	<b>2022</b>
Fundraising events and other activities	\$ 3,441	\$ 3,486
Donor-restricted conditional contributions	827	1,032
Grants revenue	16,688	11,008
Total contract liabilities	<u>\$ 20,956</u>	<u>\$ 15,526</u>

## City of Hope

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

#### 2. Summary of Significant Accounting Policies (continued)

For the fiscal years ended September 30, 2023 and 2022, \$13,809 and \$15,025, respectively, was recognized in revenue from contract liabilities.

#### 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, 2023 and 2022, is as follows:

	<b>Controlling Interests</b>	<b>Noncontrolling Interest</b>	<b>Total</b>
Balance as of September 30, 2021	\$ 4,026,274	\$ 29,621	\$ 4,055,895
(Deficiency) excess of revenues, gains, and other support over expenses	(749,828)	1,118	(748,710)
Distribution to noncontrolling interests	–	(1,462)	(1,462)
Balance as of September 30, 2022	3,276,446	29,277	3,305,723
Excess (deficiency) of revenues, gains, and other support over expenses	<b>72,379</b>	<b>(2,200)</b>	<b>70,179</b>
Distribution to noncontrolling interests	–	(1,272)	(1,272)
Contribution from noncontrolling interests	–	<b>1,333</b>	<b>1,333</b>
Balance as of September 30, 2023	<b>\$ 3,348,825</b>	<b>\$ 27,138</b>	<b>\$ 3,375,963</b>

#### 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.

## City of Hope

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

#### 2. Summary of Significant Accounting Policies (continued)

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

City of Hope is the beneficiary under various wills and trust agreements of which the total realizable amount is not readily determinable at the date of gift. In the case of wills, such amounts are recognized as contributions when the will is declared valid by a probate court and the proceeds are measurable. For the fiscal years ended September 30, 2023 and 2022, valid will and trust agreement amounts that became measurable totaled \$32,317 and \$35,391, 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 on the accompanying consolidated statements of financial position consist of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Unconditional promises to give	\$ 323,408	\$ 217,293
Less:		
Discounts	(23,129)	(11,424)
Allowance for uncollectible promises to give	(14,970)	(12,560)
Total unconditional promises to give, net	<u>285,309</u>	<u>193,309</u>
Less current portion	(75,599)	(48,209)
Unconditional promises to give, noncurrent	<u>\$ 209,710</u>	<u>\$ 145,100</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, 2023 and 2022, were between 0.36% and 4.61% and 1.11% and 3.64%, 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, 2023, future cash flows anticipated for subsequent fiscal years from unconditional promises to give are as follows:

2024	\$	75,599
2025		54,920
2026		45,749
2027		40,561
2028		29,705
Thereafter		<u>76,874</u>
		323,408
Discounts		(23,129)
Allowance for uncollectible promises to give		<u>(14,970)</u>
	\$	<u><u>285,309</u></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.

City of Hope did not receive any cash payments in advance of meeting other specific project goals and milestones for the fiscal year ended September 30, 2023, but received \$1,032 for the fiscal year ended September 30, 2022. These amounts are included within contract liabilities 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)**

##### **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 discount rate applied as of September 30, 2023 and 2022 was 4.6% and 4.1%, respectively. 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 \$599 and \$626 as of September 30, 2023 and 2022, respectively. Additionally, City of Hope has voluntary reserves in the amount of \$6,814 and \$5,188 as of September 30, 2023 and 2022, 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 \$101,313 and \$106,867 as of September 30, 2023 and 2022, respectively, are to be collected over the next 45 years with an average remaining life of 14.2 and 15.1 years, respectively. For the fiscal year ended September 30, 2023, \$5,047 was recognized as contribution revenue related to split-interest agreements. There was no contribution revenue related to split-interest agreements recognized for the fiscal year ended September 30, 2022.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **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 an 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, 2023 and 2022, City of Hope recognized royalty and licensing revenue totaling \$8,456 and \$19,916, respectively.

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(a) as described in 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.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

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(a) as described in 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. As of October 1, 2022, the Internal Revenue Service granted tax-exempt status to CTCA's three hospitals (Midwestern Regional Medical Center, Inc., Southeastern Regional Medical Center, Inc., and Western Regional Medical Center, Inc.).

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 consolidated 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, 2023 or 2022.

#### **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).

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **3. Business Combination**

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.

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

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### 3. Business Combination (continued)

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 accounts 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, and 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

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

## City of Hope

### Notes to Consolidated Financial Statements (continued)

(Dollar Amounts Expressed in Thousands)

#### 3. Business Combination (continued)

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, 2021.

The unaudited pro forma results for the fiscal year ended September 30, 2022, include the historical results of the CTCA Entities for the four-month period ended January 31, 2022. The unaudited pro forma results include pro forma adjustments related to 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, 2021. Below presents the unaudited pro forma results for the fiscal year ended September 30, 2022:

	<u>Actual</u>	<u>Pro Forma</u>
Revenues, gains, and other support	\$ 3,064,597	\$ 3,334,917
Expenses	3,768,470	4,078,275
Changes in net assets without donor restrictions	(750,172)	(789,656)
Changes in net assets with donor restrictions	44,837	44,837

## 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 from/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 its floating rate debt. City of Hope entered into treasury rate locks in 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

