

**St. Jude Children's Research
Hospital, Inc.
American Lebanese Syrian
Associated Charities, Inc.**

Combined Financial Statements as of and for the
Years Ended June 30, 2020 and 2019, and
Independent Auditors' Report

**ST. JUDE CHILDREN’S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
St. Jude Children's Research Hospital, Inc. and
the Board of Directors of
American Lebanese Syrian Associated Charities, Inc.:

We have audited the accompanying combined financial statements of St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiaries and American Lebanese Syrian Associated Charities, Inc. (affiliated organizations and collectively, the "Organization"), which comprise the combined statements of financial position as of June 30, 2020 and 2019, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 9, 2020

**ST. JUDE CHILDREN’S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 366,020,289	\$ 147,098,745
RECEIVABLES:		
Contributions	50,438,828	35,598,691
Patient care services—net	15,468,474	18,476,506
Grants and contracts	32,617,969	29,362,954
Other	9,498,003	3,347,299
UNRESTRICTED INVESTMENTS	4,075,060,413	3,908,880,476
RESTRICTED INVESTMENTS	1,122,208,364	1,139,221,470
ASSETS LIMITED AS TO USE	2,418,680	2,370,565
PROPERTY AND EQUIPMENT—Net	1,130,866,421	983,734,854
OTHER ASSETS	<u>48,222,527</u>	<u>39,956,862</u>
TOTAL	<u>\$6,852,819,968</u>	<u>\$6,308,048,422</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 114,020,712	\$ 113,115,987
Accrued expenses	96,308,454	73,107,542
Annuity obligations	56,690,255	42,074,138
Other liabilities	<u>21,576,680</u>	<u>20,061,059</u>
Total liabilities	<u>288,596,101</u>	<u>248,358,726</u>
NET ASSETS:		
Without donor restrictions	5,495,421,852	4,972,521,523
With donor restrictions	<u>1,068,802,015</u>	<u>1,087,168,173</u>
Total net assets	<u>6,564,223,867</u>	<u>6,059,689,696</u>
TOTAL	<u>\$6,852,819,968</u>	<u>\$6,308,048,422</u>

See notes to combined financial statements.

**ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:						
Support:						
Contributions and other support	\$ 1,377,047,700	\$ 9,534,464	\$ 1,386,582,164	\$ 1,300,304,408	\$ 60,892,532	\$ 1,361,196,940
Bequests	383,343,555	1,744,158	385,087,713	330,557,335	1,511,000	332,068,335
Special events—net	<u>14,381,302</u>	<u>-</u>	<u>14,381,302</u>	<u>22,981,542</u>	<u>-</u>	<u>22,981,542</u>
Total support	<u>1,774,772,557</u>	<u>11,278,622</u>	<u>1,786,051,179</u>	<u>1,653,843,285</u>	<u>62,403,532</u>	<u>1,716,246,817</u>
Revenues:						
Net patient service revenue	125,905,299	-	125,905,299	109,172,619	-	109,172,619
Research grants and contracts	119,388,852	-	119,388,852	109,635,882	-	109,635,882
Net investment income	124,960,744	33,894,000	158,854,744	298,530,927	64,643,688	363,174,615
Net assets released from restrictions	63,538,780	(63,538,780)	-	36,941,090	(36,941,090)	-
Other revenues	<u>20,306,424</u>	<u>-</u>	<u>20,306,424</u>	<u>26,490,307</u>	<u>-</u>	<u>26,490,307</u>
Total revenues	<u>454,100,099</u>	<u>(29,644,780)</u>	<u>424,455,319</u>	<u>580,770,825</u>	<u>27,702,598</u>	<u>608,473,423</u>
Total revenues, gains, and other support	<u>2,228,872,656</u>	<u>(18,366,158)</u>	<u>2,210,506,498</u>	<u>2,234,614,110</u>	<u>90,106,130</u>	<u>2,324,720,240</u>
EXPENSES:						
Program services:						
Patient care services	517,968,948	-	517,968,948	490,685,639	-	490,685,639
Research	477,972,478	-	477,972,478	436,938,714	-	436,938,714
Education, training, and community services	<u>194,237,221</u>	<u>-</u>	<u>194,237,221</u>	<u>171,733,954</u>	<u>-</u>	<u>171,733,954</u>
Total program services	<u>1,190,178,647</u>	<u>-</u>	<u>1,190,178,647</u>	<u>1,099,358,307</u>	<u>-</u>	<u>1,099,358,307</u>

(Continued)

**ST. JUDE CHILDREN’S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Supporting services:						
Fundraising	\$ 288,059,989	\$ -	\$ 288,059,989	\$ 262,087,387	\$ -	\$ 262,087,387
Administrative and general—Hospital	73,718,087	-	73,718,087	64,479,887	-	64,479,887
Administrative and general—ALSAC	154,015,604	-	154,015,604	141,306,940	-	141,306,940
Total supporting services	<u>515,793,680</u>	<u>-</u>	<u>515,793,680</u>	<u>467,874,214</u>	<u>-</u>	<u>467,874,214</u>
Total expenses	<u>1,705,972,327</u>	<u>-</u>	<u>1,705,972,327</u>	<u>1,567,232,521</u>	<u>-</u>	<u>1,567,232,521</u>
REVENUE OVER EXPENSES	522,900,329	(18,366,158)	504,534,171	667,381,589	90,106,130	757,487,719
LOSS FROM DISPOSAL OF PROPERTY AND EQUIPMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>(670,775)</u>	<u>-</u>	<u>(670,775)</u>
CHANGE IN NET ASSETS	522,900,329	(18,366,158)	504,534,171	666,710,814	90,106,130	756,816,944
NET ASSETS—Beginning of year	<u>4,972,521,523</u>	<u>1,087,168,173</u>	<u>6,059,689,696</u>	<u>4,305,810,709</u>	<u>997,062,043</u>	<u>5,302,872,752</u>
NET ASSETS—End of year	<u>\$ 5,495,421,852</u>	<u>\$ 1,068,802,015</u>	<u>\$ 6,564,223,867</u>	<u>\$ 4,972,521,523</u>	<u>\$ 1,087,168,173</u>	<u>\$ 6,059,689,696</u>

See notes to combined financial statements.

