

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR CHANGE OF OWNERSHIP EXEMPTION**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**

**This Section must be completed for all projects.**

**Facility/Project Identification**

Facility Name:	Midwestern Regional Medical Center a/k/a Cancer Treatment Centers of America, Chicago		
Street Address:	2520 Elisha Avenue		
City and Zip Code:	Zion, IL 60099		
County:	Lake	Health Service Area:	VIII Health Planning Area: A-09

**Legislators**

State Senator Name:	Melinda Bush
State Representative Name:	Joyce Mason

**Applicant(s)** [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Midwestern Regional Medical Center, LLC
Street Address:	2520 Elisha Avenue
City and Zip Code:	Zion, IL 60099
Name of Registered Agent:	Angela S. Minshall
Registered Agent Street Address:	2610 Sheridan Road
Registered Agent City and Zip Code:	Zion, IL 60099
Name of Chief Executive Officer:	Pete Govorchin
CEO Street Address:	2520 Elisha Avenue
CEO City and Zip Code:	Zion, IL 60099
CEO Telephone Number:	847/872-6309

**Type of Ownership of Applicants**

<input type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
X <input checked="" type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship <input type="checkbox"/>
Other	

- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
- Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

**APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**Primary Contact** [Person to receive ALL correspondence or inquiries]

Name:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	

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County:	Lake	Health Service Area:	VIII Health Planning Area: A-09

**Legislators**

State Senator Name:	Melinda Bush
State Representative Name:	Joyce Mason

**Applicant(s) [Provide for each applicant (refer to Part 1130.220)]**

Exact Legal Name:	City of Hope
Street Address:	1500 East Duarte Road
City and Zip Code:	Duarte, CA 91010
Name of Registered Agent:	C T Corporation System
Registered Agent Street Address:	330 N. Brand Blvd. Suite 700
Registered Agent City and Zip Code:	Glendale, CA 91203
Name of Chief Executive Officer:	Robert Stone
CEO Street Address:	1500 East Duarte Road
CEO City and Zip Code:	Duarte, CA 91203
CEO Telephone Number:	626/256-4673

**Type of Ownership of Applicants**

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
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County:	Lake	Health Service Area:	VIII Health Planning Area: A-09

**Legislators**

State Senator Name:	Melinda Bush
State Representative Name:	Joyce Mason

**Applicant(s) [Provide for each applicant (refer to Part 1130.220)]**

Exact Legal Name:	COH HoldCo Inc.
Street Address:	1500 East Duarte Road
City and Zip Code:	Duarte, CA 91010
Name of Registered Agent:	The Corporation Trust Company
Registered Agent Street Address:	1209 Orange Street
Registered Agent City and Zip Code:	Wilmington, DE 19801
Name of Chief Executive Officer:	Robert Stone
CEO Street Address:	1500 East Duarte Road
CEO City and Zip Code:	Duarte, CA 91203
CEO Telephone Number:	626/256-4673

**Type of Ownership of Applicants**

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
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**Legislators**

State Senator Name:	Melinda Bush
State Representative Name:	Joyce Mason

**Applicant(s) [Provide for each applicant (refer to Part 1130.220)]**

Exact Legal Name:	Sheridan Trust U/A/D 4/1/12
Street Address:	c/o Dennis P. Lynde, Trustee 20 N. Martingdale Road Ste 180
City and Zip Code:	Schaumburg, IL 60173
Name of Registered Agent:	N/A
Registered Agent Street Address:	N/A
Registered Agent City and Zip Code:	N/A
Name of Chief Executive Officer:	N/A
CEO Street Address:	N/A
CEO City and Zip Code:	N/A
CEO Telephone Number:	N/A

**Type of Ownership of Applicants**

- |  |  |
|--|--|
| <input type="checkbox"/> Non-profit Corporation    | <input type="checkbox"/> Partnership         |
| <input type="checkbox"/> For-profit Corporation    | <input type="checkbox"/> Governmental        |
| <input type="checkbox"/> Limited Liability Company | <input type="checkbox"/> Sole Proprietorship |
| <input checked="" type="checkbox"/> Other          |  |

- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
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Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	

**Additional Contact** [Person who is also authorized to discuss the Application]

Name:	Monica Hon
Title:	Vice President & Director of Client Solutions
Company Name:	Advis, Inc.
Address:	7840 Graphics Drive, Ste 100 Tinley Park, IL 60477
Telephone Number:	708/478-7030
E-mail Address:	mhon@advis.com
Fax Number:	708/478-7094

**Post Exemption Contact**

[Person to receive all correspondence subsequent to exemption issuance-THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960]

Name:	to be named prior to transaction's closing
Title:	CEO
Company Name:	Midwestern Regional Medical Center
Address:	2520 Elisha Avenue Zion, IL 60099
Telephone Number:	847/872-6309
E-mail Address:	
Fax Number:	

**Site Ownership after the Project is Complete**

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Northeast Illinois Medical Properties, LLC*
Address of Site Owner:	1500 East Duarte Road Duarte, CA 91010
Street Address or Legal Description of the Site:	2520 Elisha Avenue Zion, IL 60099
<b>Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.</b>	
<b>APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>	

\*converted from an L.P. prior to the closing of the proposed transaction

**Current Operating Identity/Licensee**

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name:	Midwestern Regional Medical Center, LLC		
Address:	2520 Elisha Avenue Zion, IL 60099		
<input type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental
X	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship
	Other		

**Operating Identity/Licensee after the Project is Complete**

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name: **Midwestern Regional Medical Center, LLC**Address: **2520 Elisha Avenue Zion, IL 60099**

- ☐ Non-profit Corporation  
☐ For-profit Corporation  
☒ Limited Liability Company  
☐ Other

- ☐ Partnership  
☐ Governmental  
☐ Sole Proprietorship



- Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

**APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**Organizational Relationships**

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

**APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## Narrative Description

In the space below, provide a brief narrative description of the change of ownership. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does **NOT** have a street address, include a legal description of the site.

This Certificate of Exemption ("COE") application addresses the change of ownership and control of Midwestern Regional Medical Center ("MRMC") a/k/a Cancer Treatment Centers of America, Chicago, located in Zion, Illinois.

"Upon the completion of the proposed transaction addressed in this application, COH HoldCo Inc., a Delaware nonprofit corporation, of which City of Hope is the sole corporate member, will acquire 100% of the membership interests in Midwestern Regional Medical Center, LLC. The changes of ownership addressed in this COE application and the accompanying application addressing MRMC's real estate are part of a larger transaction addressing COH HoldCo Inc.'s acquisition of the Cancer Treatment Centers of America's three hospitals in Georgia, Arizona, and Illinois."

COH was founded in 1913, is a national leader in cancer care, research and education, owns and operates City of Hope National Medical Center (COHNMC) in Duarte, California, and is designated as a comprehensive cancer center by the National Cancer Institute. COH is a leader in oncology-related research and innovation, with its patients having access to more than 500 clinical trials through COHNMC and other COH subsidiaries, including Transactional Genomics Research Institute and The Beckman Research Center of the City of Hope.

Consistent with COH's mission, MRMC will maintain its oncology focus.

"The applicants are: 1) Midwestern Regional Medical Center, LLC, the current and post-transaction licensee; 2) Sheridan Trust U/A/D 4/1/12, which currently "controls" MRMC by virtue its 70% Class A voting interest in MRMC; 3) COH HoldCo Inc., which will acquire 100% direct ownership of MRMC; and 4) City of Hope, which is the sole corporate member of COH HoldCo Inc."

MRMC is currently licensed by IDPH as an acute care hospital, and will maintain that designation; and as noted above, the licensee will not change.

Concurrent to the filing of this COE application, a second COE application is being filed, addressing the change of ownership of the MRMC's site and associated real estate. The changes of ownership addressed in the two COE applications are intended to occur simultaneously.

**Related Project Costs**

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project

☐ Yes    ☒ No

addressed in accompanying application

Purchase Price: \$ \_\_\_\_\_

Fair Market Value: \$ \_\_\_\_\_

**Project Status and Completion Schedules**

**Outstanding Permits:** Does the facility have any projects for which the State Board issued a permit that is not complete? Yes \_\_\_ No ☒ If yes, indicate the projects by project number and whether the project will be complete when the exemption that is the subject of this application is complete.

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**Anticipated exemption completion date (refer to Part 1130.570):** \_within 60 days of the receipt of the requested Certificate of exemption\_\_

**State Agency Submittals**

Are the following submittals up to date as applicable:

X Cancer Registry

X APORS

X All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted

X All reports regarding outstanding permits

**Failure to be up to date with these requirements will result in the Application being deemed incomplete.**



**CERTIFICATION**

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Midwestern Regional Medical Center, LLC \* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

*Dennis P. Lynda*

SIGNATURE

Dennis P. Lynda

PRINTED NAME

Sole Manager

PRINTED TITLE

SIGNATURE

PRINTED NAME

PRINTED TITLE

Notarization:

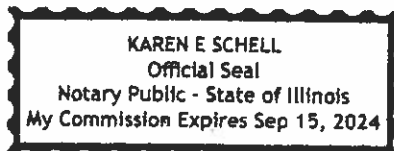
Subscribed and sworn to before me

this 2nd day of December, 2021

*Karen E. Schell*

Signature of Notary

Seal



Notarization:

Subscribed and sworn to before me

this \_\_\_\_ day of \_\_\_\_

Signature of Notary

Seal

\*Insert the EXACT legal name of the applicant

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- o in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Sheridan Trust U/A/D 4/1/12 \*  
 in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

SIGNATURE

Richard J Stephenson

PRINTED NAME

Beneficiary

PRINTED TITLE

SIGNATURE

Ann Stephenson Hostetter

PRINTED NAME

Beneficiary

PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
 this 12 day of December

Signature of Notary

Seal

KAREN E SCHELL  
 Official Seal  
 Notary Public - State of Illinois  
 My Commission Expires Sep 15, 2024

Notarization:

Subscribed and sworn to before me  
 this \_\_\_\_ day of \_\_\_\_

Signature of Notary

Seal

\*Insert the EXACT legal name of the applicant

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SIGNATURE

Richard J Stephenson

PRINTED NAME

Beneficiary

PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this \_\_\_\_ day of \_\_\_\_

Signature of Notary

Seal

SIGNATURE

Ann Stephenson Hostetler

PRINTED NAME

Beneficiary

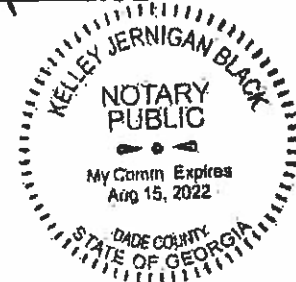
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this 2nd day of December 2021

Signature of Notary

Seal



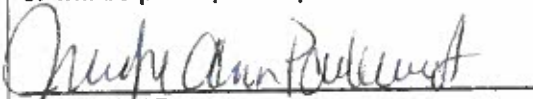
\*Insert the EXACT legal name of the applicant

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- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of City of Hope \* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

  
SIGNATURE

Jennifer Ann Parkhurst  
PRINTED NAME

Treasurer and Chief Financial Officer  
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this See attached day of See attached

\_\_\_\_\_  
Signature of Notary

Seal

  
SIGNATURE

Robert William Stone  
PRINTED NAME

President and Chief Executive Officer  
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this See attached CA Grant day of See attached

\_\_\_\_\_  
Signature of Notary

Seal

\*Insert the EXACT legal name of the applicant

# JURAT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

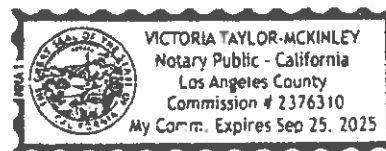
State of California

County of Los Angeles

Subscribed and sworn to (or affirmed) before me on this 2 day of December, 2021 by Jennifer Ann Parkhurst

proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.