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

#### 4. Fair Value of Financial Instruments (continued)

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

	Investments at Fair Value			Fair Value	Investments at Net		Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3		Asset Value	Total	
<b>2023</b>							
<b>Investments</b>							
U.S. Government and agency obligations	\$ -	\$ 23,799	\$ -	\$ 23,799	\$ -	\$ 23,799	a
Corporate obligations	-	107,709	-	107,709	-	107,709	a
Asset-backed obligations	-	26,861	-	26,861	-	26,861	a
Mortgage-backed obligations	-	2,780	-	2,780	-	2,780	a
Marketable securities	817,040	-	-	817,040	-	817,040	a
Municipal obligations	-	841	-	841	-	841	a
Hedge funds, including private credit	-	-	-	-	374,136	374,136	
Equity commingled funds	-	-	-	-	1,151,819	1,151,819	
Private equity funds	-	-	-	-	706,688	706,688	
Private real assets	-	-	-	-	270,753	270,753	
Cash equivalents	182,505	-	-	182,505	-	182,505	a
Total investments	<u>\$ 999,545</u>	<u>\$ 161,990</u>	<u>\$ -</u>	<u>\$ 1,161,535</u>	<u>\$ 2,503,396</u>	<u>\$ 3,664,931</u>	
<b>Other long-term assets</b>							
Marketable securities	\$ 51,340	\$ -	\$ -	\$ 51,340	\$ -	\$ 51,340	a
Cash equivalents	589	-	-	589	-	589	a
	<u>\$ 51,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,929</u>	<u>\$ -</u>	<u>\$ 51,929</u>	
Interest rate swaps	\$ -	\$ 12,443	\$ -	\$ 12,443	\$ -	\$ 12,443	c
Total investments, other long-term assets and interest rate swaps	<u>\$ 1,051,474</u>	<u>\$ 174,433</u>	<u>\$ -</u>	<u>\$ 1,225,907</u>	<u>\$ 2,503,396</u>	<u>\$ 3,729,303</u>	
<b>Liabilities at fair value</b>							
Annuity and split-interest obligations			Level 1	Level 2	Level 3	Total	
			\$ -	\$ -	\$ 33,053	\$ 33,053	c
Total liabilities			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,053</u>	<u>\$ 33,053</u>	

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	
<b>2022</b>							
<b>Investments</b>							
U.S. government and agency obligations	\$ -	\$ 27,896	\$ -	\$ 27,896	\$ -	\$ 27,896	a
Corporate obligations	-	87,805	-	87,805	-	87,805	a
Asset-backed obligations	-	33,167	-	33,167	-	33,167	a
Mortgage-backed obligations	-	14,526	-	14,526	-	14,526	a
Marketable securities	729,313	-	-	729,313	-	729,313	a
Municipal obligations	-	895	-	895	-	895	a
Preferred stock	-	-	612	612	-	612	c
Hedge funds, including private credit	-	-	-	-	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
Cash equivalents	249,839	-	-	249,839	-	249,839	a
Treasury rate locks	-	49,418	-	49,418	-	49,418	a
Total investments	\$ 979,152	\$ 245,707	\$ 612	\$ 1,225,471	\$ 2,237,548	\$ 3,463,019	
<b>Current interest rate swaps</b>	\$ -	\$ 8,579	\$ -	\$ 8,579	\$ -	\$ 8,579	c
<b>Other long-term assets</b>							
Marketable securities	\$ 44,441	\$ -	\$ -	\$ 44,441	\$ -	\$ 44,441	a
Cash equivalents	539	-	-	539	-	539	a
	\$ 44,980	\$ -	\$ -	\$ 44,980	\$ -	\$ 44,980	
Interest rate swaps	\$ -	\$ 8,574	\$ -	\$ 8,574	\$ -	\$ 8,574	c
Total investments, other long-term assets and interest rate swaps	\$ 1,024,132	\$ 262,860	\$ 612	\$ 1,287,604	\$ 2,237,548	\$ 3,525,152	
<b>Liabilities at fair value</b>							
Annuity and split-interest obligations			\$ -	\$ -	\$ 27,854	\$ 27,854	c
Interest rate swaps			-	2,232	-	2,232	c
Total liabilities			\$ -	\$ 2,232	\$ 27,854	\$ 30,086	

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, 2023 and 2022:

	<b>Assets</b>	<b>Liabilities</b>
Ending 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
Additions	–	<b>14,312</b>
Investment activity	–	<b>665</b>
Distributions	<b>(612)</b>	<b>(1,463)</b>
Change in fair value	–	<b>(8,315)</b>
Ending balance as of September 30, 2023	<b>\$ –</b>	<b>\$ 33,053</b>

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

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 424,966	\$ 232,284
Short-term investments	<b>1,603,511</b>	1,555,739
Self-insurance trust funds	<b>4,464</b>	3,959
Long-term investments	<b>3,880</b>	18,892
Board-designated assets	<b>1,208,842</b>	1,050,182
Bond trust funds	<b>75,522</b>	160,785
Donor-restricted investments	<b>747,923</b>	667,392
	<b>4,069,108</b>	3,689,233
Less investment at net asset value	<b>(2,503,396)</b>	(2,237,548)
Less amounts held in operating cash	<b>(404,177)</b>	(226,214)
Plus amounts in other long-term assets	<b>51,929</b>	44,980
Plus amounts in interest rate swaps	<b>12,443</b>	17,153
Investments at fair value	<b>\$ 1,225,907</b>	\$ 1,287,604

## City of Hope

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

#### 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:

	2023	2022
Medicare	23%	23%
Medicaid	5	4
Contracted plans (including commercial, Medicare Advantage, and Medicaid managed care)	69	68
Indemnity, self-pay, and other	3	5
	100%	100%

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

	2023	2022
Medicare	\$ 1,038,278	\$ 737,279
Medicaid	231,734	191,915
Contracted plans (including commercial, Medicare Advantage, and Medicaid managed care)	2,325,363	1,925,593
Indemnity, self-pay, and other	111,548	70,666
Net patient service revenues	\$ 3,706,923	\$ 2,925,453

#### 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 Medicare and 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

## City of Hope

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

#### 6. Patient Charity Care (continued)

medical procedure level and pertains specifically to the respective charity and Medicare 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, 2023 and 2022, was \$54,202 and \$25,726, respectively. See Note 17, Community Benefit Expense (Unaudited), for additional disclosure related to benefits for the broader community and support of governmental health care programs.