(Concluded)

**ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services				Supporting Services			Total Program and Supporting Services
	Patient Care Services	Research	Education, Training, and Community Service	Total Program Services	Fundraising	Administrative and General	Total Supporting Services	
SALARIES AND BENEFITS	\$267,799,758	\$280,462,141	\$ 52,611,549	\$ 600,873,448	\$ 92,458,102	\$ 94,964,367	\$187,422,469	\$ 788,295,917
CAMPAIGN MATERIALS AND EXPENSES	-	-	50,266,098	50,266,098	73,473,923	9,812,869	83,286,792	133,552,890
PROFESSIONAL FEES AND CONTRACT SERVICES	88,962,478	78,167,215	20,129,583	187,259,276	13,094,371	22,506,502	35,600,873	222,860,149
SUPPLIES	94,395,932	56,412,532	1,137,681	151,946,145	-	2,839,460	2,839,460	154,785,605
TELEPHONE	633,158	590,495	2,630,179	3,853,832	7,233,698	3,041,206	10,274,904	14,128,736
MAILING COSTS	-	-	38,158,606	38,158,606	53,500,420	16,547,058	70,047,478	108,206,084
OCCUPANCY	13,663,101	13,913,834	2,488,857	30,065,792	5,434,896	11,553,233	16,988,129	47,053,921
PRINTING AND PUBLICATIONS	-	-	997,687	997,687	3,199,665	982,646	4,182,311	5,179,998
TRAVEL, MEETINGS, AND LOCAL TRANSPORTATION	5,604,219	2,893,272	4,191,104	12,688,595	7,225,339	3,379,886	10,605,225	23,293,820
SERVICE FEES	-	-	2,304,263	2,304,263	7,181,774	6,251,363	13,433,137	15,737,400
EQUIPMENT AND SOFTWARE MAINTENANCE	-	-	3,937,083	3,937,083	2,859,009	13,867,640	16,726,649	20,663,732
MISCELLANEOUS	<u>5,181,584</u>	<u>4,971,928</u>	<u>9,481,556</u>	<u>19,635,068</u>	<u>19,630,356</u>	<u>10,884,681</u>	<u>30,515,037</u>	<u>50,150,105</u>
TOTAL BEFORE DEPRECIATION AND AMORTIZATION	476,240,230	437,411,417	188,334,246	1,101,985,893	285,291,553	196,630,911	481,922,464	1,583,908,357
DEPRECIATION AND AMORTIZATION	<u>41,728,718</u>	<u>40,561,061</u>	<u>5,902,975</u>	<u>88,192,754</u>	<u>2,768,436</u>	<u>31,102,780</u>	<u>33,871,216</u>	<u>122,063,970</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$517,968,948</u>	<u>\$477,972,478</u>	<u>\$194,237,221</u>	<u>\$1,190,178,647</u>	<u>\$288,059,989</u>	<u>\$227,733,691</u>	<u>\$515,793,680</u>	<u>\$1,705,972,327</u>

See notes to combined financial statements.

**ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services				Supporting Services			Total Program and Supporting Services
	Patient Care Services	Research	Education, Training, and Community Service	Total Program Services	Fundraising	Administrative and General	Total Supporting Services	
SALARIES AND BENEFITS	\$247,605,381	\$255,764,372	\$ 46,625,486	\$ 549,995,239	\$ 86,655,899	\$ 84,498,123	\$171,154,022	\$ 721,149,261
CAMPAIGN MATERIALS AND EXPENSES	-	-	46,024,023	46,024,023	62,761,731	8,056,475	70,818,206	116,842,229
PROFESSIONAL FEES AND CONTRACT SERVICES	81,949,951	63,189,661	16,471,412	161,611,024	10,295,799	22,814,906	33,110,705	194,721,729
SUPPLIES	93,127,698	54,123,560	886,256	148,137,514	-	2,339,034	2,339,034	150,476,548
TELEPHONE	605,461	630,420	2,673,913	3,909,794	7,022,327	3,254,877	10,277,204	14,186,998
MAILING COSTS	-	-	31,541,967	31,541,967	54,959,348	16,323,641	71,282,989	102,824,956
OCCUPANCY	13,718,917	13,959,470	2,343,139	30,021,526	4,895,239	8,513,725	13,408,964	43,430,490
PRINTING AND PUBLICATIONS	-	-	867,292	867,292	3,272,501	756,006	4,028,507	4,895,799
TRAVEL, MEETINGS, AND LOCAL TRANSPORTATION	7,248,037	4,368,074	5,836,623	17,452,734	9,022,271	3,677,486	12,699,757	30,152,491
SERVICE FEES	-	-	2,199,978	2,199,978	6,622,403	5,921,822	12,544,225	14,744,203
EQUIPMENT AND SOFTWARE MAINTENANCE	-	-	3,277,417	3,277,417	2,746,471	11,442,354	14,188,825	17,466,242
MISCELLANEOUS	<u>5,553,921</u>	<u>5,564,929</u>	<u>7,988,078</u>	<u>19,106,928</u>	<u>11,258,906</u>	<u>11,721,006</u>	<u>22,979,912</u>	<u>42,086,840</u>
TOTAL BEFORE DEPRECIATION AND AMORTIZATION	449,809,366	397,600,486	166,735,584	1,014,145,436	259,512,895	179,319,455	438,832,350	1,452,977,786
DEPRECIATION AND AMORTIZATION	<u>40,876,273</u>	<u>39,338,228</u>	<u>4,998,370</u>	<u>85,212,871</u>	<u>2,574,492</u>	<u>26,467,372</u>	<u>29,041,864</u>	<u>114,254,735</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$490,685,639</u>	<u>\$436,938,714</u>	<u>\$171,733,954</u>	<u>\$1,099,358,307</u>	<u>\$262,087,387</u>	<u>\$205,786,827</u>	<u>\$467,874,214</u>	<u>\$1,567,232,521</u>

See notes to combined financial statements.

**ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 504,534,171	\$ 756,816,944
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	122,063,970	114,254,735
Net realized and unrealized investment gains	(135,201,220)	(335,408,423)
Loss on disposal of property and equipment	216,659	670,775
Endowment contributions and interest, and other transfers	(6,697,713)	(22,420,430)
Changes in operating assets and liabilities:		
Contributions receivable	(14,840,137)	(6,761,950)
Patient care and other receivables	(6,397,687)	(6,076,666)
Other assets	(8,265,665)	(15,223,025)
Accounts payable and accrued expenses	36,307,445	8,769,622
Annuity obligations	<u>14,616,117</u>	<u>5,427,771</u>
Net cash provided by operating activities	<u>506,335,940</u>	<u>500,049,353</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(798,072,062)	(935,878,504)
Sale of investments	784,058,336	670,823,138
Capital expenditures	(280,495,400)	(204,267,670)
Proceeds from disposal of property and equipment	<u>397,017</u>	<u>321,036</u>
Net cash used in investing activities	<u>(294,112,109)</u>	<u>(469,002,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions and bequests	5,491,426	4,864,242
Endowment interest and dividends	4,716,636	5,492,333
Transfers of endowment net assets	<u>(3,510,349)</u>	<u>(38,875,712)</u>
Net cash provided by (used in) financing activities	<u>6,697,713</u>	<u>(28,519,137)</u>
NET CHANGE IN CASH AND EQUIVALENTS	218,921,544	2,528,216
CASH AND CASH EQUIVALENTS—Beginning of year	<u>147,098,745</u>	<u>144,570,529</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 366,020,289</u>	<u>\$ 147,098,745</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES—Capital expenditures, on account	<u>\$ (10,686,187)</u>	<u>\$ 19,634,105</u>

See notes to combined financial statements.

ST. JUDE CHILDREN’S RESEARCH HOSPITAL, INC. AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. ORGANIZATION

St. Jude Children’s Research Hospital, Inc. and its wholly owned subsidiaries (collectively, the “Hospital”) is a research, treatment, and education center whose mission is to save children’s lives by finding the causes of catastrophic illnesses, improving related treatments, and finding cures for their diseases. No family ever pays the Hospital for the care their child receives. More than 7,700 patients are seen at the Hospital yearly, most of whom are treated on a continuing outpatient basis as part of ongoing research programs and account for approximately 71,000 hospital visits per year. The current basic science and clinical research at the Hospital includes work in gene therapy, chemotherapy, the biochemistry of normal and cancerous cells, radiation treatment, blood diseases, resistance to therapy, viruses, hereditary diseases, influenza, pediatric AIDS, and physiological effects of catastrophic illnesses.

The accompanying combined financial statements include the accounts of the Hospital and its affiliated support organization, American Lebanese Syrian Associated Charities, Inc. (ALSAC), collectively referred to herein as the Organization. ALSAC is a not-for-profit corporation established to build awareness and raise funds to support the operations of the Hospital. The bylaws of ALSAC provide that all funds raised, except for funds required for its operations and funds restricted as to other uses by donors, be distributed to or be held for the exclusive benefit of the Hospital. All intercompany transactions between the Hospital and ALSAC have been eliminated in combination.

Operations are overseen by the boards of governors and directors (the “Board”). The research activities of the Hospital are reviewed annually by a scientific advisory board composed of internationally prominent physicians and scientists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Organization’s combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

COVID-19 Impact—On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. As of June 30, 2020, the Organization believes the current impacts of the COVID-19 pandemic did not warrant an impairment of any property and equipment or investments and impacts to the net assets were limited. However, the Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which a disruption may materially impact the Organization’s financial position, net assets or cash flows for the year ending June 30, 2021.

Cash and Cash Equivalents—Cash and cash equivalents include currency and deposits with financial institutions used as working capital to fund daily operations with original maturities of three months or less.

Net Assets—Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions—Net assets available for use in general operations and not subject to donor restrictions. The governing board has not designated from net assets without donor restrictions, other than the board-designated endowment fund and board-designated self-insurance funding, any other net assets to be restricted for specific purposes.

Net Assets With Donor Restrictions—Net assets 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.

Revenue Recognition—On July 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, “ASC 606”), which supersedes most existing revenue recognition guidance and outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The adoption of ASC 606 did not have a material impact on the statement of activities for the year ended June 30, 2020.

Contributions and Other Support—All contributions are considered to be available for unrestricted use, 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 in the combined statements of activities as contributions with donor restrictions.

Unconditional promises to give cash and other assets are reported at estimated fair market value at the date the promise is received. Conditional promises to give are recognized when the conditions, as stipulated by the donor, are substantially met. The gifts are reported as contributions with donor restrictions in the combined statements of activities if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. Donor-restricted contributions for which restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying combined financial statements.

Bequests—A charitable bequest is a written statement in a will directing that a gift be made to charity upon the death of the donor. Bequest revenues are considered unconditional promises to give. Amounts are recorded at actual value or fair market value when availability of the gifted asset is substantially ascertained. Amounts are considered to be available for unrestricted use, 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 in the combined statements of activities as contributions with donor restrictions.

Special Events—Special event revenue, which primarily includes fundraising dinners and galas where the primary purpose is to raise awareness for the mission of the Hospital, are reported net of fundraising costs and direct costs of benefits to donors, and are considered to be available for unrestricted use, 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 in the combined statements of activities as contributions with donor restrictions.

Investments and Investment Income—Investments where a readily determinable fair value exists are stated at fair value. Fair value is determined using the closing prices for investments traded on the applicable domestic or global stock exchange. Investments including alternative investments, limited partnerships, and similar interests, with no readily determinable fair value, are stated at estimated fair value based on financial statements and other information received from the fund managers. However, the recorded value could differ from the value that would have been used had a readily available market existed for such investments. Investments also include cash and cash equivalents not used as working capital to fund daily operations and bank certificates of deposit with original maturities of 105 days to 6 years (with yields ranging from 1.40%–2.80%) and funds invested in money market securities with maturities of three months or less, but such funds are held for the long-term benefit of the Hospital. All related gains and losses are included in net investment income in the combined statements of activities.

ALSAC employs an endowment distribution policy that establishes the amount of endowment investment income that may be used to fund operations. Under this policy, the amount is determined annually and is comprised of no more than 7% of the previous three years' calendar year-end average endowment market values. The endowed chairs distribution is restricted by pre-prescribed annual spending limits. The total value may be distributed to fund operations and is reported as net assets released from restriction in the combined statements of activities. Actual endowment investment income from donor-restricted endowments is reported as a change in net assets with donor restrictions in the combined statements of activities. All other investment income is reported as changes in net assets without donor restrictions in the combined statements of activities.

ALSAC has significant exposure to a number of risks, including interest rate, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the combined financial statements.

Net Patient Service Revenues—Upon the adoption of ASC 606, net operating revenues are recorded at the transaction price estimated by the Hospital to reflect the total consideration due from third-party payors in exchange for providing goods and services in patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Hospital's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as other implicit price concessions. During the year ended June 30, 2020, the impact of changes to the inputs used to determine the transaction price was considered immaterial to the current period.