Victoria Taylor-McKinley  
Signature (Seal)



## OPTIONAL INFORMATION

### DESCRIPTION OF THE ATTACHED DOCUMENT

Certification City of Hope  
(Title or description of attached document)

(Title or description of attached document continued)

Number of Pages \_\_\_\_\_ Document Date \_\_\_\_\_

Additional information \_\_\_\_\_

## INSTRUCTIONS

The wording of all Jurats completed in California after January 1, 2015 must be in the form as set forth within this Jurat. There are no exceptions. If a Jurat to be completed does not follow this form, the notary must correct the verbiage by using a jurat stamp containing the correct wording or attaching a separate jurat form such as this one which does contain the proper wording. In addition, the notary must require an oath or affirmation from the document signer regarding the truthfulness of the contents of the document. The document must be signed AFTER the oath or affirmation. If the document was previously signed, it must be re-signed in front of the notary public during the jurat process.

- ☒ State and county information must be the state and county where the document signer(s) personally appeared before the notary public.
- ☒ Date of notarization must be the date the signer(s) personally appeared which must also be the same date the jurat process is completed.
- ☒ Print the name(s) of the document signer(s) who personally appear at the time of notarization.
- ☒ Signature of the notary public must match the signature on file with the office of the county clerk.
- ☒ The notary seal impression must be clear and photographically reproducible. Impression must not cover text or lines. If seal impression smudges, re-seal if a sufficient area permits, otherwise complete a different jurat form.
- ☒ Additional information is not required but could help to ensure this jurat is not misused or attached to a different document.
- ☒ Indicate title or type of attached document, number of pages and date.
- ☒ Securely attach this document to the signed document with a staple.

**CALIFORNIA JURAT WITH AFFIANT STATEMENT**

GOVERNMENT CODE § 8202

- ☒ See Attached Document (Notary to cross out lines 1-6 below)  
☐ See Statement Below (Lines 1-6 to be completed only by document signer[s], ~~not~~ Notary)

Signature of Document Signer No. 1

Signature of Document Signer No. 2 (if any)

State of California

County of Los Angeles

Subscribed and sworn to (or affirmed) before me

on this 6th day of December, 2021  
Date Month Year

by Robert William Stone  
(1) Name of Signer

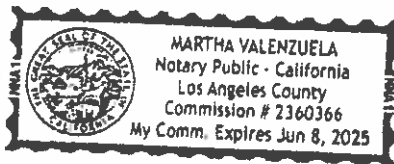
proved to me on the basis of satisfactory evidence  
to be the person who appeared before me (.) (.)

(and

(2) \_\_\_\_\_  
Name of Signer

proved to me on the basis of satisfactory evidence  
to be the person who appeared before me.)

Signature \_\_\_\_\_  
Signature of Notary Public



Place Notary Seal Above

**OPTIONAL**

*Though the information below is not required by law, it may prove valuable  
to persons relying on the document and could prevent fraudulent removal  
and reattachment of this form to another document.*

**Further Description of Any Attached Document**

Title or Type of Document: Certification / Affidavit / Hope

Document Date: \_\_\_\_\_ Number of Pages: \_\_\_\_\_

Signer(s) Other Than Named Above: \_\_\_\_\_

RIGHT THUMBPRINT  
OF SIGNER #1  
Top of thumb here

RIGHT THUMBPRINT  
OF SIGNER #2  
Top of thumb here



**CERTIFICATION**

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- o in the case of a corporation, any two of its officers or members of its Board of Directors;
- o in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- o in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- o in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

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Jennifer Ann Parkhurst  
SIGNATURE

Jennifer Ann Parkhurst  
PRINTED NAME

Treasurer  
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this \_\_\_\_ day of \_\_\_\_

\_\_\_\_\_  
Signature of Notary

Seal

Robert William Stone  
SIGNATURE

Robert William Stone  
PRINTED NAME

President  
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this \_\_\_\_ day of \_\_\_\_

\_\_\_\_\_  
Signature of Notary

Seal

\*Insert the EXACT legal name of the applicant

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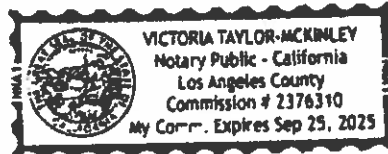
State of California

County of Los Angeles

Subscribed and sworn to (or affirmed) before me on this 2 day of December, 2021 by Jennifer Ann Parkhurst

proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.

Victoria Taylor-McKinley (Seal)  
Signature



## OPTIONAL INFORMATION

### DESCRIPTION OF THE ATTACHED DOCUMENT

Certification CoH Hold Co INC  
(Title or description of attached document)

(Title or description of attached document continued)

Number of Pages \_\_\_\_\_ Document Date \_\_\_\_\_

Additional information

## INSTRUCTIONS

The wording of all Jurats completed in California after January 1, 2015 must be in the form as set forth within this Jurat. There are no exceptions. If a Jurat to be completed does not follow this form, the notary must correct the verbiage by using a jurat stamp containing the correct wording or attaching a separate jurat form such as this one which does contain the proper wording. In addition, the notary must require an oath or affirmation from the document signer regarding the truthfulness of the contents of the document. The document must be signed AFTER the oath or affirmation. If the document was previously signed, it must be re-signed in front of the notary public during the jurat process.

- ☒ State and county information must be the state and county where the document signer(s) personally appeared before the notary public.
- ☒ Date of notarization must be the date the signer(s) personally appeared which must also be the same date the jurat process is completed.
- ☒ Print the name(s) of the document signer(s) who personally appear at the time of notarization.
- ☒ Signature of the notary public must match the signature on file with the office of the county clerk.
- ☒ The notary seal impression must be clear and photographically reproducible. Impression must not cover text or lines. If seal impression smudges, re-seal if a sufficient area permits, otherwise complete a different jurat form.
  - ☒ Additional information is not required but could help to ensure this jurat is not misused or attached to a different document.
  - ☒ Indicate title or type of attached document, number of pages and date.
- ☒ Securely attach this document to the signed document with a staple.





**SECTION II. BACKGROUND.****BACKGROUND OF APPLICANT**

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.
3. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application. Please provide information for each applicant, including corporate officers or directors, LLC members, partners and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.
4. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
5. If, during a given calendar year, an applicant submits more than one Application, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

**APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 5.**

**SECTION III. CHANGE OF OWNERSHIP (CHOW)****Transaction Type. Check the Following that Applies to the Transaction:**

- ☐ Purchase resulting in the issuance of a license to an entity different from current licensee.
- ☐ Lease resulting in the issuance of a license to an entity different from current licensee.
- ☐ Stock transfer resulting in the issuance of a license to a different entity from current licensee.
- ☐ Stock transfer resulting in no change from current licensee.
- ☐ Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee.
- ☐ Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee.
- ☐ Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity.
- ☐ Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets.
- ☐ Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility.
- ☐ Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee.
- ☐ Change of ownership among related persons resulting in a license being issued to an entity different from the current licensee
- ☐ Change of ownership among related persons that does not result in a license being issued to an entity different from the current licensee.
- ☒ Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets and explain in "Narrative Description."

### 1130.520 Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility

1. Prior to acquiring or entering into a contract to acquire an existing health care facility, a person shall submit an application for exemption to HFSRB, submit the required application-processing fee (see Section 1130.230) and receive approval from HFSRB.
2. If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.
3. READ the applicable review criteria outlined below and **submit the required documentation (key terms) for the criteria:**

APPLICABLE REVIEW CRITERIA	CHOW
1130.520(b)(1)(A) - Names of the parties	X
1130.520(b)(1)(B) - Background of the parties, which shall include proof that the applicant is fit, willing, able, and has the qualifications, background and character to adequately provide a proper standard of health service for the community by certifying that no adverse action has been taken against the applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application.	X
1130.520(b)(1)(C) - Structure of the transaction	X
1130.520(b)(1)(D) - Name of the person who will be licensed or certified entity after the transaction	
1130.520(b)(1)(E) - List of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, including a description of the applicant's organizational structure with a listing of controlling or subsidiary persons.	X
1130.520(b)(1)(F) - Fair market value of assets to be transferred.	X
1130.520(b)(1)(G) - The purchase price or other forms of consideration to be provided for those assets. [20 ILCS 3960/8.5(a)]	X
1130.520(b)(2) - Affirmation that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section	X
1130.520(b)(3) - If the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction	X
1130.520(b)(4) - A statement as to the anticipated benefits of the proposed changes in ownership to the community	X
1130.520(b)(5) - The anticipated or potential cost savings, if any, that will result for the community and the facility because of the change in ownership;	X

APPLICABLE REVIEW CRITERIA	CHOW
1130.520(b)(6) - A description of the facility's quality improvement program mechanism that will be utilized to assure quality control;	X
1130.520(b)(7) - A description of the selection process that the acquiring entity will use to select the facility's governing body;	X
1130.520(b)(9)- A description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.	X
APPEND DOCUMENTATION AS <u>ATTACHMENT 6</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

**SECTION IV.CHARITY CARE INFORMATION**

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

**Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care must be provided at cost.**

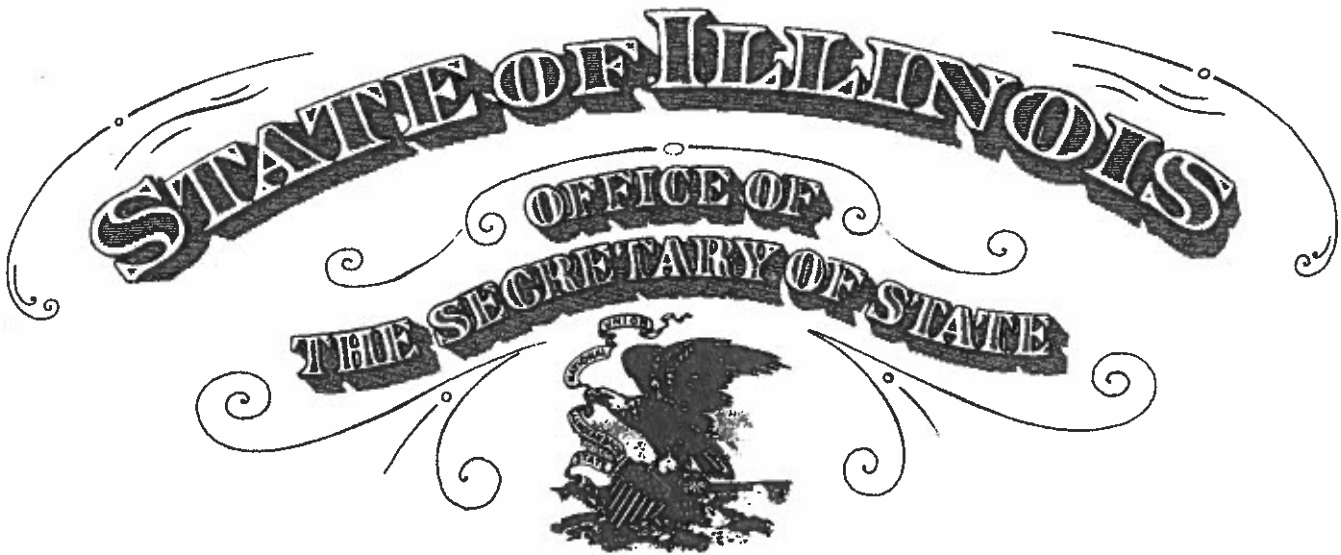
**A table in the following format must be provided for all facilities as part of Attachment 7.**

<b>CHARITY CARE</b>			
	2018	2019	2020
<b>Net Patient Revenue</b>	<b>\$708,105,454</b>	<b>\$405,192,319</b>	<b>\$344,493,576</b>
Amount of Charity Care (charges)	\$47,353,399	\$56,919,909	\$16,901,134
Cost of Charity Care	\$10,641,892	\$11,953,829	\$3,325,244

**APPEND DOCUMENTATION AS ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

File Number

0948484-1



**To all to whom these Presents Shall Come, Greeting:**

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

MIDWESTERN REGIONAL MEDICAL CENTER, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON DECEMBER 31, 2020, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set***  
***my hand and cause to be affixed the Great Seal of***  
***the State of Illinois, this 14TH***  
***day of OCTOBER A.D. 2021 .***

*Jesse White*

SECRETARY OF STATE ATTACHMENT 1

Authentication #: 2128702072 verifiable until 10/14/2022

Authenticate at: <http://www.ilsos.gov>



## Secretary of State Certificate of Status

I, SHIRLEY N. WEBER, Ph.D., Secretary of State of the State of California, hereby certify:

**Entity Name:** CITY OF HOPE  
**File Number:** C0948790  
**Registration Date:** 01/01/1980  
**Entity Type:** DOMESTIC NONPROFIT CORPORATION  
**Jurisdiction:** CALIFORNIA  
**Status:** ACTIVE (GOOD STANDING)

As of November 10, 2021 (Certification Date), the entity is authorized to exercise all of its powers, rights and privileges in California.

