

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

City of Hope
Years Ended September 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



City of Hope

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2020 and 2019

Contents

Report of Independent Auditors 1

Consolidated Financial Statements

Consolidated Statements of Financial Position 3

Consolidated Statements of Activities 5

Consolidated Statements of Cash Flows 7

Notes to Consolidated Financial Statements 9

Supplementary Information

Consolidating Statements of Financial Position 58

Consolidating Statements of Activities 60



Ernst & Young LLP
Suite 500
725 South Figueroa Street
Los Angeles, CA 90017-5418

Tel: +1 213 977 3200
Fax: +1 213 977 3152
ey.com

Report of Independent Auditors

The Board of Directors
City of Hope

We have audited the accompanying consolidated financial statements of City of Hope, which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of City of Hope at September 30, 2020 and 2019, and the consolidated results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Accounting Standards Update No 2016-02, *Leases (Topic 842)*

As discussed in Note 2 to the consolidated financial statements, City of Hope changed their method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, effective October 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

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

Ernst + Young LLP

December 18, 2020

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 727,366	\$ 238,535
Investments	2,032,681	1,927,425
Self-insurance trust funds	4,367	3,418
Patient accounts receivable	257,368	235,989
Grants and other receivables	156,163	158,176
Donor-restricted unconditional promises to give, net	47,557	24,449
Prepaid and other	67,263	47,151
Total current assets	<u>3,292,765</u>	2,635,143
Property and equipment, net	1,149,403	977,718
Right-of-use finance lease assets	56,890	—
Right-of-use operating lease assets	109,818	—
Other assets:		
Investments held for long-term purposes	39,528	237,564
Board-designated assets	957,138	895,110
Bond trust funds	350,481	380,242
With donor restrictions:		
Investments	572,734	557,136
Unconditional promises to give, net	67,891	45,587
Contributions receivable from annuity and split-interest agreements, net	15,128	15,716
Other	3,477	3,565
Intangible assets	9,548	10,038
Goodwill	47,254	53,160
Other long-term assets	63,233	58,657
Total other assets	<u>2,126,412</u>	2,256,775
Total assets	<u><u>\$ 6,735,288</u></u>	<u><u>\$ 5,869,636</u></u>

City of Hope

Consolidated Statements of Financial Position
(In Thousands)

	September 30	
	2020	2019
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 224,419	\$ 198,081
Accrued salaries, wages, and employee benefits	161,502	107,833
Long-term debt, current portion	7,240	13,492
Right-of-use finance leases, current portion	7,243	–
Right-of-use operating leases, current portion	14,066	–
Line of credit	450,000	–
Due to third-party payors	6,143	25,675
Contract liabilities	114,349	28,781
Total current liabilities	<u>984,962</u>	<u>373,862</u>
Long-term debt, net of current portion	1,300,714	1,373,657
Right-of-use finance leases, net of current portion	57,375	–
Right-of-use operating leases, net of current portion	104,892	–
Annuity and split-interest agreement obligations	19,849	19,068
Deferred rent	–	5,904
Interest rate swap	30,379	19,489
Other	56,095	57,113
Total liabilities	<u>2,554,266</u>	<u>1,849,093</u>
Net assets:		
Without donor restrictions:		
Controlling interests	3,465,438	3,363,779
Noncontrolling interests	30,584	32,298
With donor restrictions	685,000	624,466
Total net assets	<u>4,181,022</u>	<u>4,020,543</u>
Total liabilities and net assets	<u>\$ 6,735,288</u>	<u>\$ 5,869,636</u>

See accompanying notes.

City of Hope

Consolidated Statement of Activities (In Thousands)

Year Ended September 30, 2020

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

See accompanying notes.

City of Hope

Consolidated Statement of Activities (In Thousands)

Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Net patient service revenues	\$ 1,555,575	\$ –	\$ 1,555,575
Research grants, contracts, and clinical trials	169,314	–	169,314
Contributions	59,250	92,178	151,428
Investment income	206,678	33,324	240,002
Net unrealized loss on investments	(136,280)	(14,190)	(150,470)
Royalty and licensing revenue	384,514	–	384,514
Other revenue	56,458	79	56,537
Total revenues and gains	2,295,509	111,391	2,406,900
Net assets released from restrictions	79,237	(79,237)	–
Total revenues, gains, and other support	2,374,746	32,154	2,406,900
Expenses:			
Salaries, wages, and employee benefits	826,095	–	826,095
Purchased services and professional fees	465,792	–	465,792
Supplies and pharmaceuticals	514,663	–	514,663
Royalty sharing	118,445	–	118,445
Interest, including changes in fair value of swap agreements	59,888	–	59,888
Depreciation and amortization	140,306	–	140,306
Hospital provider fee	15,735	–	15,735
Other expense	85,158	620	85,778
Total expenses	2,226,082	620	2,226,702
Excess of revenues, gains, and other support over expenses	148,664	31,534	180,198
Distribution to noncontrolling interest	(2,037)	–	(2,037)
Cumulative changes in net assets from adoption of new accounting standard	87,144	–	87,144
Changes in net assets	233,771	31,534	265,305
Net assets, beginning of year	3,162,306	592,932	3,755,238
Net assets, end of year	\$ 3,396,077	\$ 624,466	\$ 4,020,543

See accompanying notes.

City of Hope

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2020	2019
Operating activities		
Changes in net assets	\$ 160,479	\$ 265,305
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	136,880	133,900
Amortization of goodwill and other intangibles	6,266	6,406
Amortization of bond costs, discount, and premium	(2,988)	(1,604)
Amortization of right-of-use operating lease assets	11,779	-
Distribution to noncontrolling interest	-	2,037
Net unrealized (gain) loss on investments	(118,795)	150,470
Change in value of interest rate swaps	10,890	12,940
Contribution proceeds restricted for endowment	(4,937)	(13,430)
Other	112	96
Changes in assets and liabilities:		
Patient accounts receivable	(21,379)	2,395
Grants and other receivables	2,013	(62,195)
Unconditional promises to give, net	(45,412)	9,281
Contributions receivable from split-interest agreements	588	(2,534)
Other assets	(23,450)	(13,670)
Accounts payable and accrued liabilities	17,489	40,513
Accrued salaries, wages, and employee benefits	53,669	20,361
Annuity and split-interest agreement obligations	781	(1,396)
Operating lease liabilities	(12,442)	-
Other liabilities	70,246	30,040
Net cash provided by operating activities before net sales (purchases) of trading investments	241,789	578,915
Net sales (purchases) of trading investments	250,838	(927,039)
Net cash provided by (used in) operating activities	492,627	(348,124)
Investing activities		
Increase in notes receivable	(1,023)	(150)
Additions to property and equipment	(356,715)	(180,919)
Proceeds from sale of contributed real property held for sale	-	407
Net (purchases) sales of alternative investments	(61,116)	28,263
Net cash used in investing activities	(418,854)	(152,399)

City of Hope

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

	Year Ended September 30	
	2020	2019
Financing activities		
Proceeds from line of credit	\$ 498,875	\$ –
Repayments of line of credit	(48,875)	–
Proceeds from long-term debt borrowing, net	2,500	382,660
Principal payments on long-term debt	(7,484)	(13,740)
Principal payments on finance leases	(7,934)	–
Bond issuance costs	–	(1,305)
Distribution to noncontrolling interest	–	(2,037)
Contribution proceeds restricted for endowment	4,937	13,430
Net cash provided by financing activities	442,019	379,008
Net increase (decrease) in cash, cash equivalents, and restricted cash	515,792	(121,515)
Cash, cash equivalents, and restricted cash beginning of year	256,056	377,571
Cash, cash equivalents, and restricted cash end of year	\$ 771,848	\$ 256,056
Supplemental disclosure of cash flow information:		
Interest paid during the year (net of capitalized interest)	\$ 41,731	\$ 46,324
Supplemental disclosure of noncash activity:		
Capital lease obligation	\$ –	\$ 4,278
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 34,781	\$ 25,932

See accompanying notes.

City of Hope

Notes to Consolidated Financial Statements

September 30, 2020

1. Organization

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

The Center, located in Duarte, California, is a California nonprofit public benefit corporation treating primarily cancer and other life-threatening diseases. The Center currently operates a 186-bed tertiary referral center with a licensed capacity of 217 beds. City of Hope is the sole corporate member of the Center.

The Foundation, located in Duarte, California, is a California nonprofit public benefit corporation organized as part of a coordinated health care 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 the 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)

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, located in Duarte, California, 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.

ACOH, located in Irwindale, California, is a Delaware single-member, 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 is the sole corporate member of ACOH.