#### 7. Property and Equipment, Net

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

	<b>2023</b>	<b>2022</b>
Land	\$ <b>89,927</b>	\$ 90,555
Buildings	<b>1,351,090</b>	1,334,745
Leasehold improvements	<b>219,895</b>	209,656
Equipment and furniture	<b>979,761</b>	911,389
Software	<b>408,033</b>	384,515
	<b>3,048,706</b>	2,930,860
Accumulated depreciation and amortization	<b>(1,502,881)</b>	(1,329,777)
	<b>1,545,825</b>	1,601,083
Construction-in-progress	<b>815,854</b>	451,640
Total property and equipment, net	<b>\$ 2,361,679</b>	\$ 2,052,723

Depreciation and amortization expense on property and equipment totaled \$197,288 and \$172,812 for the fiscal years ended September 30, 2023 and 2022, respectively.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### 7. Property and Equipment, Net (continued)

For the fiscal year ended September 30, 2023, City of Hope recorded an impairment loss of \$6,580 on long-lived assets, which is included in other expense on the accompanying consolidated statement of activities. No impairment was recorded for the fiscal year ended September 30, 2022.

#### 8. Liquidity and Availability

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 424,966	\$ 232,284
Investments	1,603,511	1,555,739
Patient accounts receivable	529,608	464,078
Grants and other receivables	217,663	174,032
Board-designated assets	1,208,842	1,050,182
	<u>\$ 3,984,590</u>	<u>\$ 3,476,315</u>

As part of City of Hope's liquidity management plan, cash in excess of any daily requirement is invested in long-term investments. The 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. Generally, these investments can be liquidated as needed by City of Hope to be available for City of Hope's general expenditures within one year of the consolidated statement of financial position. The redemption of the alternative investments may be subject to certain restrictions which do not have an impact on the liquidity profile. Investments limited as to use, such as self-insurance trust funds, investments held for long-term purposes, bond trust funds, and donor-restricted funds are not included in the amounts disclosed above.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **8. Liquidity and Availability (continued)**

##### **Line of Credit**

On April 21, 2020, City of Hope entered into a syndicated unsecured revolving line of credit (the “Line of Credit”) with certain banking institutions for a combined amount of \$450,000, which was amended to extend the term to April 20, 2022. Prior to expiration, City of Hope entered into a second amendment to extend its syndicated unsecured revolving line of credit with an additional term of three years (April 18, 2025). City of Hope draws on the Line of Credit for general operating needs as required. The amount drawn is subject to a SOFR interest rate of one to three months plus a spread at the time of borrowing. A nonrefundable unutilized fee is incurred at a rate based on City of Hope’s credit rating, which is applied to any unused commitment balance.

For the fiscal years ended September 30, 2023 and 2022, City of Hope did not have an outstanding balance on this Line of Credit. Commitment fees of \$1,459 and \$838 were incurred for the fiscal years ended September 30, 2023 and 2022, respectively.

##### **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. Based on a pre-agreed amortization schedule, the available balance for the fiscal years ended September 30, 2023 and 2022, was \$15,000 and \$25,000, respectively. The standby letter of credit automatically reduces, without amendment, on various dates. As of September 2023 and 2022, there was no outstanding balance on the standby letter of credit.

City of Hope has an available amount on the standby letter of credit of \$1,125 and \$1,775 with various counterparties to which City of Hope is a party to secure its obligations under long-term right-of-use finance lease agreements for the benefit of the lessor for fiscal years ended September 30, 2023 and 2022, respectively. The standby letter of credit is guaranteed by City of Hope and renews annually, unless terminated by written notice prior to the annual anniversary date by the lender. As of September 30, 2023 and 2022, there was no outstanding balance on the standby letters of credit.

## City of Hope

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

#### 8. Liquidity and Availability (continued)

##### Commercial Paper Program

In September 2023, City of Hope established a commercial paper program that permits the issuance of up to \$125,000 in aggregate principal amount outstanding of taxable commercial paper notes with maturities limited to 270-day periods. The commercial paper program is backed by a \$125,000 standby letter of credit to ensure the availability of funds to purchase any commercial paper that the remarketing agent is unable to remarket. The standby letter of credit expires on September 26, 2025, subject to earlier termination in accordance with its terms and may be extended upon written notice. In addition, City of Hope incurs a nonrefundable unutilized fee at a rate based on City of Hope's credit rating applied to the unused commitment balance. For the fiscal year ended September 30, 2023, no amounts were outstanding on the standby letter of credit. The balance outstanding under the commercial paper program was \$125,000, which was issued at a discount (\$123,408 net) with an average maturity of 83 days at prevailing market interest rates (average 5.59%) at September 30, 2023.