This certificate relates to the status of the entity on the Secretary of State's records as of the Certification Date and does not reflect documents that are pending review or other events that may affect status.

No information is available from this office regarding the financial condition, status of licenses, if any, business activities or practices of the entity.



**IN WITNESS WHEREOF**, I execute this certificate and affix the Great Seal of the State of California this day of November 11, 2021.

A handwritten signature in black ink, appearing to read "Shirley N. Weber".

**SHIRLEY N. WEBER, Ph.D.**  
**Secretary of State**

**Certificate Verification Number:** RG6V3GZ

To verify the issuance of this Certificate, use the Certificate Verification Number above with the Secretary of State Certification Verification Search available at [bebizfile.sos.ca.gov/certification/index](http://bebizfile.sos.ca.gov/certification/index).



# Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "COH HOLDCO INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINETEENTH DAY OF NOVEMBER, A.D. 2021.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.



6373565 8300C

SR# 20213858663

You may verify this certificate online at [corp.delaware.gov/authver.shtml](http://corp.delaware.gov/authver.shtml)

A handwritten signature in black ink, appearing to read "JBullock", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed.

Jeffrey W. Bullock, Secretary of State

Authentication: 204751088

ATTACHMENT 1  
Date: 11-19-21

## SITE OWNERSHIP

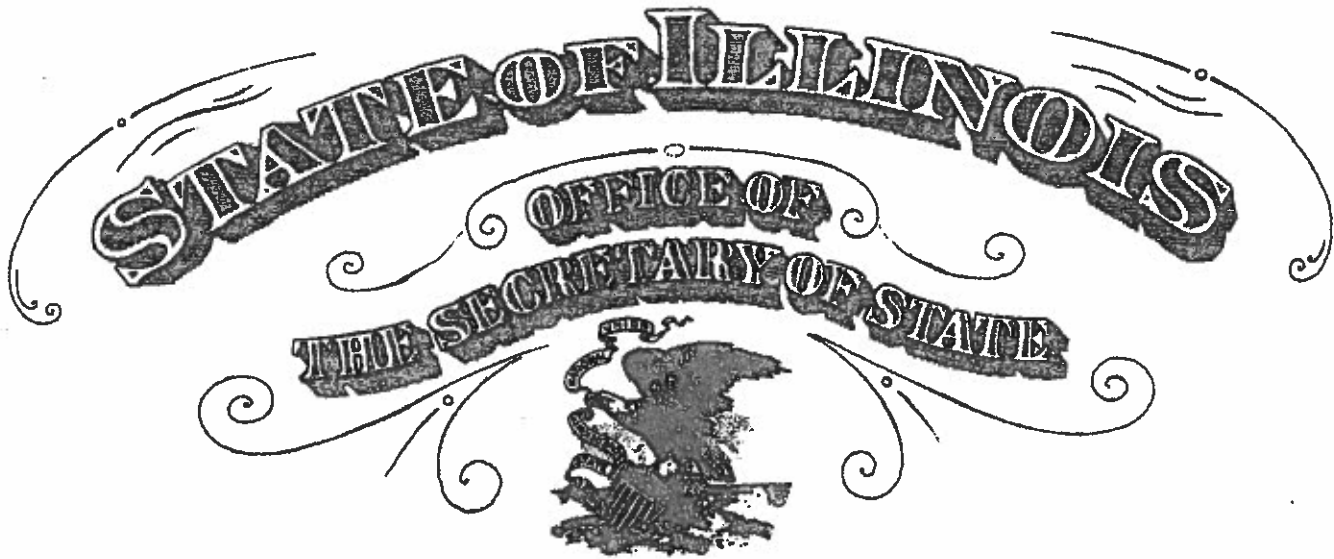
With the signatures on the Certification pages of this Certificate of Exemption application, the applicants attest to the fact that the site of Midwestern Regional Medical Center (“MRMC”), that being 2520 Elisha Avenue in Zion, Illinois, is currently owned by Northeast Illinois Medical Properties L.P.; and, prior to the proposed transaction’s closing Northeast Illinois Medical Properties L.P. will be converted to an Illinois LLC, Northeast Illinois Medical Properties, LLC. Northeast Illinois Medical Properties, LLC will be owned by COH HoldCo Inc. upon the closing of the transaction addressed in the Certificate of Exemption and the accompanying application, addressing MRMC’s site.

POST-TRANSACTION OPERATING IDENTITY/LICENSEE

The hospital's current licensee, Midwestern Regional Medical Center, LLC, will remain as the licensee following the closing of the proposed transaction.

File Number

0948484-1



**To all to whom these Presents Shall Come, Greeting:**

***I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that***

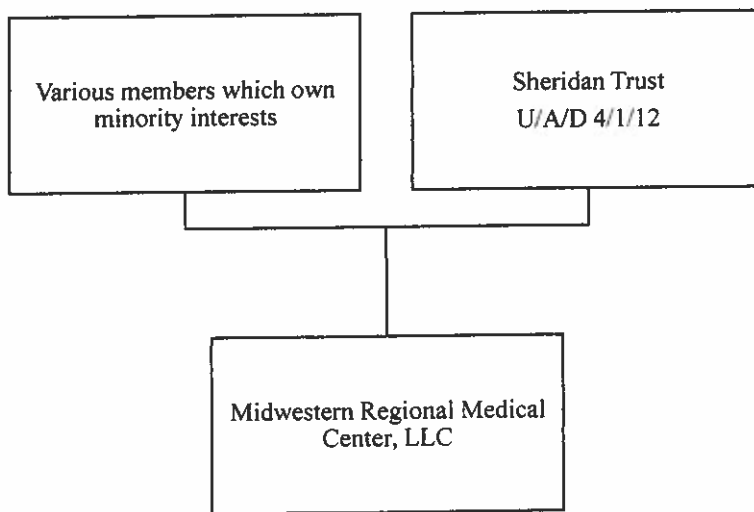
**MIDWESTERN REGIONAL MEDICAL CENTER, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON DECEMBER 31, 2020, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.**



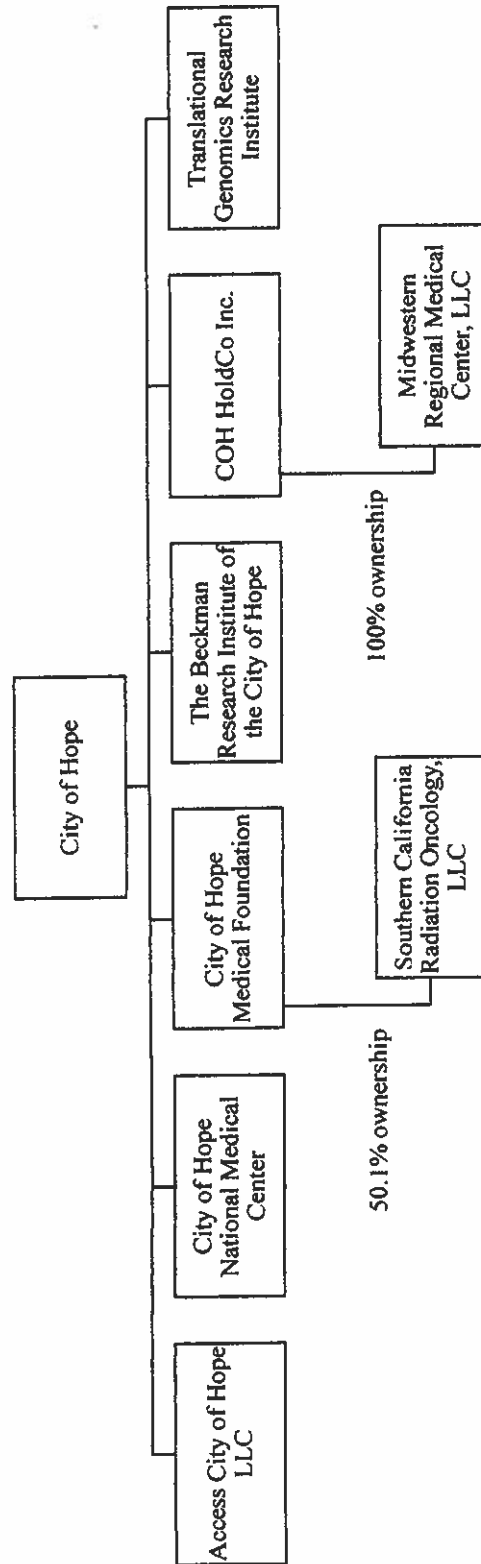
***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of OCTOBER A.D. 2021 .***

*Jesse White* ATTACHMENT 3  
 SECRETARY OF STATE

**Pre-Closing Organizational Chart**



Post-Closing Organizational Chart



## BACKGROUND OF APPLICANTS

With the exception of Midwestern Regional Medical Center, LLC, no applicant owns and/or operates any hospitals, skilled care nursing facilities, ambulatory surgical treatment centers, or end stage renal dialysis facilities in Illinois.

The following trusts each own a minimum of a 5% interest in Midwestern Regional Medical Center, LLC. Please refer to ATTACHMENT 6 (section (b)(1)(E) for an identification of the ownership interest of each trust.

- Christopher McCord Stephenson Living Trust U/A/D 3/1/99;
- ASH Living Trust U/A/D 3/1/99;
- JSK Living Trust U/A/D 3/1/99; and
- NYFB Holdings Trust U/A/D 1/2/07

Entities related to an applicant own and operate Cancer Treatment Center of America hospitals in Atlanta and Phoenix, and City of Hope owns and operates City of Hope National Medical Center in Duarte, California.

## BACKGROUND OF THE APPLICANTS

With the signatures provided on the Certification pages of this Certificate of Exemption (“COE”) application, each of the applicants attest that, to the best of their knowledge, no adverse action has been taken against any Illinois health care facility owned and/or operated by them, during the three years prior to the filing of this COE application. Further, with the signatures provided on the Certification pages of this COE application, each of the applicants authorize the Health Facilities and Services Review Board and the Illinois Department of Public Health access to any documents which it finds necessary to verify any information submitted, including, but not limited to: official records of IDPH or other State agencies and the records of nationally recognized accreditation organizations.





**Illinois Department of  
PUBLIC HEALTH**

HF 122927

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes, and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

**Ngozi O. Ezike, M.D.**  
**Director**

Issued under the authority of  
the Illinois Department of  
Public Health

EXPIRATION DATE	DATE ISSUED	LIC. NUMBER
06/30/2022		0002956
<b>General Hospital</b>		
<b>Effective: 07/01/2021</b>		

**Midwestern Regional Medical Center**  
**2520 Elisha Ave**  
**Zion, IL 60099**

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #19-493-001 10M 9/18

**#E-060-21**

← **DISPLAY THIS PART IN A  
CONSPICUOUS PLACE**

**Exp. Date 06/30/2022**

**Lic Number 0002956**

**Date Printed 05/14/2021**

**Midwestern Regional Medical Center**

**2520 Elisha Ave**  
**Zion, IL 60099**

**FEE RECEIPT NO.**

ATTACHMENT 5



October 28, 2019

Re: # 7448

CCN: #140100

Program: Hospital

Accreditation Expiration Date: August 30, 2022

Pete Govorchin  
CEO  
CTCA at Midwestern Regional Medical Center  
2520 Elisha Avenue  
Zion, Illinois 60099

Dear Mr. Govorchin:

This letter confirms that your August 26, 2019 - August 29, 2019 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on October 16, 2019 and the successful on-site unannounced Medicare Deficiency Follow-up event conducted on October 11, 2019, the areas of deficiency listed below have been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of August 30, 2019. We congratulate you on your effective resolution of these deficiencies.