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

City of Hope

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

Principles of Consolidation

The accompanying consolidated financial statements of City of Hope include the accounts of the Obligated Group and the Affiliated Group. All intercompany accounts and transactions have been eliminated in the consolidated financial statements. The consolidated financial statements of City of Hope have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

2. Summary of Significant Accounting Policies

New Accounting Standards Adopted

Effective October 1, 2019, City of Hope adopted Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the accounting and disclosures of financial instruments, including a provision that requires equity investments (except for investments accounted for under the equity method of accounting) to be measured at fair value, with changes in fair value recognized in current earnings. City of Hope adopted the new ASU for the year ended September 30, 2020. Investments that were accounted for under the cost method prior to the adoption are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, as fair value for these investments is not readily available. There was no effect from the adoption of this standard on the consolidated financial statements as of and for the year ended September 30, 2020.

Effective October 1, 2019, City of Hope adopted ASU 2016-02, *Leases (Topic 842)*, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. City of Hope elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed City of Hope to not reassess prior conclusions related to contracts that contain leases, lease classification, and initial indirect costs; City of Hope also elected the practical expedient to not separate lease and non-lease components and the practical expedient to reflect the adoption as of the adoption date as opposed to the earliest period presented in the financial statement period of adoption. The adoption resulted in the recognition of \$108,886,000 of right-of-use operating lease assets and \$118,690,000 in right-of-use operating lease liabilities as of October 1, 2019, while the accounting for finance leases remained

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

substantially unchanged. The adoption of the lease standard did not result in a cumulative catch-up adjustment to beginning net assets and did not materially impact City of Hope's consolidated statement of activities and changes in net assets or cash flows for the year ended September 30, 2020. Additional information, including required disclosures, can be found within Note 10.

Effective September 30, 2020, City of Hope adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which amends Accounting Standards Codification (ASC) 230 *Statement of Cash Flows*, to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the total amounts shown on the consolidated statements of cash flows at the beginning and at the end of each year. City of Hope applied the provision retrospectively for all periods presented in the consolidated financial statements. The adoption changed the presentation and classification of cash and cash equivalents included in bond trust funds in the consolidated statements of cash flows for the years ended September 30, 2020 and 2019. For the years ended September 30, 2020 and 2019, City of Hope added \$44,482,000 and \$17,521,000, respectively, of restricted cash included in bond trust funds to the total cash, cash equivalents, and restricted cash in the consolidated statements of cash flows.

New Accounting Standards Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which improves the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. City of Hope is evaluating the effect of this standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for annual periods beginning after December 15, 2020, and City of Hope is evaluating the effect of this standard on the consolidated financial statements.

Use of Estimates

The preparation of City of Hope's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. 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 business combinations; impairment of goodwill and other intangibles; and self-insured liabilities. City of Hope bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular circumstances. Actual results could differ from those estimates and the amounts could be material to the consolidated financial statements.

Acquisitions and Affiliations

City of Hope accounts for acquisitions and affiliations in accordance with ASC 958-805, *Not-for-Profit Entities Business Combinations*, in determining the appropriate accounting treatment for acquisitions and affiliations. Under ASC 958-805, business combinations are classified as either a merger or an acquisition, which results in differing accounting treatment.

Performance Indicator

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

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents reflect all unrestricted cash and cash equivalents that include highly liquid investments with original maturities of three months or less from the date of purchase and exclude amounts whose use is limited under contractual or donor agreements or are held in investment portfolios that are included in investments and investments held for long-term purposes on the consolidated statement of financial position.

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

Cash is held in depository accounts at various financial institutions. The combined account balance at any given institution may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage of \$250,000, and, as a result, there is a concentration of credit risk related to amounts on deposit over the FDIC insurance coverage. Management believes, based on the quality of the financial institutions, that the risk is not significant.

The reconciliation of cash, 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 (amounts in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 727,366	\$ 238,535
Restricted cash in bond trust funds	44,482	17,521
Total cash, cash equivalents, and restricted cash	<u>\$ 771,848</u>	<u>\$ 256,056</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated statements of financial position (see Note 3). These equity and debt securities are designated as trading securities, since the investments are externally managed within the guidelines of City of Hope's investment policy. Fair value is established based on quoted prices from recognized security exchanges. Accordingly, the change in unrealized gains and losses on investments is reported within the excess of revenues, gains, and other support over expenses on the consolidated statements of activities. Management recognizes investment purchases and sales based upon the settlement date.

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

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

City of Hope's hedge fund investments consist of direct and multi-manager "hedge fund of fund" investments. Strategies include long/short equity, long/short credit, and other strategies. Investments in hedge funds have limited liquidity and may be subject to various lockup periods, redemption fees, and notice requirements. Hedge funds typically reserve the right to reduce or suspend redemptions (gating event) and to satisfy redemptions by making distributions in kind, under certain circumstances. Additionally, hedge funds may hold, directly or indirectly, side-pocket investments where no redemptions are permitted until such investments are liquidated or deemed realized. Redemption periods range monthly, quarterly, or annually with notice requirements between 30 to 90 days. City of Hope also invests in fund limited partnerships with private equity-like terms, including capital calls during its investment period. These select funds, which are currently opportunistic credit strategies, are classified as hedge funds.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

City of Hope's private equity investments consist of fund limited partnerships. Strategies include buyout, venture/growth capital, debt, and secondary private equity. Fund terms are typically ten years or greater. City of Hope may not withdraw, sell, assign, or transfer its interests in these funds, except in certain, very limited circumstances, subject to consent by the general partners of the funds.

City of Hope's public and private real asset investments consist of fund limited partnerships that may invest in equity and debt of commercial, industrial and residential properties, and energy and related companies. Fund terms are typically ten years or greater and City of Hope may not withdraw or sell, assign, or transfer its interests in these funds except in certain very limited circumstances, subject to consent by the general partners of the funds.

City of Hope's commitments in 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 totaled (amounts in thousands):

	<u>2020</u>	<u>2019</u>
Private equity	\$ 319,300	\$ 239,300
Private real assets:		
Real estate	201,700	138,300
Natural resources	27,200	33,700
Total unfunded commitments	<u>\$ 548,200</u>	<u>\$ 411,300</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 consolidated statements of activities. Ownership interest in these funds ranges between 0.077% and 43.35% as of September 30, 2020.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable and Patient Service Revenue

The Center and the Foundation receive payments for services rendered to patients from federal and state governmental programs, mainly Medicare and Medi-Cal, privately sponsored managed care programs (including Medicare and Medi-Cal managed care) for which payment is made based on terms defined under formal contracts, and other payors. City of Hope recognizes that revenues and receivables from government agencies are significant to its operations, but it does not believe there are significant credit risks associated with these government agencies. City of Hope does not believe there are any other significant concentrations of revenues and receivables from any particular payor that would subject City of Hope to any significant credit risks in the collection of 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 accounts receivable, cash flows, and results of operations. The following table summarizes the percentages of gross accounts receivable from patients and third-party payors as of September 30:

	2020	2019
Medicare	22%	22%
Medi-Cal	8	13
Managed care (including Medicare and Medi-Cal managed care)	67	63
Indemnity, self-pay, and other	3	2
	100%	100%

Net patient service revenues are reported at the amount that reflects the consideration to which the Center and the Foundation expect 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. The Center and the Foundation recognize revenue as performance obligations are satisfied.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

Transaction prices are determined based on standard charges for goods and services provided to patients and are reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Center's and the Foundation's charity policies, and/or implicit price concessions based on historical collection experience.

The Center and the Foundation have agreements with third-party payors that provide for payments to the Center and the Foundation at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

charges, per diem payments, case rates, and specialized fee schedules. Estimated retroactive adjustments under the Medicare and Medi-Cal programs are also reflected in patient service revenues. Net patient service revenues for the years ended September 30 are as follows (amounts in thousands):

	2020	2019
Medicare	\$ 386,601	\$ 317,497
Medi-Cal	159,693	133,617
Managed care (including Medicare and Medi-Cal managed care)	1,128,667	1,082,963
Indemnity, self-pay, and other	32,307	21,498
Patient service revenues	<u>\$ 1,707,268</u>	<u>\$ 1,555,575</u>

The Center and the Foundation are reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs. The Center and the Foundation believe they are in compliance with all applicable laws and regulations, and they are not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Medicare reimburses the Center for cost-reimbursable items at an interim rate, and final settlements are determined after an audit of the Center's related annual cost reports by the Medicare fiscal intermediary. Estimated provisions to approximate the full expected settlements after review by the intermediary are included on the accompanying consolidated financial statements.