The Hospital's net patient service revenues during the years ended June 30, 2020 have been presented in the following table based on an allocation of the estimated transaction price with the third-party payor between the primary classification of insurance coverage:

	2020
Commercial insurance	\$ 47,462,604
Medicaid	39,362,550
Blue Cross	30,664,871
Other third-party payors	<u>8,415,274</u>
Total	<u>\$ 125,905,299</u>

Net patient service revenues, net of contractual allowances and uncollectible accounts by payor have been presented in the following table for the year ended June 30, 2019, consistent with the presentation prior to the adoption of ASC 606 on July 1, 2019:

	2019
Commercial insurance	\$ 42,552,205
Medicaid	33,236,644
Blue Cross	29,413,543
Other third-party payors	<u>3,970,227</u>
Total	<u>\$ 109,172,619</u>

In 2019, patient service revenue has been reduced by adjustments for uncollectible accounts totaling approximately \$1,100,000.

The Hospital has agreements with governmental and other third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. The differences between the estimated reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net patient service revenue. Final settlements under certain programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods when such adjustments become known. Adjustments to previous reimbursement estimates are accounted for as contractual allowance adjustments and reported in the period in which final settlements are determined. In addition, the Hospital is reimbursed by non-governmental payors using a variety of payment methodologies.

A summary of the basis for reimbursement with major third-party payors follows:

Commercial—The Hospital has entered into reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, per diem amounts, case rates, fee schedules, and discounts from established charges.

Medicaid—Inpatient and outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the beneficiaries' state of residence.

Blue Cross—All acute care services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates.

Accounts Receivable, Patient Care Services—The Hospital reports accounts receivable from patient care services at net realizable value based on certain assumptions determined for each major third-party payor type. For third-party payors the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. These estimates are adjusted for expected recoveries and any anticipated changes in trends. As no family ever pays for the care their child receives at the Hospital, there are no self-pay accounts receivable.

Accounts receivable, patient care services and their net realizable value can be impacted by significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage. The Hospital continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue, aged accounts receivable by third-party payor and other related factors.

Accounts receivable, patient care services have been reduced by estimated provisions for contractual adjustments and uncollectible accounts of \$146,700,000 and \$214,800,000 in 2020 and 2019, respectively.

Charity Care—The Hospital provides charity care to patients for all charges in excess of those realizable from third-party payors. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

As a result, charges foregone, based on established rates, totaled approximately \$110,200,000 and \$126,100,000 in 2020 and 2019, respectively. Management's estimate of costs incurred to provide charity care were \$96,500,000 and \$96,800,000 in 2020 and 2019, respectively.

In addition to the patient care benefits described above, the Hospital provides significant research benefits to the broader community and other outreach programs.

Research Grants and Contracts—On July 1, 2019, the Hospital adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The adoption of this ASU resulted in the treatment of most federal grants as contributions (nonreciprocal transactions) rather than exchange transactions. The new standard also clarified the criteria for evaluating whether contributions are conditional or unconditional. The adoption of this ASU did not materially impact the combined financial statements.

The Hospital records revenues related to research grants and contracts in two portfolio categories based on the source of the funds:

Government Sponsors provide funding for research largely to advance knowledge for public or academic benefit in direct support of the Hospital's mission. The Hospital primarily considers these sponsored research agreements to be contributions (nonreciprocal transactions). The Hospital recognizes grant and contract revenue associated with contributions from government sponsors as earned when the conditions are met (allowable expenses have been incurred). Additionally, a small portion of government-sponsored awards qualify as exchange (reciprocal) transactions. The transaction price for exchange transactions is the stated amount of the award. The Hospital recognizes grants and contracts revenue related to these exchange transactions at the time services are provided. Government sponsored research grants and contracts revenues were approximately \$105,900,000 and \$94,000,000 for the years ended June 30, 2020 and 2019, respectively.

Private Sponsors consist of private agencies, professional associations, private foundations, corporate foundations and corporations. The Hospital recognizes revenue associated with contributions from private sponsors as the conditions are met. Additionally, some private sponsor awards qualify as exchange (reciprocal) transactions. The transaction price for exchange transactions is the stated amount of the award. The Hospital recognizes grants and contracts revenue related to these exchange transactions at the time services are provided. Private sponsored research grants and contracts revenues were approximately \$13,500,000 and \$16,300,000 for the years ended June 30, 2020 and 2019, respectively.

Facilities and Administrative (F&A) Costs Recovery—The Hospital recognizes F&A costs recovery as revenue. This activity represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. The Hospital’s federal F&A cost recovery rate was 79.5% in both 2020 and 2019.

Other Revenue—Other revenue includes technology licensing, net of payouts to inventors, and other miscellaneous revenue. The Hospital recognizes revenue from other sources as the related services are provided and/or amounts are otherwise earned upon satisfaction of the performance obligation in accordance with the terms of the underlying agreements. Technology licensing included in other revenue was approximately \$9,200,000 and \$14,700,000 for the years ended June 30, 2020 and 2019, respectively.

Assets Limited as to Use—Assets limited as to use include assets set aside by the Board for liability insurance funding, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Property and Equipment—Property and equipment are stated at cost. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Amortization of leasehold improvements is provided over the life of either the asset or the related lease, whichever is shorter.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions in the combined statements of activities. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as support with donor restrictions in the combined statements of activities. Gifts of long-lived assets are reported when placed in service. Contributions restricted to the purchase of property and equipment which restrictions are met within the same year as received are reported as increases in net assets without donor restrictions in the accompanying financial statements. There were no such gifts recorded in 2020 or 2019.

Impairment of Long-Lived Assets—The Organization accounts for impairment of long-lived assets in accordance with Accounting Standards Codification (ASC) Topic 360, Property, Plant, and Equipment. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate the book value of the asset may not be recoverable. In accordance with ASC 360, the Organization uses an estimate of future undiscounted cash flows of the related assets over the remaining life in assessing whether the assets are recoverable. The determination of the impairment, if any, for property and equipment is based on Level 3 inputs (see Note 6, Fair Value Measurement). No impairment was recorded in 2020 or 2019.

Income Taxes—The Organization qualifies as tax exempt under existing provisions of the Internal Revenue Code (the “Code”), and its income is generally not subject to federal or state income taxes.