#### §482.51 Surgical Services

The Joint Commission is also recommending your organization for continued Medicare certification effective August 30, 2019. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location(s):

CTCA at Midwestern Regional Medical Center  
2520 Elisha Avenue, Zion, IL, 60099

Please be assured that The Joint Commission will keep the report confidential, except as required by law or court order. To ensure that The Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

[www.jointcommission.org](http://www.jointcommission.org)

**Headquarters**  
One Renaissance Boulevard  
Oakbrook Terrace, IL 60181  
(630) 592-5000 Voice

ATTACHMENT 5

REQUIREMENTS FOR EXEMPTIONS INVOLVING  
THE CHANGE OF OWNERSHIP OF A HEALTH CARE FACILITY  
SECTION 1130.520

**Criterion 1130.520(b)(1)(A) Names of the parties**

The parties named as an applicant are:

Midwestern Regional Medical Center, LLC, the current and post-transaction licensee  
COH HoldCo Inc., which will control the licensee  
City of Hope, which has final control over COH HoldCo Inc.  
Sheridan Trust U/A/D 4/1/12, which currently has final control over the licensee

**Criterion 1130.520(b)(1)(B) Background of the parties**

Provided in ATTACHMENT 1, as applicable, are Certificates of Good Standing for each applicant identified above. Provided in ATTACHMENT 5 are:

1. An identification of each applicant's licensed health care facilities in Illinois,
2. An identification of each applicant's licensed health care facilities outside of Illinois, and
3. The applicants' authorization permitting the HFSRB, the State Agency, and IDPH access to documents necessary to verify the information submitted

**Criterion 1130.520(b)(1)(C) Structure of transaction**

Midwestern Regional Medical Center, LLC holds the IDPH license of Midwestern Regional Medical Center. Upon the closing of the proposed transaction, COH HoldCo Inc., a nonprofit Delaware corporation of which City of Hope is the sole corporate member, will acquire 100% of the membership interests in Midwestern Regional Medical Center, LLC. The IDPH license holder, Midwestern Regional Medical Center, LLC will remain responsible for the day-to-day operations of the Hospital. Thus, the licensee, as well as, the scope of the license, will remain unchanged. This organizational change will have no impact on Midwestern Regional Medical Center, LLC's legal name, federal tax identification number, location, supervising personnel, operating procedures, or services.

In order to finance the purchase of the equity interests in Midwestern Regional Medical Center, LLC (the "Acquisition"), COH HoldCo Inc. plans to enter into a temporary bridge loan to finance the Acquisition, which loan will be guaranteed by City of Hope on behalf of itself and other members of the City of Hope Obligated Group. The purchase of both the licensee (addressed in this COE application) and Midwestern Regional Medical Center's real estate (addressed in an accompanying COE application) by COH HoldCo Inc. are to be addressed in the same transaction.

**Criterion 1130.520(b)(1)(D) Name of the person who will be licensed or certified entity after the transaction**

Please see Criterion 1130.520(b)(1)(A), above.

**Criterion 1130.520(b)(1)(E) List of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, including a description of the applicant's organization structure with a listing of controlling or subsidiary persons.**

Ten trusts currently hold ownership interests in Midwestern Regional Medical Center, LLC. "Control", through a majority ownership interest is held by Sheridan Trust U/A/D 4/1/12, which holds a 70% Class A Voting interest. The remaining trusts, and their ownership interests are:

Christopher McCord Stephenson Living Trust U/A/D 3/1/99	5.65%
ASH Living Trust U/A/D 3/1/99	5.65%
NYFB Holdings Trust U/A/D 1/2/07	5.65%
JSK Living Trust U/A/D 3/1/99	5.65%
Child's Trust for Shelby Louise Stephenson created under the Mary B. Stephenson and Michael B. Stephenson Trust U/A/D 12/27/78	1.00%
Child's and Grandchildren's Educational Trust for Ann Elizabeth Stephenson U/A/D 12/27/78	1.60%
Child's and Grandchildren's Educational Trust for Shawn Cordery Stephenson U/A/D 12/27/78	1.60%
Child's and Grandchildren's Educational Trust for Christopher McCord Stephenson U/A/D 12/27/78	1.60%
Child's and Grandchildren's Educational Trust for Jennifer Lynn Stephenson U/A/D 12/27/78	1.60%

Upon the closing of the proposed transaction, COH HoldCo Inc. will control Midwestern Regional Medical Center, LLC, the licensee, and City of Hope will hold final control over COH HoldCo Inc.

Current and proposed organizational charts are provided in ATTACHMENT 4.

**Criterion 1130.520(b)(1)(F) Fair market value of assets to be transferred**

The health care facility's value, is the allocated purchase price identified below, that being \$110,119,000. This amount is identified as the facility's fair market value for purposes of this Certificate of Exemption application, exclusively.

**Criterion 1130.520(b)(1)(G) The purchase price or other forms of consideration to be provided for those assets**

The purchase price allocated to the assets addressed in this COE application is \$110,119,000\*.

\*excludes real estate, and to potentially be adjusted upon closing

A copy of City of Hope's YE September 30, 2020 Audited Financial Statement is attached as APPENDIX I and confirmation of City of Hope's bond rating is provided as APPENDIX II.

**Criterion 1130.520(b)(2) Affirmation that any projects for which Permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section.**

By its respective signatures on the Certification Pages of this Certificate of Exemption application, the applicants affirm that none of the applicants hold COEs or Certificate of Need (“CON”) Permits issued by the Illinois Health Facilities and Services Review Board that have not been completed.

**Criterion 1130.520(b)(3) If the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the charity care policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.**

City of Hope is committed to providing high quality, comprehensive health care services to patients. Eligibility for charity care may be considered for those individuals who provide documentation of ineligibility and/or denial of coverage, including government sponsored programs. The charity care policies currently in place will be retained and evaluated, and potentially altered following the closing of the proposed transaction. Further, with the signatures on the Certification pages of this COE application, the applicants affirm that more restrictive charity care practices and policies than were in place a year prior to this COE application’s filing will not be adopted, and that for a period of no less than two years following the proposed transaction, more restrictive charity care practices will not be implemented.

**Criterion 1130.520(b)(4) A statement as to the anticipated benefits of the proposed changes in ownership to the community**

Applicant City of Hope and its related entities enjoy reputations of providing high quality services to their patients. As a result, and with no substantial changes to the services provided through MRMC being anticipated, no appreciable benefits in terms of the services provided are currently anticipated.

**Criterion 1130.520(b)(5) The anticipated or potential cost savings, if any, that will result for the community and facility because of the change in ownership.**

To date, no anticipated savings have been quantified by the applicants.

**Criterion 1130.520(b)(6) A description of the facility’s quality improvement mechanism that will be utilized to ensure quality control**

A copy of Midwestern Regional Medical Center’s Quality Improvement policy is attached as APPENDIX III. Applicant COH HoldCo Inc. intends to continue using the existing policy immediately following the proposed change of ownership, and to evaluate that policy and make appropriate adjustments to the policy on an ongoing basis thereafter.

**Criterion 1130.520(b)(7) A description of the selection process that the acquiring entity will use to select the facility’s governing body**

Midwestern Regional Medical Center does not currently have a local advisory board, and as of the filing of this Certificate of Exemption application, COH HoldCo Inc. has no plans to establish such a board.

**Criterion 1130.520(b)(9) A description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.**

None are currently anticipated.

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

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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
<b>Assets</b>		
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	3,292,765	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	2,126,412	2,256,775
Total assets	<u>\$ 6,735,288</u>	<u>\$ 5,869,636</u>

## City of Hope

Consolidated Statements of Financial Position  
(In Thousands)

	September 30	
	2020	2019
<b>Liabilities and net assets</b>		
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><u>\$ 6,735,288</u></u>	<u><u>\$ 5,869,636</u></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
<b>Operating activities</b>		
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)
<b>Investing activities</b>		
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
<b>Financing activities</b>		
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	<u>442,019</u>	<u>379,008</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	515,792	(121,515)
Cash, cash equivalents, and restricted cash beginning of year	<u>256,056</u>	<u>377,571</u>
Cash, cash equivalents, and restricted cash end of year	<u>\$ 771,848</u>	<u>\$ 256,056</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year (net of capitalized interest)	<u>\$ 41,731</u>	<u>\$ 46,324</u>
<b>Supplemental disclosure of noncash activity:</b>		
Capital lease obligation	<u>\$ -</u>	<u>\$ 4,278</u>
Additions to property and equipment included in accounts payable and accrued liabilities	<u>\$ 34,781</u>	<u>\$ 25,932</u>

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
	<u>100%</u>	<u>100%</u>

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
	<u>1,895,483</u>	<u>1,765,100</u>
Accumulated depreciation and amortization	<u>(1,040,785)</u>	<u>(951,639)</u>
	854,698	813,461
Construction in progress	294,705	164,257
Total property and equipment, net	<u>\$ 1,149,403</u>	<u>\$ 977,718</u>

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):

	2020	2019
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):

	<b>Controlling Interests</b>	<b>Noncontrolling Interest</b>	<b>Total</b>
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	<u>\$ 3,465,438</u>	<u>\$ 30,584</u>	<u>\$ 3,496,022</u>

**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):

	2020	2019
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	115,448	70,036
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	24,218
	<u>128,011</u>
Discounts	(4,527)
Allowance for uncollectible promises to give	(8,036)
	<u>\$ 115,448</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):

	Investments at Fair Value				Investments at Net		Valuation
2020	Level 1	Level 2	Level 3	Fair Value	Asset Value	Total	Technique (a, b, c)
<b>Investments</b>							
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	
<b>Other long-term assets</b>							
Marketable securities	\$ 35,377	\$ —	\$ —	\$ 35,377	\$ —	\$ 35,377	a
Cash equivalents	\$ 542	\$ —	\$ —	\$ 542	\$ —	\$ 542	a
Total investments and other long-term assets	\$ 1,299,937	\$ 1,057,193	\$ 612	\$ 2,357,742	\$ 1,706,265	\$ 4,064,007	
			Level 1	Level 2	Level 3	Total	
<b>Liabilities at fair value</b>							
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 at Net	Total	Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Fair Value	Asset Value		
<b>Investments</b>							
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	
<b>Other long-term assets</b>							
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	
			Level 1	Level 2	Level 3	Total	
<b>Liabilities at fair value</b>							
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):

	<b>Assets</b>	<b>Liabilities</b>
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>\$ 612</u>	<u>\$ 19,849</u>

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

	<b>2020</b>	<b>2019</b>
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>	<u>4,239,430</u>
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>\$ 2,357,742</u>	<u>\$ 2,567,567</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):

	<b>2020</b>	<b>2019</b>
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):

	<u>2020</u>	<u>2019</u>
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)

	2020	2019
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.