Expected settlement amounts are included in due to and due from 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 2020 and 2019, the Center received information requiring changes in its estimates of settlements due for certain open cost report years

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

and appeals. Based on this information, the Center recorded an increase to net patient service revenues totaling \$1,239,000 for the year ended September 30, 2020, and a reduction to net patient service revenues totaling \$9,428,000 for the year ended September 30, 2019.

During the year ended September 30, 2020, the Center and the Foundation recorded \$16,300,000 in additional net patient service revenues earned prior to October 1, 2019 driven by operational improvements related to the recovery of previously denied accounts. During the year ended September 30, 2019, the Center and the Foundation recorded \$59,693,000 in additional net patient service revenues resulting from a change in estimate related to the collectability of net patient service revenues earned prior to October 1, 2018 due to the implementation of an electronic medical record system in December 2017. These changes in estimates represented additional cash collected during the years ended September 30, 2020 and 2019, respectively, on patient accounts receivable as of September 30, 2019 and 2018.

Patient Charity Care

The Center and the Foundation approve charity care for patients meeting financial eligibility and clinical criteria at the time of admission or provision of service. A patient is classified as a charity patient by reference to certain established policies of the Center and the Foundation. Essentially, these policies define charity care as those services provided that are medically necessary but are never expected to result in cash receipts. Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources or who are uninsured or underinsured. Also, certain medically necessary services provided to Medi-Cal patients that are not reimbursed by the Medi-Cal program have been included in the estimated cost of patient charity care. This amount is not included in net patient service revenues on the consolidated statements of activities.

The estimated cost for both patient charity care and Medi-Cal patients represents total direct and indirect cost calculated at the medical procedure level and pertains specifically to the respective charity and Medi-Cal patient populations. Procedure-level cost includes the direct costs, such as 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). For the years ended September 30, 2020 and 2019, these components of charity care costs totaled \$6,105,000 and \$5,126,000, respectively.

See Note 6 for additional disclosure related to benefits for the broader community and support of governmental health care programs.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

California Hospital Fee Program

The State of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program charges hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. There are two hospital fee programs that had activity during 2019 and 2020; a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019, and a 30-month hospital fee program covering the period from July 1, 2019 through December 31, 2021.

The Center also entered into various enforceable pledge agreements with the California Health Foundation and Trust (CHFT), agreeing to make contributions to the CHFT based on a 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.

The Center recognized \$107,512,000 and \$67,989,000 in net patient service revenues on the accompanying consolidated statements of activities for the years ended September 30, 2020 and 2019, respectively. Additionally, the Center recognized \$31,442,000 and \$15,735,000 as expenses for the years ended September 30, 2020 and 2019, respectively, which has been reflected in hospital provider fee expense on the accompanying consolidated statements of activities.

As of September 30, 2020 and 2019, \$51,845,000 and \$19,875,000, respectively, is included in grants and other receivables, and \$22,413,000 and \$6,606,000, respectively, is included in accounts payable and other accrued liabilities on the accompanying consolidated statements of financial position.

Supplies Inventory

Inventories, consisting of materials, pharmaceuticals, and medical supplies for use in program services provided by City of Hope, are stated at the lower of cost or market using the first-in, first-out method. Inventories are included in prepaid and other current assets on the consolidated statements of financial position and totaled \$29,223,000 and \$22,662,000 at September 30, 2020 and 2019, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost when purchased or at fair market value on the contribution date in the case of a donation. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is included in other expense on the accompanying consolidated statements of activities. The costs of normal maintenance, repairs, and minor replacements are charged to expense when incurred.

City of Hope provides for depreciation and amortization using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 to 40 years
Equipment and furniture	5 to 10 years
Software	3 to 5 years

Leasehold improvements are amortized on a straight-line basis over the term of the lease or estimated useful life, whichever is shorter. Prior to the adoption of ASC 842 on October 1, 2019, leased capital assets were included as a component of property and equipment and were capitalized and amortized over the life of the lease. These leased capital assets are included in property and equipment on the consolidated statements of financial position as of September 30, 2019. Capital lease amortization is included with depreciation and amortization expense for the year ended September 30, 2019. As of September 30, 2020, capital leases are now referred to as finance leases (see Note 10).

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

	2020	2019
Land	\$ 54,512	\$ 17,911
Buildings	836,319	741,575
Leasehold improvements	55,564	48,164
Equipment and furniture	653,143	599,576
Software	295,945	268,365
Leased capital assets	–	89,509
	1,895,483	1,765,100
Accumulated depreciation and amortization	(1,040,785)	(951,639)
	854,698	813,461
Construction in progress	294,705	164,257
Total property and equipment, net	\$ 1,149,403	\$ 977,718

Depreciation and amortization expense on property and equipment totaled \$128,588,000 and \$133,900,000 for the years ended September 30, 2020 and 2019, respectively.

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

Interest and Capitalized Interest

Total interest cost incurred on all financing vehicles (excluding changes in fair value of interest rate swap agreements) totaled \$62,233,000 and \$49,382,000 in 2020 and 2019, 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. Interest cost capitalized totaled \$20,660,000 and \$2,434,000 in 2020 and 2019, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Intangible Assets and Goodwill

Intangible assets subject to amortization is comprised of certain trade names, electronic medical records, and favorable leasehold interests totaling \$11,173,000 as of September 30, 2020 and 2019.

Intangible assets also include assets that are not subject to amortization, including certain trade names, intellectual property, and research and development that resulted from the affiliation with TGen and totaled \$8,600,000 as of September 30, 2020 and 2019.

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, including identifiable intangible assets. City of Hope elected to apply the goodwill accounting alternative in ASC 350, *Intangible – Goodwill and Other*, effective October 1, 2018, which allows not-for-profit entities to amortize goodwill on a straight-line basis over ten years and perform a one-step impairment test at the entity level only when an impairment indicator exists. Goodwill resulted from the acquisition of SCRO during fiscal year 2018 and totaled \$59,067,000.

The accumulated amortization for intangible assets subject to amortization, including goodwill, totaled \$22,038,000 and \$15,642,000 as of September 30, 2020 and 2019, respectively. City of Hope has recorded \$6,266,000 and \$6,406,000 of amortization for intangible assets including goodwill, and \$130,000 in rent expense for favorable leasehold interests during the years ended September 30, 2020 and 2019, respectively. Intangible assets are amortized on a straight-line basis between seven and ten years or, in the case of leasehold interests, the remaining life of the lease.

Future amortization of intangible assets subject to amortization is reflected below (amounts in thousands):

	Goodwill	Intangible Assets
2021	\$ 5,907	\$ 304
2022	5,907	113
2023	5,907	111
2024	5,907	27
2025	5,907	25
Thereafter	17,719	368
	<u>\$ 47,254</u>	<u>\$ 948</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Under ASU Topic 350, *Intangibles – Goodwill and Other (ASU Topic 350)*, these intangibles are subject to an annual impairment assessment, or more frequently if significant indicators of impairment exist. A qualitative review for impairment of intangible assets was performed on the annual measurement date of July 1, and there was no indication of an impairment in value as of September 30, 2020.

Contract Liability

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

	<u>2020</u>	<u>2019</u>
Fundraising events and other activities	\$ 2,461	\$ 3,493
Donor-restricted conditional contributions	2,217	1,095
Grants revenue	17,950	24,193
Provider relief funds (see Note 12)	5,548	–
Accelerated and advance payment funds (see Note 12)	86,173	–
Total contract liabilities	<u>\$ 114,349</u>	<u>\$ 28,781</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets Without Donor Restrictions

A rollforward of controlling interest and noncontrolling interest net assets without donor restrictions for the years ended September 30, 2020 and 2019, is as follows (amounts in thousands):

	Controlling Interests	Noncontrolling Interest	Total
Balance at September 30, 2018	\$ 3,127,206	\$ 35,100	\$ 3,162,306
Excess of revenues, gains, and other support over expenses	149,429	(765)	148,664
Other changes in net assets	87,144	–	87,144
Distributions to noncontrolling interest	–	(2,037)	(2,037)
Balance at September 30, 2019	3,363,779	32,298	3,396,077
Excess of revenues, gains, and other support over expenses	101,659	(1,714)	99,945
Balance September 30, 2020	\$ 3,465,438	\$ 30,584	\$ 3,496,022

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 stipulates that resources be maintained in perpetuity in a true endowment. All other contributions without donor restrictions are considered net assets without donor restrictions.

Restricted monetary gifts are held in net assets with donor restrictions until the designation is met. When the donor designation is met, a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 years ended September 30, 2020 and 2019, valid will and trust agreement amounts that became measurable totaled \$34,598,000 and \$24,314,000, respectively, and are included in contributions on the accompanying consolidated statements of activities.

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 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 2020 and 2019 were between 0.27% and 2.65%.