#### 9. Long-Term Debt

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

	<u>2023</u>	<u>2022</u>
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)	\$ 180,605	\$ 187,795
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

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

#### 9. Long-Term Debt (continued)

	<b>2023</b>		<b>2022</b>
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)	<b>\$ 32,680</b>	\$	32,680
City of Hope, Tax-Exempt variable rate Revenue Notes Series 2017B, originally \$32,680, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039 through November 15, 2042 (Series 2017B Revenue Notes)	<b>32,680</b>		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)	<b>300,000</b>		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)	<b>334,905</b>		334,905
TGen, 1.690% fixed rate convertible promissory notes, mature October 1, 2023 (TGen Notes)	<b>7,000</b>		7,000

City of Hope

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

**9. Long-Term Debt (continued)**

	<u>2023</u>	<u>2022</u>
HoldCo, variable rate interest due monthly and principal due on January 30, 2023 (Bridge Loan)	\$ —	\$ 649,590
HoldCo, variable rate interest due monthly and principal due on November 14, 2023, loan from the Illinois Finance Authority issued through a \$650,000 taxable bond under Series 2022A Bonds (IFA Loan)	<b>650,000</b>	—
City of Hope, 5.810%–6.340% fixed rate Taxable Direct Obligation Notes, totaling \$600,000. Interest payable semiannually on May 15 and November 15, principal payment due by tranche on November 15, 2027, November 15, 2032, and November 15, 2052, under Series 2022BCDE and Series 2023A (2022 Notes)	<b>600,000</b>	—
	<u>2,487,870</u>	<u>1,894,650</u>
Less current maturities of long-term debt	<b>(14,560)</b>	(7,190)
Less unamortized bond issue costs	<b>(5,468)</b>	(3,513)
Less unamortized discount	<b>(5,712)</b>	(6,007)
Plus unamortized premium	<b>53,543</b>	56,906
	<u><b>\$ 2,515,673</b></u>	<u>\$ 1,934,846</u>

Long-term debt maturities as of September 30, 2023, and payments for subsequent fiscal years are as follows:

2024	\$ 14,560
2025	452,565
2026	11,000
2027	11,565
2028	144,655
Thereafter	1,853,525
	<u><u>\$ 2,487,870</u></u>

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **9. Long-Term Debt (continued)**

**Series 2012 Revenue Bonds (Tax Exempt)** – In November 2012, City of Hope, as representative of the Obligated Group, issued \$234,635 of tax-exempt fixed rate revenue bonds (Series 2012A), \$32,500 of tax-exempt variable rate revenue bonds (Series 2012B), and \$32,500 of tax-exempt variable rate revenue bonds (Series 2012C) 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 notes 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 interest rate (SOFR plus a spread). The Series 2017 Revenue Notes are secured by a gross receivables pledge. The variable interest rates ranged from 2.79% to 4.40% for fiscal year ended September 30, 2023 and 0.66% to 2.39% for fiscal year ended September 30, 2022.

**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.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **9. Long-Term Debt (continued)**

**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** – In January 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 matured on January 30, 2023. The proceeds from the IFA Loan described below were used to pay off the Bridge Loan prior to its maturity. The Bridge Loan was guaranteed by the Obligated Group and was secured by an obligation issued under the Obligated Group’s Master Trust Indenture. The variable interest rates ranged from 4.03% to 5.15% for fiscal year ended September 30, 2023 and 1.06% to 3.46% for fiscal year ended September 30, 2022.

**IFA Loan** – On November 15, 2022, the Illinois Finance Authority (“IFA”) issued a \$650,000 taxable bond at par under Series 2022A Bonds (City of Hope) and loaned the proceeds to HoldCo pursuant to a loan agreement (“IFA Loan”) and the related bond indenture. The proceeds of the IFA Loan were used by HoldCo to prepay in full its obligations under the Bridge Loan. 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. Prior to its maturity, the IFA loan was paid off and refinanced from the proceeds of a new debt issuance (refer to Note 19, Subsequent Events, for further details). The variable interest rates on the IFA Loan ranged from 4.68% to 6.22% for fiscal year ended September 30, 2023.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **9. Long-Term Debt (continued)**

**2022 Notes (Taxable)** – In December 2022, City of Hope, as representative of the Obligated Group, issued \$600,000 of fixed rate Direct Obligation Notes at par under a note purchase agreement (“2022 Notes”). A portion of the 2022 Notes totaling \$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 (Series 2022B), \$175,000 on November 15, 2032 (Series 2022C), and \$292,500 on November 15, 2052 (Series 2022D and 2022E). The remaining portion of the 2022 Notes totaling \$75,000 was purchased on January 18, 2023, and will mature on November 15, 2027 (Series 2023A). The 2022 Notes were issued and secured as obligations under the Obligated Group’s Master Trust Indenture. The proceeds of the 2022 Notes will be used for general corporate purposes.

**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 tied to the interest rate (SOFR). 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.

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 of 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. City of Hope and its counterparty terminated one of the two swap agreements on November 16, 2022, which resulted in positive cash flow to City of Hope in the amount of \$8,181.

For the fiscal years ended September 30, 2023 and 2022, the change in the fair value of the interest rate swaps resulted in an unrealized gain of \$5,703 and \$34,416, respectively. The swaps were not designated as cash flow hedges, so the changes in fair value are recorded within interest expense on the accompanying consolidated statements of activities. The effect of the counterparty payments and receipts for the swaps was a net \$1,449 benefit and \$1,405 increase on interest expense for the fiscal years ended September 30, 2023 and 2022, respectively.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **9. Long-Term Debt (continued)**

**Financial Covenants** –The Obligated Group was in compliance with its financial covenants for the respective issued debt obligations as of September 30, 2023 and 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, 2023 and 2022.

#### **10. Endowment**

City of Hope’s endowment as of September 30, 2023 consists of 147 individual funds established for a variety of purposes. The endowments include both donor-restricted “true” endowment funds, which are classified as net assets with donor restrictions, and funds designated by the Board of Directors to function as an endowment, which are classified as net assets without donor restrictions. City of Hope’s endowment is invested in an investment pool.