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## 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

## 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)**

	<u>2020</u>	<u>2019</u>
<b>Benefits for the Broader Community – Support for Research (unaudited)</b>		
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	<u>369,554</u>	<u>351,455</u>
<b>Support of Governmental Health Care Programs (unaudited)</b>		
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
	<u>162,688</u>	<u>175,831</u>
Total estimated benefits for the broader community and unreimbursed costs to governmental health care programs	<u>\$ 532,242</u>	<u>\$ 526,836</u>

**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	<u>\$ 685,000</u>	<u>\$ 624,466</u>

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	<u>\$ 108,250</u>	<u>\$ 79,237</u>

**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
<b>2020</b>						
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
<b>2019</b>						
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	151,851	80,729
Less: interest	(32,893)	(16,111)
Total lease liabilities	118,958	64,618
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
<b>Assets</b>					
<b>Current assets:</b>					
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
<b>Total current assets</b>	<b>3,211,269</b>	<b>114,027</b>	<b>(32,531)</b>	<b>3,292,765</b>	<b>2,635,143</b>
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	—
<b>Other assets:</b>					
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
<b>Total other assets</b>	<b>2,148,442</b>	<b>90,096</b>	<b>(112,126)</b>	<b>2,126,412</b>	<b>2,256,775</b>
<b>Total assets</b>	<b>\$ 6,498,957</b>	<b>\$ 280,988</b>	<b>\$ (144,657)</b>	<b>\$ 6,735,288</b>	<b>\$ 5,869,636</b>

## 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
<b>Liabilities and net assets</b>					
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

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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	2,447,296	110,158	(39,941)	2,517,513	2,406,900
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	2,247,082	136,083	(26,131)	2,357,034	2,226,702
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	174,755	19,004	(33,280)	160,479	265,305
Net assets, beginning of year	3,939,266	170,123	(78,846)	4,020,543	3,755,238
Net assets, end of year	\$ 4,104,021	\$ 189,127	\$ (112,126)	\$ 4,181,022	\$ 4,020,543

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# MOODY'S

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## CREDIT OPINION

1 June 2021

✓ Rate this Research

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## City of Hope, CA

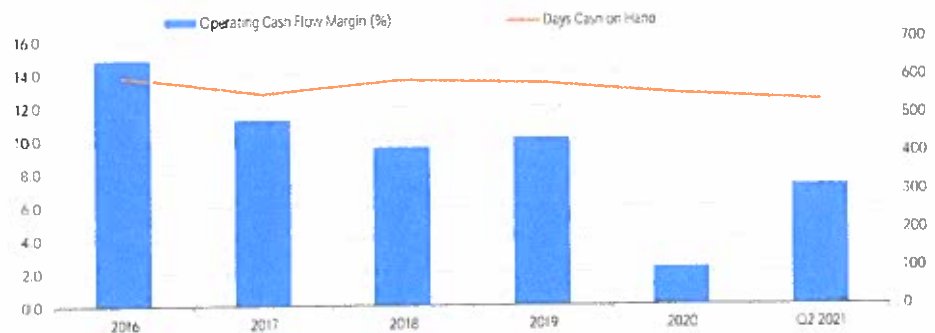
### Update to credit analysis

### Summary

City of Hope's rating (A1 stable) is supported by a number of fundamental strengths including its prominent reputation and strong market share for oncology services in Southern California, long history of philanthropy that supports ongoing research and provides capital for strategic projects, excellent balance sheet measures, and diverse portfolio of research efforts that are funded through a variety of internal and external sources. Patient volume and financial performance have rebounded strongly following a slowdown during the height of the winter COVID-19 surge in Southern California, demonstrating strong demand and resiliency for the organization's patient care services. Capital spending will remain high to support a variety of strategic initiatives that will expand capacity and bring new patients to the system, supporting growth over the medium term. City of Hope has absorbed a significant reduction in royalty revenue from a major patent over the last year and while we expect margins to be lower than those achieved in recent years, we expect the organization will hit its financial targets and maintain cash flow margins appropriate for the rating category.

Exhibit 1

Cash flow margin will improve to about 8% as patient volume returns; liquidity will remain excellent



2020 days cash adjusted to remove line of credit draw; 2020 and 2021 days cash includes \$152 million Medicare advance, which is worth about 25 days cash

Source: Moody's Investors Service



## Credit strengths

- » Strong clinical and research reputation and well-known brand name will provide for maintenance of second place market share for all inpatient oncology services throughout its primary service area of Los Angeles, San Bernardino, Orange, Riverside, and Ventura Counties, and first place share within certain service lines, based on most recently available state data
- » Good volume recovery following winter surge in Southern California; volume growth should continue as City of Hope increases its outpatient presence throughout the service area and moves some patients to outpatient status, freeing up inpatient beds
- » Nimbleness of status as a private organization coupled with high caliber research is an attractive model that will continue to facilitate recruitment of top researchers and positions the organization well to receive outside grant funding
- » Very strong balance sheet ratios will remain a core strength with over 200% cash to debt and over 500 days cash on hand
- » Excellent fundraising: unrestricted contributions have averaged over \$60 million a year over the last five years with total contributions averaging about \$150 million

## Credit challenges

- » Recent patent expiration has reduced cash flow by over \$200 million annually; margins have contracted as a result, but are in line with expectations
- » Growth plans entail a significant increase in capital spending over the next five years; leverage is expected to remain high over the near term
- » The Southern California market is fragmented and highly competitive with no hospital having over 10% oncology market share in the primary service area and with 70% of outpatient services performed in physician offices
- » Dense population and geography present obstacles in getting patients to commute to the main campus, although City of Hope is expanding patient access through expansion, partnerships, and acquisitions throughout the service area
- » Large research program (over \$500 million) that is historically partly funded through royalty revenue could present funding challenges as royalty revenue declines

## Rating outlook

The stable outlook incorporates our expectation that City of Hope will increase patient volume and increase cash flow margins over the next several quarters to be in line with the organization's strategic plan. Although capital spending will rise, we expect the organization to maintain very strong balance measures.

## Factors that could lead to an upgrade

- » Reduction in leverage while improving and sustaining stronger cash flow margins

## Factors that could lead to a downgrade

- » Inability to stabilize cash flow margins at levels allowing for investments in research and capital while maintaining strong balance sheet reserves
- » Reduction in provider fee that materially weakens margins
- » Significantly larger capital spending than what is currently contemplated or material increase in debt absent commensurate cash flow growth

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

City of Hope, CA

	2016	2017	2018	2019	2020	Q2 2021
Operating Revenue (\$'000)	1,575,962	1,830,090	2,059,915	2,236,359	2,178,739	1,185,700
3 Year Operating Revenue CAGR (%)	10.4	14.7	15.1	12.4	6.0	4.8
Operating Cash Flow Margin (%)	14.9	11.2	9.5	10.1	2.2	7.2
PM: Medicare (%)	36.6	36.7	36.8	39.0	40.6	40.6
PM: Medicaid (%)	18.5	17.0	14.8	15.4	15.0	15.0
Days Cash on Hand	605	560	594	585	631	538
Unrestricted Cash and Investments to Total Debt (%)	329.2	373.0	307.4	247.9	212.3	223.2
Total Debt to Cash Flow (x)	2.0	2.0	2.9	3.4	7.5	3.0

Based on audits for City of Hope for fiscal years ended September 30

Investment returns normalized at 5%

Provider fee revenue and expense reclassified as non operating

Investment income reclassified as non-operating

2020 includes \$450 million draw on line of credit in unrestricted cash and debt and \$152 million of Medicare advances; excluding these sources days cash measures 530 days and cash to debt measures 239%. The line of credit was fully repaid in early fiscal 2021.

Source: Moody's Investors Service

## Profile

City of Hope is an organization focused on clinical care, education, and research related to oncology and diabetes and has Comprehensive Cancer Center designation from the National Cancer Institute. It provides inpatient and outpatient services from its main campus in Duarte, California, and at outpatient sites throughout the region and conducts research on the main campus and at its affiliate, TGen, in Phoenix, AZ. TGen is an organization applying genomic discoveries to advances in human health

## Detailed credit considerations

### Market position: good position in a crowded market

City of Hope operates in three primary areas: patient care, research, and philanthropy. We expect the organization will maintain strong presence and generate favorable results in all three areas.

Patient care is the largest area of activity, accounting for about 70% of operating revenue (the exact percentage varies depending on treatment of provider fee revenue, donations and other items—see Key Indicators table for details on our calculations). City of Hope benefits from strong demand for its clinical services. Although market share in the Southern California market is heavily impacted by drive times and served by a wide variety of providers, patients often seek out care at City of Hope. City of Hope generally has the first or second place market share across a variety of oncology services and is the regional leader for bone marrow transplants. City of Hope has partnerships with a variety of regional hospitals and regularly acquires physicians practices. We expect the organization to continue pursuing partnerships.

City of Hope has announced plans to build a large comprehensive cancer campus in Orange County, a major market to the south of its main campus. Investments will exceed \$1 billion over time and include a large outpatient center, clinical research (including access to trials) and a specialty cancer hospital. The Orange County market is relatively well insured and home to a large population base. The current plans expand upon a \$200 million investment in Orange County originally announced in 2018. Financing is a mix of philanthropy, balance sheet reserves and cash flow. Although City of Hope has not announced plans to finance the project with debt, we believe additional debt is likely over time, either as reimbursement or to fund specific aspects of the project.

Research will remain a core mission of the organization and will help to drive philanthropy and will generate irregular, but sometimes significant financial returns through the sale or licenture of technology or assets. For example, in fiscal 2021, City of Hope sold Ashion, a specialized lab developed by its subsidiary, TGen, and licensed its rights to a blood biopsy technology. Revenue from the Cabilly patent, a long-standing and material source of cash flow, has nearly ended; see Operating Performance section for further detail.

## APPENDIX II

City of Hope, CA: Update to credit analysis

Philanthropy will remain a core strength of City of Hope and will continue to support research, education and other activities that further the organization's mission. The organization regularly fundraises \$150 - \$200 million, including donor restricted contributions. Unrestricted contributions average about \$60 million annually. Like its royalty and licensing revenue, philanthropy can be lumpy and in fiscal 2021 City of Hope received an unusually large gift from a longtime director and research pioneer at the organization.

#### Operating performance, balance sheet, and capital plans: margins rebounding following COVID-19 surges; capital spending to remain high

Due to the expiration of the Cabilly patent and material reduction in associated royalty revenue, City of Hope's operating cash flow margins will be weaker over the next several years than historical results. We expect margins to range from about 7% - 9% (including provider fee revenue). City of Hope will likely receive less than \$30 million net from the patent in fiscal 2021 (down from over \$200 million in recent years). Revenue from other royalties and licensing agreements will help make up some of the difference, as will good margins on patient care and continued strong philanthropy. Management has been preparing for the end of the royalty stream for over a decade.

Financial performance was severely impacted by the pandemic in fiscal 2020 and through the first quarter of 2021. Although oncology care is not as easily deferred as other types of care, City of Hope did have COVID-19 positive inpatients and had to defer some care while incurring higher expenses, similar to the experience of most acute care hospitals. Inclusive of CARES Act funding (but excluding net provider fee revenue), the operating cash flow margin was a low 2.2% in fiscal 2020 and a negative 3.4% in the first quarter of 2021 when Southern California had its largest surge. Through Q2 2021 the margin has rebounded to 7.2% following strong rebound in demand and a boost in income from licensing agreements and philanthropy, as discussed above.

Capital spending will remain high for the next several years, totaling over \$1.0 billion through 2024 as City of Hope pursues various strategic growth opportunities; over a multi-year period, this equates to a capital spending ratio of over 2.0x. Although the organization has not announced additional debt plans, we believe debt is likely given the magnitude of spending plans. We expect that City of Hope will continue its strong record of fundraising and some large capital projects will likely have significant philanthropy components. Additionally, the organization has built up significant balance sheet reserves in recent years, which can support spending (including through the issuance of taxable debt, the proceeds of which are held as unrestricted investments on the balance sheet).

#### Liquidity

City of Hope's unrestricted liquidity is very strong with about 540 days cash on hand and cash to debt of about 220% at March 31, 2021. Excluding Medicare advances of about \$152 million, unrestricted investments total about \$3.2 billion and the organization has about \$650 million of donor restricted investments that are used to support research and other activities (days cash measures about 515 days excluding Medicare advances).

Reserves will fluctuate somewhat and may decline depending on the timing of future capital investments, but we expect City of Hope to maintain very strong liquidity over the next several years with days cash in excess of 450 days.

City of Hope has a broad mix of investments, including substantial investments in vehicles with limited liquidity. Asset allocation is diversified across managers and holdings.

#### Debt structure and legal covenants

City of Hope will remain leveraged with debt to revenue of about 60% over the near term.

#### Legal security

The notes and bonds are secured by a receivables pledge of the obligated group, which includes City of Hope, Beckman Research Institute of the City of Hope, City of Hope National Medical Center, and City of Hope Medical Foundation, although royalty receivables are excluded from the pledge. Exclusion of royalties from the receivables pledge is not a material concern as the royalty revenue may still be used in the calculation of debt service coverage, it does not restrict balance sheet reserves derived from royalty revenue, and royalty revenue will end over the near term. Moreover, royalty revenue has declined significantly following expiration of the patent and will decline to a de minimis amount over the next several months.

There is a rate covenant of 1.2x annual debt service. Coverage between 1.0x – 1.2x requires a consultant call in; coverage below 1.0x is an event of default.

#### Debt structure

Underlying debt structure is approximately 98% fixed and 2% variable; inclusive of swaps, it is 100% fixed rate.