Net unconditional promises to give in the accompanying consolidated statements of financial position consist of the following as of September 30 (amounts in thousands):

	<u>2020</u>	<u>2019</u>
Unconditional promises to give	\$ 128,011	\$ 80,268
Less:		
Discounts	(4,527)	(4,361)
Allowance for uncollectible promises to give	(8,036)	(5,871)
Total unconditional promises to give, net	<u>115,448</u>	<u>70,036</u>
Less current portion	(47,557)	(24,449)
	<u>\$ 67,891</u>	<u>\$ 45,587</u>

The allowance for uncollectible promises to give has been determined based on historical collection experience. Changes in the allowance for uncollectible promises to give and the amortization of pledge discounts is 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.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

At September 30, 2020, future cash flows anticipated from unconditional promises to give are as follows (amounts in thousands):

2021	\$	47,557
2022		19,511
2023		14,793
2024		12,376
2025		9,556
Thereafter		<u>24,218</u>
		128,011
Discounts		(4,527)
Allowance for uncollectible promises to give		<u>(8,036)</u>
	\$	<u><u>115,448</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. Prior to September 30, 2020, City of Hope received a conditional promise in the amount of \$35,000,000. There are specific project goals and milestones that must be met to receive the payments under the agreement. City of Hope recorded \$4,167,000 in each of the years ending September 30, 2020 and 2019, in contribution revenue, in recognition of attaining project goals and milestones. The remaining \$4,166,000 of this conditional promise as of September 30, 2020, has not been recognized in contribution revenue due to certain project goals and milestones still subject to completion by City of Hope. Cash payments in advance of meeting other specific project goals and milestones totaled \$2,217,000 and \$1,095,000 as of September 30, 2020 and 2019, respectively, which is included in contract liability on the accompanying consolidated statements of financial position.

Split-Interest Agreements

City of Hope receives contributions from various types of split-interest agreements, including charitable gift annuities, charitable remainder annuity trusts, and charitable remainder unitrusts. City of Hope may be named as a trustee or a co-trustee, or a financial institution may be named as the trustee.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Under a charitable gift annuity arrangement, City of Hope recognizes the agreement in the period in which the contract is executed. The assets from the donor are recognized at fair value, and the liabilities designated by the donor to various beneficiaries are recognized at the present value of the estimated future payments to be distributed by City of Hope to such beneficiaries. The amount of the contribution revenue with donor restrictions is the difference between these assets and liabilities.

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. As of September 30, 2020, City of Hope has state-mandated reserves above the actuarial annuity reserves in the amount of \$278,000. Additionally, City of Hope has voluntary reserves in the amount of \$6,588,000 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 \$15,128,000 as of September 30, 2020, are to be collected over the next 30.6 years and have an average remaining life of 14.6 years.

In-Kind Contributions

In-kind contributions are reflected at their estimated fair market value on the date of the donation. City of Hope reports gifts of land, buildings, equipment, and other nonmonetary contributions as contributions without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how and how long the donated assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, City of Hope reports expirations of donor restrictions as net assets released from restrictions when the donated or acquired long-lived assets are placed in service.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

There are no amounts recorded for contributed services on the accompanying consolidated statements of activities.

Research Grants, Contracts, and Clinical Trials Revenue

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

Royalty and Licensing Revenue

City of Hope receives royalties from Genentech based on sales of its own drugs, as well as from royalties and other amounts paid by its licensees. During the years ended September 30, 2020 and 2019, City of Hope recognized royalty and licensing revenue totaling \$165,523,000 and \$384,514,000, respectively, primarily from sales of drugs by Genentech and other licensees of monoclonal antibodies, including Rituxan, Herceptin, Avastin, Humira, and others using technology developed at the Institute and covered by the Cabilly patents. The Cabilly patents, as further defined in Note 11, expired during the first quarter of fiscal year 2019, with some royalty revenue anticipated to continue into fiscal year 2021.

Previously under ASC 605, *Revenue Recognition*, revenue related to royalties was reported on a lag because it was not fixed and determinable in the period of reporting; as such City of Hope recognized revenue from royalties in the period the related payment for royalties was received, generally one quarter in arrears from the period in which the underlying sales occurred.

Under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was effective for City of Hope on October 1, 2018, an entity is required to recognize estimated royalty revenue in the same period the sales occur. City of Hope adopted ASU 2014-09 using the modified retrospective approach, which required the recognition of the first quarter of fiscal year 2019 cash-basis royalty revenue to be recognized as a component of the cumulative changes in net assets along with the related royalty sharing expenses from adoption of the new accounting standard. The

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

cumulative adjustment of \$87,144,000 increased City of Hope's net assets without donor restrictions and in accordance with the modified retrospective approach of adoption, is not included in the royalty and licensing revenues for the year ended September 30, 2019. As of and for the years ended September 30, 2020 and 2019, City of Hope's royalty revenue and royalty sharing expense are reported on an accrual basis to match the period of related sales that generate the royalties.

Royalty revenues are expected to continue to decline over the coming year due to the expiration of the Cabilly patents in December 2018, however the ultimate date of when the royalties from the Cabilly patents will completely cease cannot be determined at this time.

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 for those that are measurable and at cost for those that have no readily available market data.

Workers' Compensation Program

City of Hope, the Center, the Foundation, ACOH, and the Institute have elected to self-insure their workers' compensation liability. Reinsurance has been obtained for this program to cover claims that exceed \$250,000 between 1991 and 2002, \$500,000 in 2003, and \$1,000,000 per individual claim beginning in 2004. An estimated liability of \$22,147,000 and \$23,195,000 has been recorded as of September 30, 2020 and 2019, respectively. The estimated current portion of the liability, totaling \$4,042,000 and \$4,234,000 as of September 30, 2020 and 2019, 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 \$18,105,000 and \$18,961,000 as of September 30, 2020 and 2019, respectively, is included in other long-term liabilities on the consolidated statements of financial position. Accruals for uninsured claims and claims incurred but not reported are estimated by an actuary based on prior claims experience. The estimated liability was recorded using a 1.0% and 1.65% discount factor as of September 30, 2020 and 2019, respectively.

Insurance recoveries related to workers' compensation totaling \$4,049,000 and \$4,237,000 as of September 30, 2020 and 2019, respectively, have been reflected on the accompanying consolidated statements of financial position in other assets.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Workers' compensation expense charged to operations totaled \$5,071,000 and \$6,763,000 in 2020 and 2019, respectively.

Professional Liability Insurance

The Center, the Foundation, ACOH, 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, 2020, with limits up to \$50,000,000 with a deductible of \$100,000 through June 30, 2014, and \$250,000 between July 1, 2014 and September 30, 2020. Accruals for uninsured claims and claims incurred but not reported are estimated by an actuary based on prior claims experience. Such accruals were recorded using a 1.0% and 2.85% discount factor as of September 30, 2020 and 2019, respectively. An estimated liability of \$1,967,000 and \$1,595,000 as of September 30, 2020 and 2019, respectively, is included in other current and long-term liabilities on the consolidated statements of financial position.

The Center, the Foundation, ACOH, and the Institute recorded insurance recoveries related to professional liability totaling \$644,000 and \$443,000, as of September 30, 2020 and 2019, 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, 2020, with limits up to \$10,000,000 per occurrence and a deductible of \$10,000 for each claim.

The professional liability insurance expense included in other expense on the consolidated statements of activities amounted to \$2,239,000 and \$1,798,000 in 2020 and 2019, respectively.

Retirement Plans

City of Hope, the Center, the Foundation, ACOH, and the Institute participate in the City of Hope Defined Contribution Plan (the Plan). The Plan was established in 1989 to provide benefits to eligible employees as defined in the plan document and covers substantially all employees. Contributions range between 2% and 10%, depending on years of service and salary, and are calculated on an employee's biweekly base salary up to and above the annual Social Security

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Taxable wage base, not to exceed the maximum covered compensation of \$285,000 in 2020. Employees are eligible to participate in the Plan upon the completion of one year of service in which they have worked at least 1,000 hours. The participants have the option to direct these contributions into various funds offered through the Plan.

The Center and the Institute also participate in the City of Hope Research Staff Organization (RSO) Tax Deferred Annuity Plan (the RSO TDA Plan), which was established in 1983 to provide benefits to eligible members of the City of Hope RSO as defined in the plan document. Employer contributions of 15% of each participant's biweekly eligible salary are made up to a defined annual maximum base salary of \$285,000 in 2020. The participants have the option to direct these contributions into various funds offered through the RSO TDA Plan.

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

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

Contribution expense for the plans defined above totaled \$32,176,000 and \$27,023,000 in 2020 and 2019, respectively.