#### **Interpretation of Relevant Law**

ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). City of Hope classifies donor-restricted true endowment funds to include (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

## City of Hope

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

#### **10. Endowment (continued)**

- 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

#### **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, 2023, 15 funds were deficient with an original gift value of \$12,824 and a deficiency of \$215. As of September 30, 2022, 12 funds were deficient with an original gift value of \$14,822 and a deficiency of \$1,436.

#### **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 which is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

#### **Strategies and Endowment Payout**

City of Hope relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). City of Hope targets a diversified asset allocation to achieve its long-term return objections within prudent risk constraints. In accordance with City of Hope's total return objective, up to 5% of the annual fair value as measured on January 1 each year is available for expenditure in the form of endowment payout for expenditures or purposes as defined by the endowment agreements.

## City of Hope

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

#### 10. Endowment (continued)

##### 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, 2023 and 2022, are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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
Investment income	<b>14,153</b>	<b>4,323</b>	<b>18,476</b>
Net appreciation	<b>145,391</b>	<b>39,037</b>	<b>184,428</b>
Contributions	–	<b>37,600</b>	<b>37,600</b>
Appropriation for expenditures	<b>(884)</b>	<b>(13,975)</b>	<b>(14,859)</b>
Endowment net assets, September 30, 2023	<b>\$ 1,208,842</b>	<b>\$ 407,122</b>	<b>\$ 1,615,964</b>

#### 11. Net Assets With Donor Restrictions

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

	<b>2023</b>	<b>2022</b>
Time restricted under annuity and split-interest obligations and other	\$ 409,434	\$ 323,022
Patient care	<b>51,533</b>	46,542
Education	<b>35,546</b>	32,341
Research	<b>621,465</b>	538,552
Medical equipment and buildings	<b>10,635</b>	17,185
Total net assets with donor restrictions	<b>\$ 1,128,613</b>	<b>\$ 957,642</b>

## 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:

	<b>2023</b>	<b>2022</b>
Time restricted under annuity and split-interest obligations and other	\$ <b>12,692</b>	\$ 9,923
Patient care	<b>9,102</b>	3,168
Education	<b>3,165</b>	1,930
Research	<b>82,753</b>	83,461
Equipment and buildings	<b>13,497</b>	355
Total donor-restricted net assets released from restrictions	<b>\$ 121,209</b>	\$ 98,837

#### 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 to provide benefits to eligible employees as defined in the Plan and covers substantially all employees. Depending on years of service and salary, contributions range between 2% and 10% of qualified compensation for eligible participants and are subject to the Plan’s vesting provisions. The employer contribution and employee contributions are subject to Internal Revenue Code limitations.

The Center and the Institute participate in the City of Hope Research Staff Organization (“RSO”) Tax Deferred Annuity Plan (the “RSO TDA Plan”), which was established to provide benefits to eligible members of City of Hope RSO as defined in the plan document. Participants receive employer contributions of 15% based on eligible salary. 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 \$49,942 and \$43,734 for the fiscal years ended September 30, 2023 and 2022, 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, 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
<b>2023</b>						
Salaries, wages, and employee benefits	\$ 856,161	\$ 341,624	\$ 16,899	\$ 374,279	\$ 22,235	\$1,611,198
Purchased services and professional fees	345,581	148,464	15,339	252,831	14,146	776,361
Supplies and pharmaceuticals	1,351,085	92,147	1,133	27,230	4,342	1,475,937
Royalty sharing	27	2,806	-	-	-	2,833
Interest, including changes in fair value of swap agreements	76,620	16,811	1,126	14,497	-	109,054
Depreciation and amortization	115,375	46,691	1,508	55,599	264	219,437
Hospital provider fee	48,921	-	-	-	-	48,921
Equipment rental and maintenance	30,589	16,555	6,675	28,601	369	82,789
Occupancy	19,482	16,023	3,576	29,071	3,994	72,146
Insurance	4,317	1,898	933	3,975	62	11,185
Other expense	48,269	34,044	11,170	50,300	2,478	146,261
Total expenses	<u>\$2,896,427</u>	<u>\$ 717,063</u>	<u>\$ 58,359</u>	<u>\$ 836,383</u>	<u>\$ 47,890</u>	<u>\$4,556,122</u>

## City of Hope

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

#### 13. Functional Classification of Expenses (continued)

	Public Information and					Total
	Patient Care	Research	Education	Administrative	Fundraising	
<b>2022</b>						
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
Equipment rental and maintenance	23,878	12,684	3,936	24,065	302	64,865
Occupancy	17,270	14,844	2,402	25,262	1,651	61,429
Insurance	2,928	1,951	442	3,734	341	9,396
Other expense	38,931	29,580	9,072	56,124	3,343	137,050
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>

#### 14. Insurance Programs

##### Workers' Compensation Program

City of Hope, the Center, the Foundation, and the Institute have elected to self-insure their workers' compensation liability in the state of California. All other states are fully insured with a zero dollar deductible. In California, reinsurance has been obtained for the self-insured 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 \$26,179 and \$23,958 has been recorded as of September 30, 2023 and 2022, respectively. The estimated current portion of the liability, totaling \$5,153 and \$4,605 as of September 30, 2023 and 2022, 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 \$21,026 and \$19,353 as of September 30, 2023 and 2022, 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 5% and 4% discount factor as of September 30, 2023 and 2022, respectively. The CTCA Entities maintain workers' compensation insurance coverage with a deductible of \$1,000 per claim for fiscal year ended September 30, 2023 and 2022, respectively, and thus do not self-insure their workers' compensation liability.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **14. Insurance Programs (continued)**

Expected insurance recoveries related to workers' compensation totaling \$5,259 and \$3,632 as of September 30, 2023 and 2022, respectively, have been reflected on the accompanying consolidated statements of financial position in other assets. Workers' compensation expense totaled \$9,342 and \$6,848 for the fiscal years ended September 30, 2023 and 2022, respectively.

#### **Professional Liability Insurance**

The Center, the Foundation, 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, 2023, with limits of up to \$50,000 with a deductible of \$100 through June 30, 2014, and \$250 between July 1, 2014 and September 30, 2023. 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 5% and 4% discount factor as of September 30, 2023 and 2022, respectively. An estimated liability of \$3,307 and \$2,273 as of September 30, 2023 and 2022, respectively, is included within other accrued liabilities as well as other long-term liabilities on the consolidated statements of financial position.

The Center, the Foundation, AH, and the Institute recorded insurance recoveries related to professional liability totaling \$616 and \$546 as of September 30, 2023 and 2022, 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, 2023, with limits of 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 1, 2022 through February 1, 2023, with limits of up to \$40,000 and a deductible of \$1,000 in Arizona and Georgia and \$2,000 in Illinois for each claim. From February 1, 2023 through September 30, 2023, the deductible is \$2,000 in Arizona and \$5,000 in Georgia and Illinois.

The professional liability insurance expense included in other expense on the consolidated statements of activities amounted to \$3,868 and \$1,982 for the fiscal years ended September 30, 2023 and 2022, respectively.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### 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 when the rate implicit in the lease is not readily determinable. City of Hope elected the practical expedient not to separate contract lease and non-lease components. Building lease agreements generally require City of Hope to pay maintenance, repairs, property taxes, and insurance costs, which are variable amounts based on actual costs incurred during each applicable lease period. Such costs are not included in the determination of right-of-use assets or liabilities. Variable lease costs also include escalating rent payments over the lease term based on changes in the consumer price index or other measures of inflation.

Most leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then-market rate of rental payments. City of Hope does not include the renewal options in the lease term for calculating the lease liability due to the uncertainty at the time of lease commencement as to whether the renewal option is reasonably certain to be executed. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at City of Hope's discretion and are evaluated at the commencement of the lease, with only those options that are reasonably certain of exercise included in the determination of the appropriate lease term. The discount rates applied for existing leases use 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:

	<u>2023</u>	<u>2022</u>
Right-of-use operating leases remaining lease term	<b>18.5 years</b>	17.9 years
Right-of-use finance leases remaining lease term	<b>10.3 years</b>	10.4 years
Right-of-use operating leases discount rate	<b>2.0%</b>	1.7%
Right-of-use finance leases discount rate	<b>3.8</b>	3.5

City of Hope

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

**15. Leases (continued)**

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

	<u>2023</u>	<u>2022</u>
Right-of-use operating:		
Operating lease expense	\$ 30,403	\$ 28,990
Variable lease expense	2,198	4,775
Short-term lease expense	1,131	2,325
Sublease income	(209)	(1,082)
Right-of-use finance:		
Amortization of leased assets	8,895	7,912
Interest on lease liabilities	1,986	2,012
Total lease expense	<u>\$ 44,404</u>	<u>\$ 44,932</u>

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

	<u>2023</u>	<u>2022</u>
Operating cash flows for operating leases	\$ 29,872	\$ 26,657
Operating cash flows for finance leases	1,986	2,012
Financing cash flows for finance leases	10,959	10,009

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### 15. Leases (continued)

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, 2023:

	<b>Operating</b>	<b>Financing</b>
2024	\$ 25,857	\$ 10,963
2025	23,722	9,967
2026	18,462	6,044
2027	17,324	5,443
2028	15,957	4,743
Thereafter	116,022	24,566
Total lease payments	217,344	61,726
Less interest	38,347	10,743
Total lease liabilities	178,997	50,983
Less current portion, lease liabilities	22,431	9,106
Long-term portion, lease liabilities	\$ 156,566	\$ 41,877

**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.

#### 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 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 by government agencies or payors 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, 2023. Four of the nine agreements will expire in the following fiscal 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. City of Hope identified inaccurate processes related to filling certain prescriptions, which has resulted in the potential receipt by City of Hope and third party pharmacies of erroneous payments. City of Hope is in the process of disclosing identified errors to the affected parties. An estimate of any potential loss to City of Hope resulting from these erroneous payments potentially received by third party pharmacies cannot be made at this time.

##### **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, 2023, City of Hope has committed to spend \$382,082 through 2024 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

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, the Foundation, and the CTCA Entities 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, the Foundation, and the CTCA Entities 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:

	2023	2022
<b>Benefits for the broader community – support for research (unaudited)</b>		
Estimated institutionally supported research costs, net of grants received of \$236,317 and \$214,403 in 2023 and 2022, respectively:		
Center	\$ 96,145	\$ 106,100
Institute	229,977	237,186
TGen	63,824	53,803
CTCA	1,916	–
Total estimated benefits for the broader community, at cost	391,862	397,089
<b>Support of governmental health care programs (unaudited)</b>		
Estimated unreimbursed cost of the Medicaid Program, less net impact of the hospital fee program of \$66,136 and \$59,844 in 2023 and 2022, respectively	16,723	12,593
Estimated unreimbursed cost of the Medicare Program	350,092	233,476
	366,815	246,069
Total estimated benefits for the broader community and unreimbursed costs to governmental health care programs	\$ 758,677	\$ 643,158

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

#### 18. COVID-19 Pandemic

In March 2020, the World Health Organization declared the global novel coronavirus disease (“COVID-19”) a pandemic. City of Hope incurred incremental expenses, including higher usage of labor, supply costs, and lost revenues in response to the pandemic. Based on COVID-19 trends, the federal declaration ended on May 11, 2023.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **18. COVID-19 Pandemic (continued)**

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 Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). City of Hope is not required to repay the funds received. Based on an analysis of the compliance and reporting requirements of the provider relief fund, City of Hope has attested to meeting the applicable terms and conditions required to retain all provider relief funds received. City of Hope did not recognize any revenues from provider relief funds for the fiscal year ended September 30, 2023, and recognized \$12,630 as other revenue on the accompanying consolidated statement of activities during the fiscal year ended September 30, 2022.