The variable rate bonds are direct purchase bonds and are held by a commercial bank through maturity. The debt service schedule has several large bullet maturities in 2043 and 2048. Actual maximum annual debt service does not occur until 2044. Based on smoothed maximum annual debt service of about \$75 million, Moody's adjusted MADS coverage is expected to be about 5.0x over the next several years.

#### Debt-related derivatives

City of Hope has four swaps with a total notional value of about \$208 million across four different counterparties. Collateral posting thresholds vary across the different counterparties; there is no collateral posted currently.

#### Pensions and OPEB

City of Hope has a defined contribution pension and does not sponsor OPEB.

### ESG considerations

#### Environmental

Environmental considerations are modest. City of Hope's operates in a region increasingly exposed to wildfires that could impact facilities, the willingness or ability of patients and staff to travel, or impose mitigation costs on the organization.

#### Social

Social considerations are average for the sector. Governmental payor exposure is average. Although the high and growing cost of healthcare is a challenge for the entire sector, City of Hope continues to benefit from strong demand.

#### Governance

Governance considerations are average for the sector. The organization is governed by a self-perpetuating board of directors. Senior management have been in their roles for several years.

APPENDIX II

City of Hope, CA: Update to credit analysis



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REPORT NUMBER

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## APPENDIX II

City of Hope, CA: Update to credit analysis

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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## City of Hope, California California Health Facilities Financing Authority; Hospital

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# City of Hope, California

## California Health Facilities Financing Authority; Hospital

### Credit Profile

#### California Hlth Facs Fincg Auth, California

City of Hope, California

California Hlth Facs Fincg Auth (City of Hope Obligated Group) rev bnds

*Long Term Rating*

A+/Stable

Current

### Rationale

S&P Global Ratings' long-term rating on the California Health Facilities Financing Authority's series 2019 revenue bonds, series 2012A fixed-rate revenue bonds, series 2013 taxable direct obligation notes, and series 2018 taxable direct obligation bonds, issued either by or on behalf of City of Hope (COH), is 'A+'. The outlook is stable.

The rating reflects our view of COH's clinical reputation and innovative research capabilities, leading National Cancer Institute (NCI)-designated comprehensive cancer center, expanding footprint, and various strategic partnerships. The rating also reflects our view of COH's remarkable cash flow and extraordinarily high unrestricted reserves. We expect these strengths will support the rating despite operating losses in fiscal 2020 (ended Sept. 30, 2020) and through the first three months of fiscal 2021 (ended Dec. 31, 2020). Fiscal 2020 operating losses are attributed to revenue and expense pressures from COVID-19 as well as declining Cabilly royalty revenue, which is expected to continue to decline and end in the near future.

To stem losses, management has successfully executed on various value realization initiatives (\$128 million realized in fiscal 2020 and through the second quarter of 2021) and revenue generation initiatives. Financial performance through the second quarter of 2021 has been favorable and driven by a rebound in occupancy, outperformance in philanthropy and research, and an increase in licensing revenue (non-Cabilly) following transactions with Exact Sciences Corporation and CytoImmune Therapeutics.

Royalty revenue, while declining, was higher than originally anticipated despite the expiration of the Cabilly patents in December 2018. COH benefitted from approximately \$148 million in carryover royalty revenue in fiscal 2020 and anticipate a final amount of approximately \$33 million in fiscal 2021. COH earns royalties on pharmaceuticals manufactured using the Cabilly technology through the expiration date of the patent. However, drugs that pharmaceutical companies have in stock that were produced using the technology through the expiration date, but sold after the patent expiration, are still a royalty-eligible sale for COH. This has resulted in carryover royalty revenue that will continue to accrue until that inventory is sold.

Management continues to execute on strategic priorities as evident by year over year growth in AccessHope, which provides cancer support services to employees, and growing expansion in the Orange County (OC) market (\$1 billion

total investment). COH's Comprehensive Cancer Center in the OC is set to open in 2022 and the OC's only specialty cancer hospital is set to open in 2025.

Our expectation is that COH's balance sheet will remain robust despite elevated capital spending and investment market volatility driven by COVID-19 pressure. While we believe COH has the capacity to absorb the recent strain on its financial metrics, a more prolonged or severe stress as well as an inability to return to stable operations could cause us to revise that view. We also view continued execution of revenue generation strategies important to offset the imminent elimination of the Cabilly royalty revenue.

COH's rating also incorporates a positive adjustment, reflecting its extremely healthy reserves although this is offset by a negative adjustment reflecting its narrow concentration of services.

The 'A+' rating further reflects our assessment of COH's:

- Concentrated specialty service niche and position as a national leader in oncology as an NCI-designated Comprehensive Cancer Center;
- Extraordinarily strong unrestricted reserves relative to operating expenses and debt;
- Progress made toward clinical growth initiatives; and
- Exceptional cash flow, driven by stronger than expected royalty revenue, research grants, investment income, and philanthropy.

Partly offsetting the above strengths, in our opinion, are:

- COH's expired Cabilly patent, which is expected to result in the elimination of its royalty income in the near future and possibly weaker operating performance as COH's growth initiatives ramp up;
- Additional operating margin pressure due to COVID and the recession;
- Significant competition from other NCI-designated comprehensive cancer centers and tertiary hospitals locally and regionally;
- Significant reliance on royalties, research grants, philanthropy, and provider fees for annual profitability and support for COH's research mission; and
- Elevated capital spending during the next several years that will limit balance sheet accretion.

The stable outlook reflects our view of COH's balance sheet strength, which we believe provides considerable near-term financial flexibility for the organization during a period of operating losses and as the organization invests in strategic growth initiatives. The stable outlook also reflects our view of COH's focus on creating alternative revenue streams to offset the end of the Cabilly royalty revenue stream.

#### **Environmental, social and governance factors**

We view COH's social risk as lower than our view of the sector, due to its robust economic fundamentals as well as its vast primary service area and expanding footprint in Southern California. Although, we believe the COVID-19 pandemic exposes the entire sector to additional social risks that present financial pressure in the short and medium term, we will evaluate these risks as the situation evolves.

We also view COH's environmental risk as elevated due to its location in an area susceptible to earthquakes and wildfires. However, we believe this risk is addressed by the hospital's continued capital investment, seismic compliance, and ample liquidity, which should help stabilize COH should the specialty hospital require major rehabilitation following an episodic event. While COH has met most seismic standards, it does have some facility needs to address by 2030.

Lastly, we analyzed COH's governance risk and determined it is in line with our view of the sector standard.

## Stable Outlook

### Downside scenario

We believe that while COH has cushion to support weaker financial performance driven by COVID-19 and the loss of Cabilly royalty revenue, we would consider a lower rating or negative outlook if COH was unable to stabilize operations or if operating losses were to widen. We would also consider a lower rating or outlook change if COH were unable to generate healthy maximum annual debt service (MADS) coverage or if unrestricted reserves declined dramatically during a period of capital investment.

### Upside scenario

COH's long-term ability to grow its clinical enterprise and to cover research subsidies using philanthropy and grant funding will be a material factor in our decision to raise the rating or assign a positive outlook as COH's balance sheet, even with some projected downside, would still be commensurate with a higher rating level. We could consider revising the outlook to positive or raising the rating if COH demonstrates the ability to produce ratios in line with the 'AA-' rating level without reliance on royalty income or other uncertain revenue streams.

## Credit Opinion

### Enterprise Profile - Strong

#### Growing presence in Southern California anchored by main Duarte campus

COH and its affiliates form one of the largest providers of inpatient oncology treatment and research in Southern California, have produced numerous income-generating patents, and benefits from substantial National Institutes of Health funding. Research is funded largely through grant revenue and philanthropy, with some internal subsidies. COH's market is highly competitive and fragmented, with many comprehensive cancer centers and other oncology providers competing with COH.

COH's volume trends have been historically favorable and largely driven by growth in the Medical Foundation and its aligned medical group, which is responsible for a vast majority of admissions and has also resulted in an increase in outpatient visits. COH's outpatient visits, infusions, and bone marrow transplants (BMTs) all increased.

COH's BMT program is its signature program, which continues to grow as it attracts patients locally as well as from across the country. Management has made efforts to increase occupancy at its inpatient facility, which has allowed

inpatient volumes, including BMTs to increase despite regularly being at capacity in Duarte. Overall, we view these strong volume trends as important for credit strength as clinical growth can help offset the pending loss of royalty revenue. Furthermore, despite the disruptive effect of COVID-19 on volume, there continues to be a strong demand for services, telehealth expanded by 30%, and occupancy is at 90% through the second quarter of 2021.

#### **Expansion efforts continue including major investments in Orange County**

COH has invested in additional clinical locations which have grown to include 31 locations that are part of its clinical network, including freestanding radiation therapy centers that became a part of COH's Medical Foundation (as part of the Vantage Oncology joint venture transaction), a center near the campus of Providence Little Company of Mary Medical Center in Torrance (a part of Providence Health & Services), and a center in Upland (COH Upland). This is consistent with COH's strategy to affiliate with community providers to relieve capacity pressure on the main campus, free up space in Duarte for tertiary business, and provide high-quality cancer treatment to patients in lower-cost settings, closer to home.

COH is also expanding its presence in Orange County. In 2019, it began its Orange County expansion with the construction of an ambulatory facility in Newport Beach, which opened to patients in 2020. COH also has plans for further growth in Orange County, with planned investment of more than \$1 billion in developing and supporting a comprehensive cancer campus located in Irvine. COH is currently developing an outpatient center and clinical research center on an 11-acre parcel of land and plans to build a specialty hospital on that land as well. In our view, this is a major commitment and could grow into a material portion of total revenue once established after its planned opening of the cancer center.

#### **Strategic management and governance focused on revenue generation through strategic priorities**

COH has a unified management structure over the parent, hospital, medical foundation, research institute, and Translational Genomics Research Institute (TGen), which we view positively.

In addition to its growth plans in the greater Southern California region, management is pursuing growth by contracting with employers and payors located outside of the region (AccessHope). These relationships provide employees access to oncology expertise to augment the care they would receive while still utilizing their local health care resources. Examples include remove second opinions and assessment of treatment plans to make sure a patient has the right diagnosis and care plan. Management has indicated that there has been an 83% increase in the number of employers and a 57% increase in covered lives since our last review for a total of 42 employers and 2.2. million covered lives across the country.

Management has also indicated that their Value Realization Program (VRP) has materialized significant benefits of over \$87 million in fiscal 2020 and \$41 million in fiscal 2021 year to date. VRP program initiatives include revenue cycle improvement, denials reductions, research expense efficiency efforts, and non-labor cost reductions.

Lastly, management has been focused on revenue generation as evident by the increase in non-Cabilly related licensing revenue, which is driven by recent transactions with CytImmune Therapeutics and Exact Sciences Corporation. COH and CytImmune Therapeutics Inc. (CytImmune), a clinical state biopharmaceutical company focused on commercializing novel cancer immunotherapy products, entered into exclusive licensing agreements. The agreements include licenses to several patient applications related to methods to generate large numbers of fully

functional natural killer (NK) cells to tumors. Also, Exact Sciences Corporation (Exact) entered into an agreement with a wholly-owned subsidiary of the Translational Genomics Research Institute (TGen), an affiliate of City of Hope, to acquire Ashion Analytics, LLC (Ashion). The acquisition will build upon the recent license of the TARDIS (highly sensitive, patient specific liquid biopsy based test that can detect small amounts of tumor DNA in blood for use in MRD testing) technology from TGen and strengthen the relationships between the institutions through a planned 10-year research collaboration.