Derivative and Hedging Instruments

City of Hope recognizes all derivatives at fair value on the consolidated statements of financial position. At September 30, 2020 and 2019, derivative instruments consisted of four and two interest rate swap agreements, respectively, with a total notional amount of \$207,700,000 and \$65,000,000, respectively (see Note 5). Interest rate swap agreements are used to manage interest rate risk. The derivatives are not designated as effective hedges and are adjusted to fair value on the consolidated statements of activities as a component of interest, including changes in fair value of swap agreements, above the performance indicator.

City of Hope

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

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

TGen is exempt from Arizona corporate income tax under Section 43-1201(A) of the Arizona Revised Statutes.

ACOH and the 100% wholly owned entities of TGen are single-member, limited liability companies and are considered disregarded entities for tax purposes.

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.

ASC 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on de-recognition, measurement, classification, interest and penalties, disclosure, and transition. The guidance contained in ASC 740 is applicable to pass-through entities and tax-exempt organizations. City of Hope has no significant uncertain tax positions or tax liability for tax benefits, interest, or penalties accrued at September 30, 2020 and 2019.

3. Fair Value of Financial Instruments

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

City of Hope

Notes to Consolidated Financial Statements (continued)

3. Fair Value of Financial Instruments (continued)

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).
- (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

Notes to Consolidated Financial Statements (continued)

3. Fair Value of Financial Instruments (continued)

City of Hope uses interest rate swaps to manage interest rate risk associated with floating-rate debt. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period of maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. City of Hope incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

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

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

City of Hope

Notes to Consolidated Financial Statements (continued)

3. Fair Value of Financial Instruments (continued)

2019	Investments at Fair Value				Investments	Total	Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Fair Value	at Net Asset Value		
Investments							
U.S. Government and agency obligations	\$ —	\$ 157,835	\$ —	\$ 157,835	\$ —	\$ 157,835	a, b
Corporate obligations	—	410,441	—	410,441	—	410,441	a, b
Asset-backed obligations	—	206,939	—	206,939	—	206,939	a, b
Mortgage-backed obligations	—	175,146	—	175,146	—	175,146	a, b
Marketable securities	864,536	—	—	864,536	—	864,536	a
Public real assets	146,707	—	—	146,707	—	146,707	a
Municipal obligations	—	1,710	—	1,710	—	1,710	a
Preferred stock	—	—	612	612	—	612	c
Hedge funds	—	—	—	—	254,788	254,788	
Equity commingled funds	—	—	—	—	869,639	869,639	
Private equity funds	—	—	—	—	266,797	266,797	
Private real assets	—	—	—	—	169,029	169,029	
Certificates of deposit	—	363,000	—	363,000	—	363,000	a, b
Cash equivalents	211,045	—	—	211,045	—	211,045	a
Total investments	\$ 1,222,288	\$ 1,315,071	\$ 612	\$ 2,537,971	\$ 1,560,253	\$ 4,098,224	
Other long-term assets							
Marketable securities	\$ 29,124	\$ —	\$ —	\$ 29,124	\$ —	\$ 29,124	a
Cash equivalents	\$ 472	\$ —	\$ —	\$ 472	\$ —	\$ 472	a
Total investments and other long-term assets	\$ 1,251,884	\$ 1,315,071	\$ 612	\$ 2,567,567	\$ 1,560,253	\$ 4,127,820	
Liabilities at fair value							
			Level 1	Level 2	Level 3	Total	
Annuity and split-interest obligations			\$ —	\$ —	\$ 19,068	\$ 19,068	c
Interest rate swaps			—	19,489	—	19,489	a, b
Total liabilities			\$ —	\$ 19,489	\$ 19,068	\$ 38,557	

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)

3. 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 years ended September 30, 2020 and 2019 (amounts in thousands):

	<u>Assets</u>	<u>Liabilities</u>
Beginning balance at September 30, 2018	\$ 612	\$ 20,464
Additions	—	1,377
Investment activity, adjustments, and maturities	—	750
Distributions	—	(1,307)
Change in fair value	—	(2,216)
Beginning balance at September 30, 2019	612	19,068
Additions	—	1,378
Investment activity, adjustments, and maturities	—	501
Distributions	—	(1,254)
Change in fair value	—	156
Ending balance at September 30, 2020	<u><u>\$ 612</u></u>	<u><u>\$ 19,849</u></u>

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 727,366	\$ 238,535
Investments, current	2,032,681	1,927,425
Self-insurance trust funds	4,367	3,418
Investments held for long-term purposes	39,528	237,564
Board-designated assets	957,138	895,110
Bond trust funds	350,481	380,242
Donor-restricted investments	572,734	557,136
	<u>4,684,295</u>	4,239,430
Less: investment at net asset value	(1,706,265)	(1,560,253)
Less: amounts held in operating cash	(656,207)	(141,206)
Plus: amounts in other long-term assets	35,919	29,596
Investments at fair value	<u><u>\$ 2,357,742</u></u>	<u><u>\$ 2,567,567</u></u>

City of Hope

Notes to Consolidated Financial Statements (continued)

4. Liquidity and Availability

City of Hope's financial assets available for general expenditure within one year of September 30, include the following (amounts in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 727,366	\$ 238,535
Investments	2,032,681	1,927,425
Patient accounts receivable	257,368	235,989
Grants and other receivables	156,163	158,176
Board-designated assets	957,138	895,110
	<u>\$ 4,130,716</u>	<u>\$ 3,455,235</u>

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

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

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

Line of Credit

City of Hope had a consolidated unsecured revolving bank line of credit in the amount of \$50,000,000, which was set to expire on June 30, 2020.

City of Hope

Notes to Consolidated Financial Statements (continued)

4. Liquidity and Availability (continued)

Prior to the expiration date, City of Hope borrowed \$48,875,000 on this line of credit and on April 20, 2020, City of Hope paid off the then outstanding balance and terminated this line of credit. On April 21, 2020, City of Hope entered into a new syndicated unsecured revolving line of credit with two banking institutions for a combined amount of \$450,000,000 that expires on April 20, 2021. Interest is determined at each borrowing date or maturity date and is tied to a rate index plus a spread (2.25% as of September 30, 2020). As of September 30, 2020, \$450,000,000 is outstanding on the syndicated unsecured revolving line of credit and has been reflected in current liabilities in the accompanying consolidated statements of financial position.

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 LLC purchased an irrevocable standby letter of credit in the amount of up to \$25,000,000 for the benefit of the lessor. The standby letter of credit automatically reduces, without amendment, on various dates. As of September 30, 2020, the available amount on the standby letter of credit is \$20,000,000. The standby letter of credit is guaranteed by City of Hope, and it will renew annually based on a pre-agreed amortization schedule, unless terminated with a 60-day notice prior to the annual anniversary date by the lender. Unless it has expired earlier, this letter of credit shall finally expire on October 1, 2035. As of September 30, 2020, no amounts are outstanding on the standby letters of credit.

City of Hope

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt

The following is a summary of City of Hope's long-term debt as of September 30 (amounts in thousands):

	2020	2019
City of Hope, 3.75% to 5.00% fixed rate Tax-Exempt Revenue Bonds Series 2012A, originally \$234,635, issued through the California Health Facilities Financing Authority, with varying maturities annually through November 15, 2039. Interest payable semiannually on May 15 and November 15 (Series 2012A Revenue Bonds)	\$ 201,175	\$ 207,425
City of Hope, 5.623% fixed rate Taxable Direct Obligation Notes, originally \$350,000. Interest payable semiannually on May 15 and November 15, principal payment due in full on November 15, 2043 (Series 2013 Notes)	350,000	350,000
City of Hope, Tax-Exempt Variable Rate Revenue Notes Series 2017A, originally \$32,680, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039, through November 15, 2042 (Series 2017A Revenue Notes)	32,680	32,680
City of Hope, Tax-Exempt Variable Rate Revenue Notes Series 2017B, originally \$32,680, issued through the California Health Facilities Financing Authority. Interest payable monthly, principal payments annually beginning on November 15, 2039, through November 15, 2042 (Series 2017B Revenue Notes)	32,680	32,680
City of Hope, 4.378% fixed rate Taxable Direct Obligation Notes, originally \$300,000. Interest payable semiannually on February 15 and August 15, principal payment due in full on August 15, 2048 (Series 2018 Notes)	300,000	300,000

City of Hope

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

	<u>2020</u>	<u>2019</u>
City of Hope, 4%–5% fixed rate Tax-Exempt Revenue Bonds Series 2019, originally \$334,905, issued through the California Health Facilities Financing Authority. Interest payable semiannually on May 15 and November 15, principal payments annually beginning on November 15, 2024, through November 15, 2049 (Series 2019 Revenue Bonds)	\$ 334,905	\$ 334,905
TGen, 1.69%-4.22% fixed rate notes. Principal and interest due monthly or annually through April 2022 (TGen Notes)	3,200	1,934
Capital lease obligations:		
Equipment	–	4,903
Facilities	–	66,320
	<u>1,254,640</u>	<u>1,330,847</u>
Less: current maturities of long-term debt and capital lease obligations	(7,240)	(13,492)
Less: unamortized bond issue costs	(3,884)	(4,072)
Less: unamortized discount	(6,608)	(6,911)
Plus: unamortized premium	63,806	67,285
	<u>\$ 1,300,714</u>	<u>\$ 1,373,657</u>

Long-term debt maturities as of September 30, 2020, and payments for the subsequent years are as follows (amounts in thousands):

2021	\$ 7,240
2022	9,990
2023	7,560
2024	7,950
2025	10,870
Thereafter	1,211,030
	<u>\$ 1,254,640</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Series 2012 Revenue Bonds (Tax-Exempt) – In November 2012, City of Hope, as representative of the Obligated Group, issued \$234,635,000 of Tax-Exempt Series 2012A fixed rate Revenue Bonds, \$32,500,000 of Tax-Exempt Series 2012B Variable Rate Revenue Bonds, and \$32,500,000 of Tax-Exempt Series 2012C Variable Rate Revenue Bonds through the California Health Facilities Financing Authority. The Series 2012A Revenue Bonds were issued at a premium totaling \$29,887,000. The Series 2012 Revenue Bonds are secured by a gross receivables pledge.

Series 2013 Notes (Taxable) – In July 2013, City of Hope, as representative of the Obligated Group, issued \$350,000,000 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 \$32,500,000 and Series 2012C Variable Rate Revenue Bonds in the amount of \$32,500,000 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 \$32,680,000 and Series 2017B Variable Rate Revenue Notes in the amount of \$32,680,000. 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 one-month of London Interbank Offered Rate (LIBOR) plus a spread. The Series 2017 Revenue Notes are secured by a gross receivables pledge.

Series 2018 Notes (Taxable) – In May 2018, City of Hope as representative of the Obligated Group, issued \$300,000,000 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)

5. Long-Term Debt (continued)

Series 2019 Revenue Bonds (Tax-Exempt) – In July 2019, City of Hope, as representative of the Obligated Group issued \$334,905,000 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 \$49,624,000 and are secured by a gross receivables pledge.

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

Interest Rate Swap Transactions – In November 2012, the Obligated Group entered into two interest rate swap contracts, with a notional amount of \$65,000,000, to synthetically convert the Series 2012B and Series 2012C Revenue Bonds from a variable rate to a fixed rate of 2.715% and 2.720%, respectively. The Obligated Group receives a floating rate equal to 70% of the USD-LIBOR-BBA for both Series 2012B and Series 2012C Revenue Bonds.

In February 2020, the City of Hope entered into two forward-starting interest rate swap agreements with a notional amount of \$142,700,000 that will commence amortizing on the November 15, 2022 effective date over 16 years with payments set to begin on the effective date also. The Obligated Group will receive a variable rate of 70% of Fed Funds rate and will pay a fixed rate of 0.8785% and 0.8805% to its swap counterparties.

The swaps were not designated as cash flow hedges, so the changes in fair value are recorded within interest expense on the accompanying consolidated statements of activities, totaling an increase in fair value of the interest rate swap liability of \$10,890,000 and \$12,940,000 for the years ended September 30, 2020 and 2019, respectively. The effect of counterparty payments and receipts on interest expense was an expense increase of \$1,289,000 and \$670,000 for the years ended September 30, 2020 and 2019, respectively.

Financial Covenants – Under the Series 2012 Revenue Bonds, the Series 2013 Notes, the Series 2017 Revenue Notes, the Series 2018 Notes, and the Series 2019 Revenue Bonds, the Obligated Group was in compliance with its financial covenants as of September 30, 2020.

City of Hope

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

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, 2020.

6. Community Benefit Expense (Unaudited)

City of Hope supports a variety of programs and services that provide a direct benefit to its patients, as well as to the broader community. The primary categories of community benefit are as follows:

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

City of Hope supports a variety of clinical and basic science research activities focused on finding cures and treatments for cancer and other life-threatening diseases and the development of diagnostics for which research grants, contracts, and clinical trial funding is not available. The cost of these institutionally funded research efforts is considered a benefit to the broader community. In addition, the cost of providing public information and education is also considered a community benefit.

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

The following is a summary of the estimated benefits for the broader community through internally funded research support and Support of Governmental Health Care Programs – Medi-Cal and Medicare expense, at full cost, in terms of service to those patients covered under these programs for the years ended September 30 (amounts in thousands):

City of Hope

Notes to Consolidated Financial Statements (continued)

6. Community Benefit Expense (Unaudited) (continued)

	2020	2019
Benefits for the Broader Community – Support for Research (unaudited)		
Estimated institutionally supported research costs, net of grants received of \$170,549 and \$169,314 in 2020 and 2019, respectively:		
Center	\$ 104,131	\$ 120,308
Institute	202,015	188,339
TGen	63,408	42,808
Total estimated benefits for the broader community, at cost	369,554	351,455
Support of Governmental Health Care Programs (unaudited)		
Estimated unreimbursed cost of the Medi-Cal Program, less net impact of the California hospital fee program of \$76,070 and \$52,254 in 2020 and 2019, respectively	2,907	30,898
Estimated unreimbursed cost of the Medicare Program	159,781	144,483
	162,688	175,831
Total estimated benefits for the broader community and unreimbursed costs to governmental health care programs	\$ 532,242	\$ 526,836

7. Endowment

City of Hope’s endowment consists of 129 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 to function as an endowment, which are classified as net assets without donor restrictions. City of Hope’s endowment is invested in an investment pool.

Interpretation of Relevant Law

ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). City of Hope classifies donor-restricted true endowment funds to include (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and

City of Hope

Notes to Consolidated Financial Statements (continued)

7. Endowment (continued)

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

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

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

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, 2020 and 2019, seven funds with an original gift value of \$10,459,000 were deficient by \$717,000 and \$761,000, respectively.

City of Hope

Notes to Consolidated Financial Statements (continued)

7. Endowment (continued)

Return Objectives and Risk Parameters

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

Strategies and Endowment Payout

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

Changes in the fair value of City of Hope's endowment investments and other endowment net assets by type of fund for the years ended September 30, 2020 and 2019, are as follows (amounts in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2018	\$ 884,127	\$ 251,887	\$ 1,136,014
Investment income	15,074	4,155	19,229
Net appreciation	(3,482)	1,014	(2,468)
Contributions	–	15,735	15,735
Appropriation for expenditures	(609)	(7,293)	(7,902)
Endowment net assets, September 30, 2019	895,110	265,498	1,160,608
Investment income	9,602	2,599	12,201
Net appreciation	53,075	14,322	67,397
Contributions	–	3,856	3,856
Appropriation for expenditures	(649)	(6,915)	(7,564)
Endowment net assets, September 30, 2020	\$ 957,138	\$ 279,360	\$ 1,236,498

City of Hope

Notes to Consolidated Financial Statements (continued)

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are available to fund the following purposes as of September 30 (amounts in thousands):

	2020	2019
Time-restricted under annuity and split-interest obligations and other	\$ 134,727	\$ 88,437
Patient care	38,718	32,490
Education	30,451	29,493
Research	468,142	458,673
Medical equipment and buildings	12,962	15,373
Total net assets with donor restrictions	\$ 685,000	\$ 624,466

Net assets were released from donor restrictions by satisfying the following restricted purposes in the years ended September 30 (amounts in thousands):

	2020	2019
Time-restricted under annuity and split-interest obligations and other	\$ 13,347	\$ 5,347
Patient care	1,144	1,621
Education	1,464	2,331
Research	88,672	67,055
Equipment and buildings	3,623	2,883
Total donor restricted net assets released from restrictions	\$ 108,250	\$ 79,237

9. Functional Classification of Expenses

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

City of Hope

Notes to Consolidated Financial Statements (continued)

9. Functional Classification of Expenses (continued)

The expenses reported on the consolidated statements of activities supported the following programs and functions for the years ended September 30 (amounts in thousands):

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

	Patient Care	Research	Public Information and Education	Administrative	Fundraising	Total
2019						
Salaries, wages, and employee benefits	\$ 361,481	\$ 222,476	\$ 7,562	\$ 220,315	\$ 14,261	\$ 826,095
Purchased services and professional fees	231,227	80,352	13,934	128,085	12,194	465,792
Supplies and pharmaceuticals	434,268	60,568	396	17,200	2,231	514,663
Royalty sharing	19	118,426	-	-	-	118,445
Interest, including changes in fair value of swap agreements	34,081	17,746	441	7,620	-	59,888
Depreciation and amortization	70,005	36,181	782	32,880	458	140,306
Hospital provider fee	15,735	-	-	-	-	15,735
Other expense	30,738	26,609	586	25,973	1,872	85,778
Total expenses	<u>\$ 1,177,554</u>	<u>\$ 562,358</u>	<u>\$ 23,701</u>	<u>\$ 432,073</u>	<u>\$ 31,016</u>	<u>\$ 2,226,702</u>

10. Leases

City of Hope enters into right-of-use operating and finance leases primarily for buildings and equipment. For leases with terms greater than 12 months, City of Hope records the related right-of-use asset and liability at the present value of the lease payments over the contract term using a risk-free interest rate. City of Hope elected the practical expedient to not 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

City of Hope

Notes to Consolidated Financial Statements (continued)

10. Leases (continued)

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 whether the renewal option is reasonably certain to be executed. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at City of Hope's discretion and are evaluated at the commencement of the lease, with only those options that are reasonably certain of exercise included in the determination of the appropriate lease term. Upon adoption of ASC 842, discount rates for existing leases were established at October 1, 2019 using various risk-free rates depending upon the lease term for right of use operating lease liabilities and existing right-of-use finance lease liabilities retained the discount rate applied at original commencement.

The weighted-average lease term and discount rate as of September 30, 2020 are as follows:

Right-of-use operating leases remaining lease term	17.5 years
Right-of-use finance leases remaining lease term	13.0 years
Right-of-use operating lease discount rate	1.6%
Right-of-use finance lease discount rate	3.7%

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense and rent expense for the year ended September 30, 2020 are as follows (amounts in thousands):

Right-of-use operating:	
Operating lease expense	\$ 13,637
Variable lease expense	2,071
Short-term lease expense	3,286
Sublease income	(615)
Right-of-use finance:	
Amortization of leased assets	8,225
Interest on lease liabilities	2,277
Total lease expense	<u>\$ 28,881</u>

City of Hope

Notes to Consolidated Financial Statements (continued)

10. Leases (continued)

Supplemental cash flow information related to right-of-use operating and finance leases for the year ended September 30, 2020 are as follows:

Cash paid for amounts included in the measurement of lease liabilities (amounts in thousands):

Operating cash flows for operating leases	\$	12,755
Operating cash flows for finance leases		2,172
Financing cash flows for finance leases		7,934
Lease assets obtained in exchange for new operating lease liabilities		12,664
Lease assets obtained in exchange for new finance lease liabilities		–

The following table summarizes the maturity of right-of-use lease liabilities under operating and finance leases as of September 30, 2020 (amounts in thousands):

	<u>Operating</u>	<u>Financing</u>
2021	\$ 15,785	\$ 9,377
2022	15,841	9,192
2023	13,283	9,220
2024	9,043	8,670
2025	6,993	7,790
Thereafter	90,906	36,480
Total lease payments	<u>151,851</u>	<u>80,729</u>
Less: interest	(32,893)	(16,111)
Total lease liabilities	<u>118,958</u>	<u>64,618</u>
Less: current portion, lease liabilities	(14,066)	(7,243)
Long-term portion, lease liabilities	<u>\$ 104,892</u>	<u>\$ 57,375</u>

As of September 30, 2019, noncancelable operating leases for office space and equipment were reported in accordance with City of Hope's historical accounting policy and were not recognized as assets and liabilities in the consolidated statements of financial position. As of September 30, 2019, future minimum payments required under these operating leases were as follows (amounts in thousands):

City of Hope

Notes to Consolidated Financial Statements (continued)

10. Leases (continued)

2020	\$	14,805
2021		14,271
2022		11,835
2023		9,532
2024		8,305
Thereafter		101,368
	\$	<u>160,116</u>

As of September 30, 2019, future minimum lease payments under capital lease agreements for buildings and equipment were as follows (amounts in thousands):

2020	\$	6,095
2021		6,242
2022		6,511
2023		6,836
2024		6,662
Thereafter		38,877
	\$	<u>71,223</u>

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

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

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

City of Hope

Notes to Consolidated Financial Statements (continued)

10. Leases (continued)

On October 23, 2018, the Foundation entered into a 15-year lease agreement with a developer for a medical office building. This lease was subject to build to suit accounting under ASC 840. With the adoption of ASC 842, effective October 1, 2019, this lease no longer qualifies as a build to suit under the new criteria. The Foundation expects to begin operating a multidisciplinary community cancer center at this location in 2021. As of September 30, 2020, City of Hope had not taken control of the space and the lease had not commenced. Accordingly, no right-of-use asset or lease liability related to the lease has been recorded.

11. Commitments and Contingencies

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, 2020. Two of the nine agreements will expire within one year of September 30, 2020, and these agreements are anticipated to be renegotiated and renewed for one to three years, depending on the agreement.

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 has been engaged in various proceedings involving challenges to the validity of U.S. Patent No. 6,331,415 issued December 18, 2001, entitled *Methods of Producing Immunoglobulins, Vectors and Transformed Host Cells for Use Therein* (the Cabilly II patent) and U.S. Patent No. 7,923,221 entitled *Methods of Making Antibody Heavy and Light Chains Having a Specificity for a Desired Antigen* (the Cabilly III patent and, together with Cabilly II patent, the Cabilly patents). Both Cabilly patents are co-owned by City of Hope and Genentech and expired in December 2018. The parties reached settlements regarding the Amgen litigations during the fiscal year 2020, submitted stipulated dismissals with prejudice, and those cases were closed on July 7, 2020. City of Hope made no payments to any party as part of the settlements. As a result of these settlements, there are no currently pending matters involving the Cabilly patents.

City of Hope

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Health Care Regulations

City of Hope is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Federal laws prohibit submission of claims for reimbursement to the Medicare and Medicaid programs for services not rendered in accordance with applicable rules, laws, and regulations. Any overpayments received must be refunded to the government payor. Violation of these laws can result in substantial civil and criminal penalties and fines, including treble damages and mandatory penalties of up to \$11,000 per claim, as well as possible debarment from future participation in government health care programs. Management believes that the Center and the Foundation are 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.

Capital Commitments (Unaudited)

As of September 30, 2020, City of Hope has committed to spend approximately \$183,871,000 through 2021 and beyond for building renovations, multiple campus facility renovations, and various information technology projects.

12. COVID-19 Pandemic

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

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

City of Hope

Notes to Consolidated Financial Statements (continued)

12. COVID-19 Pandemic (continued)

From April 2020 through June 2020 City of Hope received \$29,187,000 from the Department of Health and Human Services from the provider relief funds created under the CARES Act. The payments are not subject to repayment, provided City of Hope is able to comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses attributable to coronavirus and funds not fully expended on healthcare-related expenses are then applied to lost revenues, represented as a negative change in year-over-year net patient care operating income, net of healthcare-related expenses attributable to coronavirus. Based on an analysis of the compliance and reporting requirements of the provider relief fund and the impact of the pandemic on City of Hope's operating results through September 30, 2020, City of Hope believes the applicable terms and conditions have been met to retain certain of the funds as of September 30, 2020, and therefore, payments of \$23,639,000 have been recognized as other revenue in the consolidated statements of activities. The remaining \$5,548,000 of funds has been recorded in contract liabilities in the accompanying consolidated statements of financial position as of September 30, 2020. City of Hope will continue to monitor the terms and conditions of the CARES Act funding and the impact of COVID-19 on revenues and expenses. If City of Hope is unable to comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

The Center's for Medicare and Medicaid Services (CMS) expanded its Accelerated and Advance Payment Program to provide financial relief to Medicare providers that treat patients during the pandemic. The expansion of this program is limited to the duration of the pandemic and provides City of Hope with advance funding for future Medicare claims. As of September 30, 2020, City of Hope has received \$86,173,000 in advance payments that will be applied toward future Medicare claims, all of which has been recorded as contract liabilities in the consolidated statements of financial position pending future Medicare claim submissions as of September 30, 2020. The advance payments were expected to be recouped by Medicare from remittances starting 120 days after receipt of the payments. As of September 30, 2020, the terms and conditions in effect prescribed that any outstanding balance remaining after 12 months from the date of receipt must be repaid or may be subject to interest. As of October 1, 2020, the terms and conditions have been revised, whereby recoupment is extended to 29 months from the date of receipt, at which time the remaining unpaid amounts are subject to interest of 4%.

City of Hope

Notes to Consolidated Financial Statements (continued)

12. COVID-19 Pandemic (continued)

City of Hope has also availed itself of the payroll tax deferral of the employer's share of Social Security tax which represents 6.2% of wages up to the current social security wage base (\$137,700 in 2020). The deferral is in effect for employer payroll taxes incurred between March 27, 2020 (the date of the enactment) and December 31, 2020. City of Hope has until December 31, 2021, to pay 50% of the deferred amount and the remainder is due by December 31, 2022. This deferral provides additional current liquidity to City of Hope. As of September 30, 2020, City of Hope has deferred \$17,300,000 of payroll taxes that are recorded as accrued salaries, wages, and employee benefits in the accompanying consolidated statements of financial position.

City of Hope began experiencing gradual improvement in patient volumes in May and June as the State eased stay-at-home restrictions and announced plans to resume delayed health care services that could be deferred while City of Hope prepared for the COVID-19 surge. COVID-19 could still negatively affect the operations and financial results of City of Hope, as the duration and extent of the pandemic is unknown.

13. Subsequent Events

On October 16, 2020, City of Hope received additional Accelerated and Advance Payment Program funds of \$65,500,000.

On October 22, 2020 and November 2, 2020, CMS provided further revisions to its criteria for how the provider relief funds will be applied. Under the most current November 2, 2020 guidance, provider relief funds are applied first to healthcare-related expenses attributable to coronavirus, with any funding that remains being applied to lost patient care revenues up to the amount of the difference between the calendar year ended 2019 and 2020 actual patient care revenue. Based on this current November 2, 2020 guidance, City of Hope's ability to qualify for provider relief funds may be limited and these constraints may negatively impact the financial performance for fiscal year 2021.

On December 2020, City of Hope received additional provider relief funds from Phase 3 of the program totaling \$18,784,000. City of Hope will assess its ability to comply with the terms and conditions under the November 2, 2020 guidance described above.

City of Hope has evaluated subsequent events occurring between September 30, 2020 and December 18, 2020, the date these consolidated financial statements were issued.

Supplementary Information

City of Hope

Consolidating Statements of Financial Position (In Thousands)

September 30, 2020 and 2019

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2020	Consolidated 2019
Assets					
Current assets:					
Cash and cash equivalents	\$ 660,469	\$ 66,897	\$ –	\$ 727,366	\$ 238,535
Investments	2,032,681	–	–	2,032,681	1,927,425
Self-insurance trust funds	4,367	–	–	4,367	3,418
Patient accounts receivable, net	257,368	–	–	257,368	235,989
Due from affiliates	14,059	18,472	(32,531)	–	–
Grants and other receivables	144,035	12,128	–	156,163	158,176
Donor-restricted unconditional promises to give, net	34,487	13,070	–	47,557	24,449
Prepaid and other	63,803	3,460	–	67,263	47,151
Total current assets	3,211,269	114,027	(32,531)	3,292,765	2,635,143
Property and equipment, net	1,121,051	28,352	–	1,149,403	977,718
Right-of-use finance lease assets	14,914	41,976	–	56,890	–
Right-of-use operating lease assets	103,281	6,537	–	109,818	–
Other assets:					
Investments held for long-term purposes	39,528	–	–	39,528	237,564
Board-designated assets	957,138	–	–	957,138	895,110
Bond trust funds	350,481	–	–	350,481	380,242
With donor restrictions:					
Investments	541,021	31,713	–	572,734	557,136
Unconditional promises to give, net	67,421	470	–	67,891	45,587
Contributions receivable from annuity and split-interest agreements, net	15,128	–	–	15,128	15,716
Other	3,477	–	–	3,477	3,565
Intangible assets	152	9,396	–	9,548	10,038
Goodwill	–	47,254	–	47,254	53,160
Other long-term assets	174,096	1,263	(112,126)	63,233	58,657
Total other assets	2,148,442	90,096	(112,126)	2,126,412	2,256,775
Total assets	\$ 6,598,957	\$ 280,988	\$ (144,657)	\$ 6,735,288	\$ 5,869,636

City of Hope

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

September 30, 2020 and 2019

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2020	Consolidated 2019
Liabilities and net assets					
Current liabilities:					
Accounts payable and other accrued liabilities	\$ 213,352	\$ 11,067	\$ –	\$ 224,419	\$ 198,081
Accrued salaries, wages, and employee benefits	151,417	10,085	–	161,502	107,833
Long-term debt, current portion	6,840	400	–	7,240	13,492
Right-of-use finance leases, current portion	5,159	2,084	–	7,243	–
Right-of-use operating leases, current portion	11,594	2,472	–	14,066	–
Line of credit	450,000	–	–	450,000	–
Due to third-party payors	6,143	–	–	6,143	25,675
Contract liabilities	109,672	4,677	–	114,349	28,781
Due to affiliates	18,472	14,059	(32,531)	–	–
Total current liabilities	972,649	44,844	(32,531)	984,962	373,862
Long-term debt, net of current portion	1,297,916	2,798	–	1,300,714	1,373,657
Right-of-use finance leases, net of current portion	18,960	38,415	–	57,375	–
Right-of-use operating leases, net of current portion	100,714	4,178	–	104,892	–
Annuity and split-interest agreement obligations	19,849	–	–	19,849	19,068
Deferred rent	–	–	–	–	5,904
Interest rate swap	30,379	–	–	30,379	19,489
Other	54,469	1,626	–	56,095	57,113
Total liabilities	2,494,936	91,861	(32,531)	2,554,266	1,849,093
Net assets:					
Without donor restrictions:					
Controlling interests	3,462,626	114,938	(112,126)	3,465,438	3,363,779
Noncontrolling interests	–	30,584	–	30,584	32,298
With donor restrictions	641,395	43,605	–	685,000	624,466
Total net assets	4,104,021	189,127	(112,126)	4,181,022	4,020,543
Total liabilities and net assets	\$ 6,598,957	\$ 280,988	\$ (144,657)	\$ 6,735,288	\$ 5,869,636

City of Hope

Consolidating Statements of Activities (In Thousands)

Years Ended September 30, 2020 and 2019

	Obligated Group	Affiliated Group	Eliminating Entries	Consolidated 2020	Consolidated 2019
Revenues, gains, and other support:					
Net patient service revenues	\$ 1,707,268	\$ –	\$ –	\$ 1,707,268	\$ 1,555,575
Research grants, contracts, and clinical trials	148,806	21,743	–	170,549	169,314
Contributions	166,565	45,365	(15,530)	196,400	151,428
Professional fees	227	–	(227)	–	–
Investment income	71,251	577	–	71,828	240,002
Net unrealized gain (loss) on investments	118,568	227	–	118,795	(150,470)
Royalty and licensing revenue	165,523	–	–	165,523	384,514
Other revenue	69,088	42,246	(24,184)	87,150	56,537
Total revenues, gains, and other support	<u>2,447,296</u>	<u>110,158</u>	<u>(39,941)</u>	<u>2,517,513</u>	<u>2,406,900</u>
Expenses:					
Salaries, wages, and employee benefits	883,266	56,454	–	939,720	826,095
Purchased services and professional fees	500,246	27,688	(26,131)	501,803	465,792
Supplies and pharmaceuticals	521,694	15,222	–	536,916	514,663
Royalty sharing	51,417	–	–	51,417	118,445
Interest, including changes in fair value of swap agreements	50,504	1,959	–	52,463	59,888
Depreciation and amortization	125,232	17,914	–	143,146	140,306
Hospital provider fee	31,442	–	–	31,442	15,735
Other expense	83,281	16,846	–	100,127	85,778
Total expenses	<u>2,247,082</u>	<u>136,083</u>	<u>(26,131)</u>	<u>2,357,034</u>	<u>2,226,702</u>
Excess (deficiency) of revenues, gains, and other support over expenses	200,214	(25,925)	(13,810)	160,479	180,198
Distributions (to) from affiliates	(25,459)	9,929	15,530	–	–
Distributions to noncontrolling interest	–	–	–	–	(2,037)
Contributed capital	–	35,000	(35,000)	–	–
Cumulative changes in net assets from adoption of new accounting standard	–	–	–	–	87,144
Changes in net assets	<u>174,755</u>	<u>19,004</u>	<u>(33,280)</u>	<u>160,479</u>	<u>265,305</u>
Net assets, beginning of year	3,929,266	170,123	(78,846)	4,020,543	3,755,238
Net assets, end of year	<u>\$ 4,104,021</u>	<u>\$ 189,127</u>	<u>\$ (112,126)</u>	<u>\$ 4,181,022</u>	<u>\$ 4,020,543</u>

About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 Ernst & Young LLP.
All Rights Reserved.

ey.com