The Centers for Medicare & Medicaid Services expanded their Accelerated and Advance Payments 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. There were no advance payments received in the fiscal years ended September 30, 2023 or 2022. As of September 30, 2022, City of Hope had 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.

The CARES Act also provided for the payroll tax deferral of the employer’s share of Social Security tax for employer payroll taxes incurred between March 27, 2020 (the date of the enactment) and December 31, 2020. City of Hope was required to reimburse 50% of this deferral amount by December 31, 2021, and the remaining 50% by December 31, 2022. As of the fiscal year ended September 30, 2023, there was no remaining deferred balance. City of Hope had a remaining balance of \$13,701 deferred as of September 30, 2022, which was paid in December 2022.

Between June 2022 and May 2023, City of Hope submitted COVID-19 reimbursement documentation for claims totaling \$21,312 to the Federal Emergency Management Agency (“FEMA”). During the fiscal year ended September 30, 2023, City of Hope received notification that \$11,337 of the FEMA claims submitted have been obligated by California Governor’s Office of Emergency Services (“CalOES”), indicating approval and reimbursement for qualifying pandemic-related costs. The amounts obligated have been recorded on the date of obligation as other revenue in the accompanying consolidated statement of activities.

## City of Hope

### Notes to Consolidated Financial Statements (continued)

*(Dollar Amounts Expressed in Thousands)*

#### **19. Subsequent Events**

City of Hope has evaluated events occurring between September 30, 2023 and January 12, 2024, the date these consolidated financial statements were issued.

On October 17, 2023, the IFA issued \$207,900 of tax-exempt revenue bonds (“Series 2023A”) maturing on November 15, 2053, and \$442,100 taxable revenue bonds (“Series 2023B”) maturing on October 15, 2024. The aggregate amount of proceeds of \$650,000 was loaned to City of Hope pursuant to a loan agreement (the “Series 2023 A/B Loan”) to refinance the \$650,000 IFA Loan previously entered into on November 15, 2022. The 2023A/B Loan is secured by an obligation issued under the Master Trust Indenture, as amended.

City of Hope entered into a five-year interest rate swap agreement with a notional amount of \$207,900 that became effective on October 17, 2023. The swap was entered into in conjunction with the Series 2023A bond. City of Hope will receive a fixed rate of 6.85% and will pay a variable rate (SIFMA plus a spread) to its swap counterparty.

In mid-October, City of Hope experienced a cybersecurity incident affecting certain of its information technology (IT) systems. City of Hope engaged third-party cybersecurity specialists and took immediate steps to respond to, remediate and investigate the incident. Law enforcement was also notified. The investigation, which is ongoing, has determined that an unauthorized third party gained access to a portion of City of Hope’s IT systems and obtained copies of some of City of Hope’s files. While City of Hope’s investigation into the incident, including identification of the data involved, remains ongoing, the incident did not materially impact City of Hope’s ability to provide patient care services. City of Hope may have certain obligations to regulatory agencies and/or affected individuals arising from this incident. The full scope of those obligations is not currently known. City of Hope maintains insurance, including coverage for cyber-attacks, subject to certain deductibles and policy limitations, in an amount that City of Hope believes appropriate. Given the recency of this incident and the inherent uncertainties in matters of this type, the full scope of the costs and related impacts of this incident, including the extent to which these costs will be offset by City of Hope’s cybersecurity insurance, has not been determined and City of Hope is unable to determine whether the incident will have a material effect on City of Hope’s future consolidated financial condition and results of operations.

## Supplementary Information

# City of Hope

## Consolidating Statements of Financial Position (In Thousands)

September 30, 2023 and 2022

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2023	Consolidated 2022
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 366,020	\$ 58,946	\$ -	\$ 424,966	\$ 232,284
Short-term investments	1,564,174	39,337	-	1,603,511	1,555,739
Self-insurance trust funds	4,464	-	-	4,464	3,959
Patient accounts receivable, net	435,026	94,582	-	529,608	464,078
Due from affiliates	77,149	22,333	(99,482)	-	-
Grants and other receivables	194,356	23,307	-	217,663	174,032
Due from third-party payors	23,403	-	-	23,403	-
Current portion of donor-restricted unconditional promises to give, net	69,775	5,824	-	75,599	48,209
Interest rate swap	-	-	-	-	8,579
Prepaid and other	77,050	44,933	-	121,983	108,480
Total current assets	<u>2,811,417</u>	<u>289,262</u>	<u>(99,482)</u>	<u>3,001,197</u>	<u>2,595,360</u>
Property and equipment, net	2,037,872	323,807	-	2,361,679	2,052,723
Right-of-use finance lease assets	5,250	37,957	-	43,207	46,363
Right-of-use operating lease assets	156,985	15,847	-	172,832	188,390
Other assets:					
Long-term investments	3,880	-	-	3,880	18,892
Board-designated assets	1,208,842	-	-	1,208,842	1,050,182
Bond trust funds	75,522	-	-	75,522	160,785
With donor restrictions:					
Investments	724,327	23,596	-	747,923	667,392
Unconditional promises to give, net	208,758	952	-	209,710	145,100
Contributions receivable from annuity and split-interest agreements, net	101,313	-	-	101,313	106,867
Other	29,959	62	-	30,021	20,321
Goodwill and other intangible assets	37,233	37,329	-	74,562	99,954
Interest rate swap	12,443	-	-	12,443	8,574
Other long-term assets	228,236	1,974	(151,896)	78,314	68,325
Total other assets	<u>2,630,513</u>	<u>63,913</u>	<u>(151,896)</u>	<u>2,542,530</u>	<u>2,346,392</u>
Total assets	<u>\$ 7,642,037</u>	<u>\$ 730,786</u>	<u>\$ (251,378)</u>	<u>\$ 8,121,445</u>	<u>\$ 7,229,228</u>