Table 1

## City of Hope &amp; Affiliates (Hope National Medical Center), Calif.: Enterprise Statistics

	—Three months ended Dec. 31—	--Fiscal year ended Sept. 30--		
	2020	2020	2019	2018
PSA population	N.A.	18,049,057	18,129,775	18,035,139
PSA market share (%)	N.A.	N.A.	N.A.	N.A.
Inpatient admissions	1,859	6,938	6,661	6,900
Equivalent inpatient admissions	4,694	16,571	15,472	15,117
Emergency visits	N.A.	N.A.	N.A.	N.A.
Inpatient surgeries	583	2,262	2,416	2,553
Outpatient surgeries	2,635	8,755	8,071	7,141
Medicare case mix index	3.3831	2.7530	2.6477	2.4900
FTE employees	6,180	5,861	5,412	5,042
Active physicians	339	329	295	288
Top 10 physicians admissions (%)	N.A.	22.0	20.0	21.0
<b>Based on net/gross revenues</b>	<b>Net</b>	<b>Net</b>	<b>Net</b>	<b>Net</b>
Medicare (%)	26.0	25.0	23.0	21.9
Medicaid (%)	8.2	9.6	9.5	10.5
Commercial/Blues (%)	64.9	64.5	66.1	64.7

N/A--Not applicable. N.A.--Not available. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

## Financial Profile - Very Strong

**Unanticipated operating losses in fiscal 2020; however, losses have narrowed through the first three months of fiscal 2021**

COH's operating performance has historically been very solid, with recent years being characterized by operating margins in the 2%-5% range. Fiscal 2020 financial performance was weaker than anticipated, driven by the rating pressure of COVID-19 on volume and the decline of the Cabilly royalty revenue stream. For 2020, COH finished with an 8% operating EBIDA margin and MADS coverage that declined to nearly 2x (our coverage calculation is based on MADS of \$75.7 million and smooths out two bullet payments, due in 2044 and 2048).

In the first three months of fiscal 2021, performance has improved as operating EBIDA margin stands at 10.7%. Management attributes recent improvement to a rebound in occupancy (census is consistently tracking greater than 95%), strong philanthropy, and research performance, strict expense controls via its VRP program, as well as an

increase in non-Cabilly licensing revenue via transactions with Exact Sciences Corporation and Cytolimmune Therapeutics. COH also benefitted from almost \$152 million in Medicare Advance Payments and \$48 million in CARES Act grants.

Though we don't expect margins to rebound to historical levels in the outlook period, we do anticipate management will at the very least meet and very well exceed budgeted expectations for fiscal 2021, given the abovementioned factors. Management expects that operating losses will narrow and are forecasting they will end the year with an operating EBIDA margin of greater than 8%.

**Exceptional unrestricted reserves provides credit stability and supports higher capital spending**

COH's balance sheet remains excellent and provides a substantial cushion to COH as it approaches a period of heightened capital investment, prepares for the ultimate transition away from its sizable royalty stream, and as it manages the COVID-19 pandemic. The slight decline in unrestricted days' cash on hand in fiscal 2020 was driven by a decline in investment market performance. In addition, management is focused on streamlining collections and accounts receivable (AR).

COH's capital plans have been solidified and it has accelerated its growth plans in Orange County while closely monitoring health industry developments and trends. Consequently, capital investment plans over the next five to six years are estimated at around \$1 billion. The plans, broadly, will support continued geographic expansion, increasing patient capacity in Duarte, informatics, precision medicine, and research to support the development of innovative treatments. In addition to the Orange County investment noted earlier in the report, projects at the Duarte campus are sizable components of the plan. At the Duarte campus, highlights of the plans include a new administrative office building, an outpatient clinic, a central utility plant, New Hope Village Hotel and a parking structure. Capital plans are being funded via the series 2018 and 2019 bond proceeds, philanthropy, and cash flow. Despite the increased capital spending, we expect unrestricted reserves to remain above \$3 billion (with between 450 days' and 550 days' cash on hand).

COH does have some facility needs to address the state's mandated standards for seismic compliance by 2030. The second patient tower included in the plan would address this issue. Management is evaluating the fluid regulations at the state level as it finalizes plans. We have seen in the past that the deadlines and requirements for California's original seismic compliance standards changed multiple times during the past decade.

COH also has access to growing and significant restricted net assets totaling \$728 million as of Dec. 31, 2020, which cannot be used for debt service, but which can often be used for other capital and operating expenses in place of unrestricted reserves. Because these funds cannot be used for debt service, we do not include them in our unrestricted reserves calculations.

COH's unrestricted cash and investment portfolio is tilted toward equities (28%) and alternative investments including absolute return, private equity, and real estate assets (22%), with 31% in fixed income and 19% in cash and equivalents.

**Debt and contingent liabilities**

COH's \$1.35 billion of long-term debt is largely all fixed rate with just a minor amount of contingent liability debt consisting of \$65.4 million series 2017A and 2017B variable-rate direct placement bank loans through 2042. We do not consider these transactions to be a risk due to ample headroom above the rate trigger and because COH has a relatively liquid portfolio with \$572 million of same-day liquidity reported as of fiscal 2020, which could be used to repay the loan. COH also has two floating-to-fixed rate swaps, which almost entirely match the size and amortization of the series 2017A and 2017B variable rate bonds. In addition, on Feb. 27, 2020, COH entered an interest rate swap that will be part of a forward refunding of a portion of the series 2012A bonds. The series 2012A bonds are callable on Nov. 15, 2022, and the forward swap will have an effective date of Nov. 15, 2022. The total swap amount is \$142.7 million.

Overall, COH's debt levels are moderate. Management indicates that it has no additional financing plans in the next two years. COH does not have a defined-benefit pension plan, which we view favorably.

**Table 2****City of Hope & Affiliates (Hope National Medical Center), Calif.: Financial Statistics**

	<b>--Three months ended Dec. 31--</b>	<b>--Fiscal year ended Sept. 30--</b>			<b>--Medians for 'A+' rated stand-alone hospitals--</b>	<b>--Medians for 'A' rated stand-alone hospitals--</b>
<b>Financial performance</b>	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Net patient revenue (\$000s)	418,300	1,707,268	1,555,575	1,375,498	668,398	545,558
Total operating revenue (\$000s)	509,800	2,238,662	2,245,098	2,135,536	686,604	570,943
Total operating expenses (\$000s)	585,348	2,318,408	2,194,301	2,036,570	MNR	MNR
Operating income (\$000s)	(75,548)	(79,746)	50,797	98,966	MNR	MNR
Operating margin (%)	(14.82)	(3.56)	2.26	4.63	4.10	1.50
Net nonoperating income (\$000s)	98,100	72,741	234,912	216,133	MNR	MNR
Excess income (\$000s)	22,552	(7,005)	285,709	315,099	MNR	MNR
Excess margin (%)	3.71	(0.30)	11.52	13.40	6.40	4.20
Operating EBIDA margin (%)	(6.40)	5.18	11.18	12.07	11.00	8.40
EBIDA margin (%)	10.77	8.16	19.59	20.15	12.70	10.60
Net available for debt service (\$000s)	65,452	188,604	485,903	473,932	89,524	54,616
Maximum annual debt service (\$000s)	75,700	75,700	75,700	75,700	MNR	MNR
Maximum annual debt service coverage (x)	3.46	2.49	6.42	6.26	5.70	4.10
Operating lease-adjusted coverage (x)	2.88	2.20	5.33	5.40	4.30	3.40
<b>Liquidity and financial flexibility</b>						
Unrestricted reserves (\$000s)	3,382,327	3,220,540	3,298,634	3,090,626	588,305	306,820
Unrestricted days' cash on hand	561.50	540.40	586.20	590.50	311.00	245.50
Unrestricted reserves/total long-term debt (%)	249.70	237.10	240.10	307.90	273.70	184.80
Unrestricted reserves/contingent liabilities (%)	5,174.90	4,927.40	5,046.90	4,728.60	971.00	605.60
Average age of plant (years)	7.50	7.30	6.80	7.20	9.90	11.50



Table 2

## City of Hope &amp; Affiliates (Hope National Medical Center), Calif.: Financial Statistics (cont.)

	--Three months ended Dec. 31--	--Fiscal year ended Sept. 30--			--Medians for 'A+' rated stand-alone hospitals--	--Medians for 'A' rated stand-alone hospitals--
	2020	2020	2019	2018	2019	2019
<b>Financial performance</b>						
Capital expenditures/depreciation and amortization (%)	141.20	249.20	128.90	87.20	115.30	102.70
<b>Debt and liabilities</b>						
Total long-term debt (\$000s)	1,354,500	1,358,089	1,373,657	1,003,810	MNR	MNR
Long-term debt/capitalization (%)	26.80	28.00	28.80	24.10	19.90	27.40
Contingent liabilities (\$000s)	65,360	65,360	65,360	65,360	MNR	MNR
Contingent liabilities/total long-term debt (%)	4.80	4.80	4.80	6.50	28.20	36.00
Debt burden (%)	3.11	3.28	3.05	3.22	2.30	2.70
Defined-benefit plan funded status (%)	N/A	N/A	N/A	N/A	81.90	83.60
<b>Pro forma ratios</b>						
Unrestricted reserves (\$000s)	N/A	N/A	N/A	3,090,626	MNR	MNR
Total long-term debt (\$000s)	N/A	N/A	N/A	1,343,558	MNR	MNR
Unrestricted days' cash on hand	N/A	N/A	N/A	590.50	MNR	MNR
Unrestricted reserves/total long-term debt (%)	N/A	N/A	N/A	230.00	MNR	MNR
Long-term debt/capitalization (%)	N/A	N/A	N/A	29.90	MNR	MNR
<b>Miscellaneous</b>						
Medicare advance payments (\$000s)*	151,673	86,173	N/A	N/A	MNR	MNR
Short-term borrowings (\$000s)*	450,000	450,000	0	0	MNR	MNR
CARES Act grants recognized (\$000s)	18,784	23,639	N/A	N/A	MNR	MNR
Risk based capital ratio (%)	N/A	N/A	N/A	N/A	MNR	MNR
Total net special funding (\$000s)	21,700	76,070	53,370	110,877	MNR	MNR

\*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N.A.--Not available. N/A--Not applicable. MNR--Median not reported.



## Credit Snapshot

- **Security pledge:** Securing the bonds is a gross revenue pledge from the obligated group, which includes the parent and fundraising arm--City of Hope, City of Hope National Medical Center, Beckman Research Institute, and the City of Hope Medical Foundation. The gross revenue pledge excludes patent and royalty revenue. Management indicates that TGen has not joined the obligated group. As of fiscal 2020, the obligated group accounted for 95% of total assets and total revenues.
- **Group rating methodology:** Core
- **Organization description:** City of Hope, located in Duarte, Calif., is one of only 50 Comprehensive Cancer Centers recognized by the NCI. In addition, the Medical Foundation operates 31 clinics throughout Los Angeles, Riverside, San Bernardino, Orange County, and Ventura counties. In 2018, COH's Medical Foundation and Vantage Oncology Treatment Centers LLC formed a joint venture, Southern California Radiation Oncology LLC (COH's Medical Foundation owns 50.1%, and Vantage Oncology Treatment Centers LLC owns 49.9%) to manage and provide services to freestanding radiation therapy centers in Southern California. COH is also the sole corporate member of TGen, which gives researchers access to genomic and informatics expertise.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

## Ratings Detail (As Of June 2, 2021)

Hope Obligated Group direct oblig nts  
Long Term Rating

A+ /Stable

Current

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## Patient Safety and Quality Improvement Plan

### FY2020

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QUALITY AND RISK MANAGEMENT

APPENDIX III

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## I. Purpose & Introduction

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Consistent with the Mission, Vision, and Values of Cancer Treatment Centers of America, it is our commitment to deliver compassionate, integrative cancer care to heal the whole person, improve quality of life and restore hope. Our promise calls us to keep our patients and their healing at the center of our hearts, minds and actions every day; to rally a team around those we serve offering clear information, powerful and thorough treatment options while honoring our patient's courage, respecting their decisions and sharing in their journey to battle their disease. In living this promise, we are committed to creating a healing environment where physicians, allied health professionals, stakeholders, patients and caregivers work together to provide individualized care; to be a leader in advocating safe high quality health care; to develop resources to meet or exceed health care needs of those we serve, and to operate in an ethically and fiscally responsible manner.

The purpose of the organizational Patient Safety and Quality Improvement (PSQI) plan is to improve patient safety and improve the quality care provided to patients through an environment that encourages:

- recognition and acknowledgment of risks to patient safety and medical/health care errors;
- initiation of actions to reduce these risks;
- internal monitoring/reporting of what has been found and the actions taken;
- a focus on processes and systems;
- minimization of individual blame or retribution for involvement in a medical/health care error;
- organizational learning about medical/health care errors; and
- support of sharing of that knowledge to effect behavioral changes and other healthcare organizations.