The Organization is not considered a private foundation as defined in Section 509(a) of the Code; and therefore, individual donors are entitled to the maximum charitable deduction under Section 170(c) of the Code.

As of June 30, 2020, the Organization had not identified any uncertain tax positions under ASC Topic 740, *Income Taxes*, requiring adjustments to its combined financial statements. In the event the Organization were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the combined financial statements as a general expense. Generally, tax years ending 2017 through 2020 are open to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

Concentration of Credit Risk—ALSAC has deposits with financial institutions, which exceed federal depository insurance limits by approximately \$3,538,000 and \$3,576,000 at June 30, 2020 and 2019, respectively. ALSAC has not experienced any losses on such deposits, and management considers the risk of loss to be minimal.

The Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

The mix of accounts receivable from third-party payors, net of contractual allowances, as of June 30, 2020 and 2019, is as follows:

	2020	2019
Commercial insurance	47 %	48 %
Medicaid	26	22
Blue Cross	27	26
Other third-party payors	-	4
	<u> </u>	<u> </u>
Total	<u>100 %</u>	<u>100 %</u>

Contributed Services—Unpaid volunteers make significant contributions of their time, principally in fundraising activities. The value of these services is not recognized in the combined financial statements since they do not meet certain applicable criteria specified under guidance issued under ASC Topic 958, *Not-for-Profit Entities*.

Advertising—The Organization incurred \$110,564,000 and \$92,193,000 of media spend during the years ended June 30, 2020 and 2019, respectively, and these costs were expensed as incurred.

Functional Expense Allocation and Joint Costs—The Organization allocates costs among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense Category	Method of Allocation
Salaries and Benefits	Estimates of Time and Effort/Gross Salaries
Campaign Materials and Expenses	Actual Content for Television, Nature of Activity for Others
Professional Fees and Contract Services	Estimates of Time and Effort/Nature of Activity
Supplies	Purchase Requisitions
Telephone	Nature of Activity/Full Time Equivalent
Mailing Costs	Actual Content
Occupancy	Nature of Activity/Square Footage
Printing and Publications	Actual Content for Television, Nature of Activity for Others
Travel, Meetings, and Local Transportation	Nature of Activity/Travel Expenses
Service Fees	Estimates of Time and Effort
Equipment and Software Maintenance	Nature of Activity
Miscellaneous	Nature of Activity
Depreciation	Nature of Activity/Square Footage/Cost Center Assignments

ALSAC conducts a number of solicitation activities that jointly benefit its education, training and community service program objectives, as well as fundraising and administrative and general activities. For the years ended June 30, 2020 and 2019, ALSAC incurred joint costs of approximately \$141,072,000 and \$134,879,000, respectively, for direct mail and television. Of those costs, \$78,483,000 and \$70,080,000 were allocated to program costs, \$47,216,000 and \$49,677,000 to fundraising costs, and \$15,373,000 and \$15,122,000 to administrative and general costs for the years ended June 30, 2020 and 2019, respectively.

Use of Estimates—The preparation of combined financial statements in conformity with GAAP requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts for television and radio pledges, valuation of investments, allowances for contractual adjustments, estimated professional and general liability costs, reserves for workers' compensation claims, reserves for employee health care claims, and the allocation of joint costs to functional expense categories. In addition, laws and regulations governing various federal-sponsored and state-sponsored reimbursement programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs may change in the near term.

Subsequent Events—The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through October 9, 2020, the date the combined financial statements were available to be issued, that require recognition or disclosure.

Recent Accounting Pronouncements—In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires all leases that have a term of more than 12 months to be recognized on the combined statements of financial position with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases in the combined statement of activities will be

dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which amends various fair value measurement disclosure requirements within ASC 820. This ASU is effective for fiscal years beginning after December 15, 2019. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software, (Subtopic 350-40) Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard provides guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract and requires entities to account for such costs consistent with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2020
Financial assets at year end:	
Cash and cash equivalents	\$ 366,020,289
Receivables	108,023,274
Assets limited as to use	2,418,680
Unrestricted investments	4,075,060,413
Restricted investments	<u>1,122,208,364</u>
Total financial assets	<u>5,673,731,020</u>
Less amounts not available to be used within one year:	
Cash and cash equivalents	(45,081,513)
Assets limited as to use	(2,418,680)
Unrestricted Investments	(656,377,945)
Restricted investments	(1,122,208,364)
Receivables not due within one year	<u>(1,253,326)</u>
Financial assets available within one year	<u>\$ 3,846,391,192</u>

The Organization maintains cash balances to meet the short-term operating needs of both ALSAC and the Hospital, plus funding for construction project needs within one year of the balance sheet date.

ALSAC also maintains two lines of credit totaling \$225,000,000 which expire in the first quarter of calendar year 2021. There were no amounts outstanding against the lines of credit as of June 30, 2020 and 2019.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2020 and 2019, consist of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Television specials—net of allowance for uncollectible pledges of \$2,215,716	\$ 8,673,760	\$ -	\$ 8,673,760
Radiothons—net of allowance for uncollectible pledges of \$972,899	6,881,140	-	6,881,140
Charitable remainder trust receivables	-	1,253,326	1,253,326
Bequests and other receivables	<u>33,630,602</u>	<u>-</u>	<u>33,630,602</u>
Total	<u>\$ 49,185,502</u>	<u>\$ 1,253,326</u>	<u>\$ 50,438,828</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Television specials—net of allowance for uncollectible pledges of \$1,908,012	\$ 7,996,660	\$ -	\$ 7,996,660
Radiothons—net of allowance for uncollectible pledges of \$1,181,367	8,219,520	-	8,219,520
Charitable remainder trust receivables	-	1,251,848	1,251,848
Bequests and other receivables	<u>18,130,663</u>	<u>-</u>	<u>18,130,663</u>
Total	<u>\$ 34,346,843</u>	<u>\$ 1,251,848</u>	<u>\$ 35,598,691</u>

Charitable remainder trust receivables are net assets with donor restrictions as of June 30, 2020 and 2019, based on time restrictions imposed by donors either for a specified period or for the life of the donor. The receivables are discounted over their estimated useful lives at an average rate of 0.6% and 2.8% as of June 30, 2020 and 2019, respectively.

All other contributions receivable at June 30, 2020 and 2019, are considered unconditional promises to give and, in all significant respects, are due in less than one year.

5. INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments as of June 30, 2020 and 2019, is as follows:

	2020	2019
Global equity	\$1,964,966,275	\$1,972,411,797
Marketable alternative	1,460,773,725	1,357,388,781
Real assets	283,518,177	366,625,874
Private equity	970,794,463	777,719,090
Fixed income	451,040,059	446,999,466
Cash	<u>66,176,078</u>	<u>126,956,938</u>
Total	<u>\$5,197,268,777</u>	<u>\$5,048,101,946</u>

Assets limited as to use under self-insurance funding arrangements represent the Hospital's ownership of a percentage of assets in a diversified pooled investment portfolio (the "Portfolio") based on the market value after adjusting for the time-weighted holding period of any contributions and withdrawals to the Portfolio. The Portfolio is administered by a third-party custodian and maintained for the exclusive use of the Hospital. Assets limited as to use were \$2,418,680 and \$2,370,565 for the years ended June 30, 2020 and 2019, respectively.

The composition of net investment income for the years ended June 30, 2020 and 2019, is as follows:

	2020	2019
Net realized and unrealized investment gains	\$ 135,201,220	\$ 335,396,448
Interest and dividend income	25,296,657	29,643,974
Investment expenses	<u>(1,643,133)</u>	<u>(1,865,807)</u>
Net investment income	<u>\$ 158,854,744</u>	<u>\$ 363,174,615</u>

Realized and unrealized gains and losses are included in net investment income in the combined statements of activities.

6. FAIR VALUE MEASUREMENT

The Organization accounts for assets and liabilities measured at fair value using ASC Topic 820, *Fair Value Measurement*. Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis, generally as a result of impairment charges. Under ASC 820, fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets measured at fair value on a nonrecurring basis include impairment of long-lived assets.

The guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The fair value of cash, receivables, accounts payable, accrued expenses and annuity obligations approximate their carrying values. ALSAC considers the carrying amounts of all working capital to approximate fair value because of the short-term and/or nature of the instrument.

Investments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In the absence of actively quoted prices and observable inputs, ALSAC estimates prices based on available historical data and near-term future pricing information that reflects its market assumptions.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by ALSAC for investments measured at fair value on a recurring basis:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2—Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—Inputs are unobservable and significant to the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Net Asset Value (NAV)—For these assets, ASU No. 2015-07, *Fair Value Measurement—Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* eliminated the requirement that investments for which fair value is measured at NAV per share (or its equivalent) using the practical expedient be categorized in the fair value hierarchy.

Most investments classified within Level 3 and the NAV category consist of the shares/units (or equivalent ownership interest in partner’s capital) in investment funds rather than direct ownership in the funds’ underlying assets.

The investments in investment funds (in partnership format) by major category as of June 30, 2020 and 2019 were fully funded and the fair value was as follows:

	2020				
	Level 1	Level 2	Level 3	Net Asset Value	Total
Global equity	\$ 506,922,163	\$ -	\$ -	\$ 1,458,044,112	\$ 1,964,966,275
Marketable alternative	2,860,370	-	4,858,637	1,453,054,718	1,460,773,725
Real assets	67,587,770	-	215,930,407	-	283,518,177
Private equity	-	-	970,794,463	-	970,794,463
Fixed income	30,986,146	-	-	420,053,913	451,040,059
Cash	<u>66,176,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,176,078</u>
Total	<u><u>\$ 674,532,527</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,191,583,507</u></u>	<u><u>\$ 3,331,152,743</u></u>	<u><u>\$ 5,197,268,777</u></u>

	2019				Total
	Level 1	Level 2	Level 3	Net Asset Value	
Global equity	\$ 520,091,582	\$ -	\$ -	\$ 1,452,320,215	\$ 1,972,411,797
Marketable alternative	4,753,859	-	5,914,527	1,346,720,395	1,357,388,781
Real assets	126,827,849	-	239,798,025	-	366,625,874
Private equity	-	-	777,719,090	-	777,719,090
Fixed income	75,346,705	-	-	371,652,761	446,999,466
Cash	<u>126,956,938</u>	-	-	-	<u>126,956,938</u>
Total	<u>\$ 853,976,933</u>	<u>\$ -</u>	<u>\$ 1,023,431,642</u>	<u>\$ 3,170,693,371</u>	<u>\$ 5,048,101,946</u>

There were no transfers between Level 1 and Level 2 (asset-level reclassification) during the years ended June 30, 2020 and 2019. There was a non-cash transfer of \$50,939,567 from cash into the investment portfolio in 2019.

The changes in assets by asset class measured at fair value for which ALSAC used Level 3 inputs to determine fair value for the years ended June 30, 2020 and 2019, are as follows:

	Marketable Alternative	Real Assets	Private Equity	Total
Ending balance—June 30, 2018	\$ 3,954,327	\$ 229,734,125	\$ 619,305,444	\$ 852,993,896
Transfers into Level 3 (a)	3,317,927	-	-	3,317,927
Purchases	483	55,671,790	129,035,419	184,707,692
Sales	(509,590)	(620,490)	-	(1,130,080)
Distributions	(548,899)	(50,054,695)	(82,315,599)	(132,919,193)
Interest and dividends	20,524	3,558,118	4,947,660	8,526,302
Realized gain ^(b)	467,422	20,174,436	58,084,611	78,726,469
Unrealized gain (loss) ^(b)	<u>(787,667)</u>	<u>(18,665,259)</u>	<u>48,661,555</u>	<u>29,208,629</u>
Ending balance—June 30, 2019	5,914,527	239,798,025	777,719,090	1,023,431,642
Purchases	5,830	55,700,143	159,749,357	215,455,330
Sales	(80,374)	-	(1,517,939)	(1,598,313)
Distributions	(490,519)	(41,129,790)	(76,308,838)	(117,929,147)
Interest and dividends	7,713	3,561,637	5,565,616	9,134,966
Realized gain ^(b)	(1,377,621)	3,747,741	38,455,757	40,825,877
Unrealized gain (loss) ^(b)	<u>879,081</u>	<u>(45,747,349)</u>	<u>67,131,420</u>	<u>22,263,152</u>
Ending balance—June 30, 2020	<u>\$ 4,858,637</u>	<u>\$ 215,930,407</u>	<u>\$ 970,794,463</u>	<u>\$ 1,191,583,507</u>

(a) Transfers into Level 3 relate to two funds which announced their termination as of the June 30, 2019 measurement date. Transfers into Level 3 are measured as of the beginning of the year.

(b) The total amounts of realized and unrealized gain (loss) are included in net investment income in the combined statements of activities.

Private equity and private real assets do not have a readily determinable market value. Fair values are based on information provided by the fund managers along with audited financial information using either the market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate their fair value are a Level 3 input.

ALSAC is obligated under certain investment contracts to periodically advance funding up to contractual levels. Such commitments were approximately \$750,106,000 and \$658,803,000 at June 30, 2020 and 2019, respectively.

ALSAC uses fund NAV as a practical expedient to estimate the fair value of ALSAC ownership interest for funds which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The investments in investment funds (in partnership format) by major category as of June 30, 2020 and 2019, are as follows:

	2020	2019	Redemption Frequency	Redemption Notice Period
Global equity ^(a)	\$ 1,458,044,112	\$ 1,452,320,215	Daily, monthly, quarterly greater than one year	0–120 days
Marketable alternatives ^(b)	1,453,054,718	1,346,720,395	Monthly, quarterly, annually, greater than one year	30–180 days
Fixed income ^(c)	<u>420,053,913</u>	<u>371,652,761</u>	Monthly	30 days
Total	<u>\$ 3,331,152,743</u>	<u>\$ 3,170,693,371</u>		

There are approximately \$103,908,000 across 15 funds undergoing full redemption from which ALSAC receives regular distributions, as stated in the funds' liquidity terms, or through liquidation by fund managers of underlying, illiquid securities. Liquidation of approximately \$97,695,000 is expected to be completed within the next year. Illiquid balances expected to be distributed in the longer term remain from funds terminated in 2018, 2017, 2016, and prior years total approximately \$1,357,000, \$2,904,000, \$68,000, and \$1,883,000, respectively. There were no unfunded commitments related to investments valued at NAV in either 2020 or 2019.

- (a) Includes investments in global equity and long/short equity hedge funds. The long/short equity funds include short positions as well as long positions and use leverage. Managers in this allocation pursue diversified strategies covering multiple capitalizations, styles, and geographic focus. Some funds may be subject to lockup provisions.
- (b) Includes hedge fund strategies such as hedged equity, multi-strategy, arbitrage, global macro, distressed securities, and open mandate strategies. Underlying investments are primarily liquid instruments and their derivatives in fixed income, asset-backed securities, currencies, trade claims, commodities, and equities. The funds include short positions as well as long positions and use leverage.
- (c) Consists of US Treasury securities employing a constant duration strategy and is liquid on a daily basis.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2020 and 2019, is as follows:

	2020	2019
Land and improvements	\$ 64,171,235	\$ 58,639,701
Buildings and improvements	1,216,147,513	1,175,036,221
Furniture and equipment	436,880,142	415,873,886
Computer software	167,255,522	160,153,502
Leasehold improvements	4,936,157	4,590,965
Construction in progress	<u>360,143,280</u>	<u>186,390,599</u>
	2,249,533,849	2,000,684,874
Less accumulated depreciation and amortization	<u>(1,118,667,428)</u>	<u>(1,016,950,020)</u>
Total property and equipment	<u>\$ 1,130,866,421</u>	<u>\$ 983,734,854</u>

Buildings and improvements, furniture and equipment, and computer software are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of 10 to 20 years, 3 to 20 years, and 3 to 5 years, respectively. Leasehold improvements are recorded at cost and are depreciated on a straight-line basis over the term of the lease or the estimated useful lives, whichever is shorter.

Construction in progress at June 30, 2020, was principally composed of \$284,900,000 of costs related to the Advanced Research Center. The Advanced Research Center, with a total estimated cost of \$413,000,000 will be used primarily for laboratory research and scientific collaboration and is expected to be substantially complete in calendar year 2021.

8. ENDOWMENT FUNDS

ALSAC's endowment consists of approximately 123 individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ALSAC maintained the following endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds			
Future needs of the hospital	\$ -	\$ 670,804,877	\$ 670,804,877
Endowed chairs	-	228,129,087	228,129,087
Treatment and research	-	35,007,838	35,007,838
Board-designated endowment funds	<u>99,741,188</u>	<u>-</u>	<u>99,741,188</u>
Total	<u>\$ 99,741,188</u>	<u>\$ 933,941,802</u>	<u>\$ 1,033,682,990</u>

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds			
Future needs of the hospital	\$ -	\$ 699,585,399	\$ 699,585,399
Endowed chairs	-	217,609,474	217,609,474
Treatment and research	-	34,482,713	34,482,713
Board-designated endowment funds	<u>103,673,358</u>	<u>-</u>	<u>103,673,358</u>
Total	<u>\$ 103,673,358</u>	<u>\$ 951,677,586</u>	<u>\$ 1,055,350,944</u>

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 103,673,358	\$ 951,677,586	\$ 1,055,350,944
Contributions and bequests	-	5,491,426	5,491,426
Interest and dividends	464,289	4,252,347	4,716,636
Net realized and unrealized gains	2,899,402	27,110,854	30,010,256
Appropriation of endowment net assets pursuant to spending policy	<u>(7,295,861)</u>	<u>(54,590,411)</u>	<u>(61,886,272)</u>
Endowment net assets, end of year	<u>\$ 99,741,188</u>	<u>\$ 933,941,802</u>	<u>\$ 1,033,682,990</u>

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 104,180,431	\$ 920,517,899	\$ 1,024,698,330
Contributions and bequests	-	4,864,242	4,864,242
Interest and dividends	559,942	4,932,391	5,492,333
Net realized and unrealized gains	6,023,743	53,148,009	59,171,752
Appropriation of endowment net assets pursuant to spending policy	<u>(7,090,758)</u>	<u>(31,784,955)</u>	<u>(38,875,713)</u>
Endowment net assets, end of year	<u>\$ 103,673,358</u>	<u>\$ 951,677,586</u>	<u>\$ 1,055,350,944</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2020 and 2019, are restricted for the following purposes:

	2020	2019
Endowments:		
Subject to spending policy and appropriation		
Future needs of the hospital	\$ 670,804,877	\$ 699,585,399
Endowed chairs	228,129,087	217,609,474
Treatment and research	<u>35,007,838</u>	<u>34,482,713</u>
Total endowments	933,941,802	951,677,586
Subject to the passage of time	90,751,425	85,476,067
Net assets restricted to purpose	<u>44,108,788</u>	<u>50,014,520</u>
Total net assets with donor restrictions	<u>\$1,068,802,015</u>	<u>\$1,087,168,173</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Spending from donor-restricted endowment funds under an endowment spending policy	\$ 54,590,410	\$ 31,784,955
Expiration of split interest agreements	8,948,370	5,152,635
Restricted purpose spending		
Financial assistance	<u>-</u>	<u>3,500</u>
Total	<u>\$ 63,538,780</u>	<u>\$ 36,941,090</u>

10. NET ASSETS WITHOUT DONOR RESTRICTIONS

The composition of net assets without donor restrictions as of June 30, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalents	\$ 320,938,776	\$ 96,730,532
Receivables	106,769,948	85,735,451
Investments	4,075,060,413	3,908,880,476
Board-designated endowments	99,741,188	103,673,358
Assets limited as to use	2,418,680	2,370,565
Property and equipment—net	1,130,866,421	983,734,854
Deferred expenses and other assets	<u>48,222,527</u>	<u>39,755,013</u>
 Total assets without donor restrictions	 5,784,017,953	 5,220,880,249
 Less liabilities	 <u>(288,596,101)</u>	 <u>(248,358,726)</u>
 Net assets without donor restrictions	 <u>\$5,495,421,852</u>	 <u>\$4,972,521,523</u>

11. CONTRIBUTIONS AND OTHER SUPPORT

The composition of contributions as of June 30, 2020 and 2019, is as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Direct marketing	\$ 795,809,669	\$ -	\$ 795,809,669
Community development programs	11,654,887	-	11,654,887
Public support—other than direct mail	314,783,551	4,935	314,788,486
Radiothons	64,100,246	-	64,100,246
Federated fund raising agencies	3,618,856	-	3,618,856
Corporate and foundation gifts	101,799,903	4,000,000	105,799,903
Memorials	39,581,617	685	39,582,302
Sporting events	45,698,971	-	45,698,971
Annuity contracts	<u>-</u>	<u>5,528,844</u>	<u>5,528,844</u>
 Total	 <u>\$1,377,047,700</u>	 <u>\$9,534,464</u>	 <u>\$1,386,582,164</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Direct marketing	\$ 742,300,624	\$ -	\$ 742,300,624
Community development programs	18,201,401	-	18,201,401
Public support—other than direct mail	299,118,381	228,650	299,347,031
Radiothons	61,307,689	-	61,307,689
Federated fund raising agencies	3,836,869	-	3,836,869
Corporate and foundation gifts	93,886,634	54,000,295	147,886,929
Memorials	32,231,687	832	32,232,519
Sporting events	49,421,123	-	49,421,123
Annuity contracts	-	6,662,755	6,662,755
Total	<u>\$1,300,304,408</u>	<u>\$ 60,892,532</u>	<u>\$1,361,196,940</u>

Contributions and other support includes cash donations received from direct marketing, radiothons, corporate and foundation gifts, and funds received from fundraising events, such as the Thanks and Giving campaign, St. Jude Dream Home giveaways and various sporting events.

12. EMPLOYEE RETIREMENT BENEFIT PLANS

The Hospital sponsors a defined contribution retirement annuity plan, generally covering all employees who have completed one year of service. The plan requires that the Hospital make annual contributions based on participants' base compensation and employment classification. The plan allows individuals to begin making contributions to the plan as a pretax deferral as soon as administratively feasible after the hire date. Hospital contributions are 50% vested after two years of service and 100% vested after three years of service. Employee contributions are 100% vested immediately. Total cash contributions by the Hospital to the plan were approximately \$27,800,000 and \$26,200,000 for the years ended June 30, 2020 and 2019, respectively.

ALSAC sponsors a defined contribution retirement plan generally covering all employees who have completed one year of service and 1,000 hours during a 12-month period. The plan allows ALSAC to make annual contributions based on participants' salaries. Employees can choose to invest their contributions into the options provided through the plan. Employees become 30% vested in the employer contributions after two years of service, 60% after three years of service, and 100% after four years of service. Employee contributions are 100% vested immediately. ALSAC contributed approximately \$9,395,000 and \$8,167,000 to the plan during the years ended June 30, 2020 and 2019, respectively.

13. FINANCIAL INSTRUMENTS

The carrying amounts of all applicable asset and liability financial instruments reported in the combined statements of financial position approximate their estimated fair values due to their short-term nature, in all significant respects, as of June 30, 2020 and 2019.

14. SELF-INSURANCE PROGRAMS

The Hospital is self-insured for the following:

- Comprehensive general and professional liability coverage up to \$2 million per claim and \$6 million in the aggregate, with \$100 million of excess claims-made coverage above the self-insured retentions. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported was approximately \$1,600,000 and \$1,800,000 as of June 30, 2020 and 2019, respectively. The reserve is included in the combined statements of financial position as other liabilities.
- Workers' compensation liabilities up to a specific retention of \$500,000, with excess coverage at statutory limits. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported was approximately \$1,400,000 and \$1,200,000 as of June 30, 2020 and 2019, respectively. The reserve is included in the combined statements of financial position as other liabilities.
- Employee health coverage (medical and prescription drug) up to \$450,000 per covered individual per year with no lifetime limit. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported, was approximately \$3,300,000 and \$3,900,000 as of June 30, 2020 and 2019, respectively. The reserve is included in the combined statements of financial position as other liabilities.

The Hospital also has substantial excess liability coverage available under the provisions of certain claims-made policies. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the Hospital's incident reporting system, that any such claims would not have a material effect on the combined statements of activities or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires. Excess policies for professional liability coverage, workers' compensation coverage, and employee health coverage expire on May 1, 2021, January 1, 2021, and December 31, 2020, respectively.

15. LEASES

The Organization leases certain office space and equipment under noncancelable operating leases. Future minimum lease payments required under such leases having an initial or remaining term of more than one year as of June 30, 2020, consist of the following:

**Years Ending
June 30**

2021	\$ 6,967,652
2022	7,106,133
2023	6,621,027
2024	4,433,051
2025	2,932,547
Thereafter	<u>774,526</u>
Total	<u>\$ 28,834,936</u>

Rent expense for all operating leases was approximately \$13,300,000 and \$12,300,000 for the years ended June 30, 2020 and 2019, respectively.

16. COMMITMENTS AND CONTINGENCIES

The Organization is involved in various claims and matters of litigation that arise in the normal course of business. Although the outcome of these proceedings and claims cannot be determined with certainty, the Organization's management is of the opinion that the outcome will not have a material adverse effect on the combined financial statements.

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