## City of Hope

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

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2023	Consolidated 2022
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 114,138	\$ 35,775	\$ -	\$ 149,913	\$ 105,962
Other accrued liabilities	243,879	52,749	-	296,628	364,575
Accrued salaries, wages, and employee benefits	116,811	29,716	-	146,527	150,601
Long-term debt, current portion	7,560	7,000	-	14,560	7,190
Right-of-use finance leases, current portion	6,255	2,851	-	9,106	8,375
Right-of-use operating leases, current portion	17,384	5,047	-	22,431	27,541
Short-term borrowings	123,408	-	-	123,408	-
Due to third-party payors	-	6,939	-	6,939	42,620
Contract liabilities	19,262	1,694	-	20,956	15,526
Due to affiliates	22,333	77,149	(99,482)	-	-
Total current liabilities	<u>671,030</u>	<u>218,920</u>	<u>(99,482)</u>	<u>790,468</u>	<u>722,390</u>
Long-term debt, net of current portion	1,865,744	649,929	-	2,515,673	1,934,846
Right-of-use finance leases, net of current portion	6,720	35,157	-	41,877	45,808
Right-of-use operating leases, net of current portion	145,294	11,272	-	156,566	163,381
Annuity and split-interest agreement obligations	33,053	-	-	33,053	27,854
Interest rate swap	-	-	-	-	2,232
Other	74,322	4,910	-	79,232	69,352
Total liabilities	<u>2,796,163</u>	<u>920,188</u>	<u>(99,482)</u>	<u>3,616,869</u>	<u>2,965,863</u>
Net assets:					
Without donor restrictions:					
Controlling interests	3,745,544	(244,823)	(151,896)	3,348,825	3,276,446
Noncontrolling interests	-	27,138	-	27,138	29,277
With donor restrictions	1,100,330	28,283	-	1,128,613	957,642
Total net assets	<u>4,845,874</u>	<u>(189,402)</u>	<u>(151,896)</u>	<u>4,504,576</u>	<u>4,263,365</u>
Total liabilities and net assets	<u>\$ 7,642,037</u>	<u>\$ 730,786</u>	<u>\$ (251,378)</u>	<u>\$ 8,121,445</u>	<u>\$ 7,229,228</u>

# City of Hope

## Consolidating Statements of Activities (In Thousands)

Years Ended September 30, 2023 and 2022

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2023	Consolidated 2022
Revenues, gains, and other support:					
Net patient service revenues	\$ 2,915,245	\$ 791,678	\$ –	\$ 3,706,923	\$ 2,925,453
Research grants, contracts, and clinical trials	206,652	29,665	–	236,317	215,970
Contributions	272,693	21,236	–	293,929	231,987
Investment income	205,893	4,119	–	210,012	241,682
Net unrealized gain (loss) on investments	232,058	5,028	–	237,086	(651,226)
Royalty and licensing revenue	8,456	–	–	8,456	19,916
Other revenue	74,530	52,076	(22,057)	104,549	80,815
Total revenues, gains, and other support	<u>3,915,527</u>	<u>903,802</u>	<u>(22,057)</u>	<u>4,797,272</u>	<u>3,064,597</u>
Expenses:					
Salaries, wages, and employee benefits	1,191,882	419,316	–	1,611,198	1,360,040
Purchased services and professional fees	683,229	118,347	(25,215)	776,361	778,420
Supplies and pharmaceuticals	1,096,085	379,852	–	1,475,937	1,102,522
Royalty sharing	2,833	–	–	2,833	6,416
Interest, including changes in fair value of swap agreements	69,308	39,746	–	109,054	15,832
Depreciation and amortization	153,597	65,840	–	219,437	194,770
Hospital provider fee	28,052	20,869	–	48,921	37,730
Equipment rental and maintenance	31,217	51,572	–	82,789	64,865
Occupancy	60,140	12,006	–	72,146	61,429
Insurance	5,725	5,460	–	11,185	9,396
Other expense	68,998	77,263	–	146,261	137,050
Total expenses	<u>3,391,066</u>	<u>1,190,271</u>	<u>(25,215)</u>	<u>4,556,122</u>	<u>3,768,470</u>
Excess (deficiency) of revenues, gains, and other support over expenses	524,460	(286,468)	3,158	241,150	(703,873)
Distribution to noncontrolling interest	–	(2,550)	1,278	(1,272)	(1,462)
Contribution from noncontrolling interest	–	1,333	–	1,333	–
Conversion of note due to affiliate	–	48,636	(48,636)	–	–
Changes in net assets	524,460	(239,049)	(44,200)	241,211	(705,335)
Net assets, beginning of year	<u>4,321,413</u>	<u>49,648</u>	<u>(107,696)</u>	<u>4,263,365</u>	<u>4,968,700</u>
Net assets, end of year	<u>\$ 4,845,874</u>	<u>\$ (189,402)</u>	<u>\$ (151,896)</u>	<u>\$ 4,504,576</u>	<u>\$ 4,263,365</u>

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