At CTCA we embrace the Institute of Medicine definition of quality defined as care that is:

**Safe** – avoiding injuries to patients from the care that is intended to help them;

**Effective** – providing services based on scientific knowledge to those who would benefit, and refraining from providing services to those not likely to benefit;

**Patient centered** – providing care that is respectful of, and responsive to, individual patient preferences, needs, and values and ensuring that patient values guide all clinical decisions;

**Timely** – reducing waits and potentially harmful delays;

**Efficient** – avoiding waste, including waste of equipment, supplies, ideas and energy;

**Equitable** – providing care that does not vary in quality because of individual differences such as gender, ethnicity, geographic location and socioeconomic status.

## II. Objectives

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The objectives of the PSQI plan reflect the hospital's commitment to:

- promote and maintain an organizational culture committed to living our values of hopeful, compassionate, empowering, ethical, responsive, innovative, and team- spirited that supports continuous quality improvement;
- enhance operational excellence including both clinical outcomes (quality) and perceptions of care (service);
- systematically identify and prioritize quality improvement opportunities;
- create a "just culture of safety" that supports the identification and reporting of adverse events and/or near misses, as well as learning from those occurrences to advance organization and stakeholder accountability;
- apply external standards and/or references for benchmarking performance;

- utilize assessment activities as the basis for developing and implementing action plans responsive to findings; and
- communicate results of quality improvement activities to and across all levels of the organization; incorporate recognition of patient safety and quality improvement as an integral job responsibility.

### **III. Annual Evaluation**

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This plan is evaluated on an annual basis for its effectiveness in achieving its purpose and objectives. In addition to quarterly data/information, an annual summary of activities, improvements made, care delivery processes modified, projects in progress, and recommendations for changes to this plan are compiled and shared with the hospital's Board of Directors each year.

### **IV. Prioritization & Scope**

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The Board of Directors is ultimately accountable for the safety and quality of care. The function of safety and quality improvement is the shared responsibility of every Board of Directors member, Stakeholder, Physician, and Allied Health Professional part of the hospital. The Scope of the PSQI program includes an ongoing assessment, using internal and external knowledge and experience working to ensure patient safety and adhere to the highest standards of quality based upon the evidence.

Improvement initiatives are prioritized based upon the efforts impact on, and compatibility with our:

- Mission, Vision, Values, our Patient Promise and Stakeholder Bond;
- strategic and operational objectives; including goals associated with quality, patient safety and patient satisfaction;
- adherence to principles of high reliability;
- commitment to a just culture of safety;
- compliance with regulatory and accrediting agencies;
- financial performance; and
- continuous review of high volume, high risk and/or problem prone patient care activities.

Reprioritization occurs during the year through the Patient Safety/Quality Committee and leadership discussions and based upon opportunities identified through the program.

Further, this plan includes our collective and individual efforts associated with all direct patient care services and indirect services affecting patient health and patient safety and the following organizational functions:

- Medication use (includes medication errors and adverse drug events);
- Utilization/continuum of care management;
- Infection control;
- Patient satisfaction surveys and grievances;
- Professional credentialing, including FPPE and OPPE and Peer Review;
- Physician, nursing and/or multi-disciplinary case review;
- Blood usage review;
- Medical record review (includes active and closed record reviews);
- Risk and safety management activities (including but not limited to incident review and

- follow-up);
- Morbidity/mortality review;
- Thermal injuries related to MRIs;
- Outcomes related to resuscitation;
- Restraint use; and
- Organ procurement.

## V. Authority & Responsibilities

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- A. The hospital's **Board of Directors** has the ultimate responsibility for the provision of optimal quality care and service, as well as improvement for such. The Board of Directors appoints the Chief Executive Officer responsible to manage the hospital. The Board of Directors oversees and supports quality improvement by:

- Providing direction in setting expectations and goals based upon our Mission, Vision, Values, and strategic and operational objectives;
- Establishing an organizational values-based culture which supports a commitment to continuous quality improvement;
- Allocating adequate resources (human and financial) and support systems for organization-wide improvement; and
- Receiving, reviewing and acting upon summary reports regarding the effectiveness of organization-wide quality improvement activities.

The Board of Directors actively pursues knowledge and understanding of performance improvement and patient safety risk mitigation processes and techniques and empowers the stakeholders, administration and physicians to pursue quality/performance improvement as goals of the hospital. As noted in the Medical Staff Bylaws, responsibility and accountability for the quality of medical care has been delegated by the Board of Directors to the organized medical staff. In order for the Board of Directors to exercise its responsibilities, reports from both the medical staff and the hospital's stakeholder activities will be provided on an ongoing basis. The Board of Directors provides active support to performance improvement and patient safety activities.

- B. The hospital's **Medical Executive Committee (MEC)** functions as a forum for discussion and planning of quality improvement efforts. The committee will meet at least quarterly. The Committee consists at a minimum of individuals from the following functional areas:

- Administration
- Medical Staff Representatives (Department Chiefs, Medical Directors, Chief of Staff and/or Members at Large)
- Nursing Services
- Quality, Risk Management, and Patient Safety

The members of the MEC Committee are responsible for oversight of:

- Assuring that the review functions outlined in the plan are completed;
- Prioritizing issues referred to the Committee for review;
- Assuring that the data obtained through PSQI activities are aligned and cascaded with the hospital's strategic initiatives and defined additional metrics (key performance indicators or KPIs) are selected, data analyzed, recommendations made, and appropriate follow-up complete;
- Incorporating internal and external sources of benchmarking data;

- Identifying and ensuring that other sources of model practices such as those supported by the Agency for Healthcare Research and Quality, The Joint Commission, National Quality Forum and others are incorporated into the overall quality improvement efforts; Identifying educational needs and assuring that physician education for quality improvement takes place; and
  - Appointing or sponsoring subcommittees or multidisciplinary teams to work on specific issues, as necessary.
- C. The hospital's **Medical Staff** members participate in surgical case review; blood usage review; medical record review; infection control; pharmacy and therapeutics review; morbidity and mortality review; utilization management, quality and safety review of transfers to other facilities; credentialing; and will serve, from time-to-time, as liaisons to the MEC and any subcommittees that may be created.
- D. An interdisciplinary **Patient Safety/Quality Committee** is responsible for the oversight of the program. The Committee Chairperson will have administrative responsibility for the program, or the Committee may assign this responsibility to another member. The reports will be forwarded to the Medical Executive Committee.
- E. The hospital's **Director of Quality and Risk Management** and his/her designees are responsible for overseeing plan and the program's development, implementation and achievement on a day-to-day basis. He/she also works to assess departmental needs, empowers appropriate cross-functional teams, determines educational needs, provides support for indicator monitoring, and communicates the organization's efforts to various audiences. He/she ensure that patient safety variance information from aggregated data reports and individual incident variance reports will be reviewed by the Patient Safety/Quality Committee or other designated committees to prioritize organizational activity efforts. Types of patient safety or medical/health care data analyzed includes but is not limited to that around:
- Errors – those unintended acts, either of omission or commission, or acts that do not achieve their intend outcome – that do or do not result in a physical or psychological negative outcome, or the potential for a negative outcome, for the patient.
  - Medication Error – any incident involving the incorrect prescribing, transcribing, dispensing, administration or documentation of a medication. Medication error trends are reviewed by Pharmacy and Therapeutics Committee.
  - Adverse Drug Reaction – any undesirable or unintended response to a drug that occurs at doses used for human prophylaxis, diagnosis or therapy. An adverse drug reaction results in modification of the drug dose, discontinuation of the suspected drug, or continuation of the drug with a modification to the treatment plan (such as infusion rate or additional pre-medications). Adverse drug reactions are reviewed by the appropriate Committee.
  - Transfusion Reaction – any allergic, bacterial, or hemolytic reaction as a result of blood administration. All transfusion reactions are reviewed by the appropriate Committee.
  - Hazardous Condition – any set of circumstances, exclusive of the disease or condition for which the patient is being treated, which significantly increases the likelihood of a serious physical or psychological adverse patient outcome.
  - Sentinel Event – an unexpected occurrence involving death or serious physical or psychological injury or the risk thereof including any process variation for which a recurrence would carry a significant chance of serious adverse outcome.
  - Near Miss – any process variation which did not affect the outcome, but for which a recurrence carries a significant chance of a serious adverse outcome.



- F. **Directors and Managers** (hospital leadership) are accountable for the effective implementation of an integrated, comprehensive, quality improvement effort associated with this plan specific to their department/function/unit. They are responsible for fostering an environment through their personal example; emphasizing patient safety and quality as an organizational priority; providing education regarding the commitment to reduction of medical errors; supporting proactive reduction in medical/health care errors; and integrating patient safety and quality priorities into the new design and redesign of all relevant organization processes, functions and services.

Each department/service will:

1. Define its scope of care/service
2. Identify important aspects of care/service
3. Establish indicators aligned with the hospital's strategic initiatives, as appropriate
4. Collect and display data using the appropriate methodology
5. Coordinate activities and data review according to appropriate improvement methodology
6. Implement recommendations to enhance patient safety and its quality of care/service
7. Document/communicate changes and positive outcomes and ensuring such is maintained.

This also includes each department/service focus upon the:

- Patient Rights
  - Assessment of Patients
  - Care of Patients
  - Patient/Family Education
  - Continuum of Care
  - Improving Organization Performance
  - Management of Information
  - Management of Human Resources
  - Management of Environment of Care
  - Surveillance, Prevention and Control of Infection
- G. The hospital's **stakeholders** are responsible for providing quality care/service in accordance with established policies and procedures; for the identification and reporting of problems or issues of safety which impede the delivery of quality patient care and service; for participating in problem solving efforts; and for assisting with documentation of area specific quality improvement activities consistent with this plan.
- H. The **chief executive officer, chief of staff, and nurse executive** make certain that the hospital-wide safety and quality improvement training programs address problems identified, resources are allocated for improvement, and that corrective action plans are successfully implemented.

## VI. Quality Improvement Processes and Methodology

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This PSQI plan is a framework for organized, ongoing and systematic measurement, assessment and performance improvement activities. Efforts related to this plan may include:

- Quick fixes for problems that do not need a comprehensive approach to problem solving and solution implementation;
- Quality assessment activities, such as patients and Stakeholder satisfaction surveys; blood use, medication use, infection control surveillance, utilization management, and medical record reviews and audits;

- The formation of quality improvement teams, which may be multidisciplinary in nature and charged with reviewing issues to identify opportunities to improve processes and outcomes;
- The application of Lean Six Sigma principles to assist quality improvement teams with their projects;
- The creation of dashboard reports, which provide summary data about selected indicators, prepared for the Board of Directors, patient safety/quality Committee(s) and Medical Staff.

The quality improvement methodologies utilized include (but are not limited to):

- DMAIC – Define, Measure, Analyze, Improve, and Control
- PDSA – Plan, Do, Study, Act
- Lean Six Sigma/Lean Thinking
- SIT– Systemic Inventive Thinking

## VII. Organizational Communication & Coordination

Coordination across the following standing/supporting committees is promoted:

- Cancer Committee
- Environment of Care
- Pharmacy and Therapeutics (Medication Management Team)
- Nursing Leadership
- Medical Executive and Peer Review Committees
- Patient Safety & Quality Committee and Sub Committees

## VIII. Education

With all stakeholders within the hospital given the responsibility and the authority to participate in this quality improvement plan, all stakeholders are provided appropriate education during their initial orientation and on an ongoing basis. Education may include just-in-time training based on their job-related responsibilities and the quality improvement methodology utilized by the hospital.

## IX. Confidentiality

Confidentiality of all patient safety and quality improvement information will be observed according to the hospital policy and the Patient Safety and Quality Improvement Act of 2005, both of which define in detail the mechanism for collecting, managing and analyzing data in a protected environment.

**Committee Approvals:** See approval notes in policy system

SAFETY QUALITY COMMITTEE	MEDICAL EXECUTIVE COMMITTEE	BOARD
Date:	Date:	Date: