REPORT REQUIRED BY HEALTH & SAFETY CODE SECTION 1399.70

Stanford Health Care Advantage ("Plan"), a health care service plan licensed pursuant to the California Knox-Keene Health Care Service Plan Act of 1975 and its implementing regulations (collectively the "Knox-Keene Act"), submits this report required by Section 1399.70 ("Report") of the California Health and Safety Code in connection with Plan's Notice of Material Modification to License Application ("Conversion Notice") to convert from a nonpublic benefit corporation to a for-profit corporation organized under the laws of the State of California ("Proposed Conversion").

Section 1399.70 requires a nonprofit health care service plan submitting an application to the Director to convert its activities shall submit to the Director a report summarizing the activities of the plan to meet its nonprofit obligations as directed by the Director. This Report sets forth a summary of the following: (A) the nature of the public benefit or charitable activities undertaken by Plan; (B) the expenditures incurred by Plan on these public benefit or charitable activities; and (C) the Plan's procedure for avoiding conflicts of interest involving public benefit or charitable activities and a summary of any conflicts that have occurred and the manner in which they were resolved.

A. Nature of the Public Benefit or Charitable Activities Undertaken by Plan

Plan is a fully licensed health care service plan and currently operates and/or performs under a Medicare Advantage plan pursuant to a contract with the Centers for Medicare & Medicaid Services ("CMS"). Based on the Medicare Advantage Enrollment by State/County/Contract report published by CMS for February 2020[1] (the most recent report available), Plan has just under 4,600 enrollees across the California counties of Alameda, San Mateo and Santa Clara, which three (3) counties comprise Plan's service area.

Plan is organized as a California nonprofit public benefit corporation under the Nonprofit Public Benefit Corporation Law that operations pursuant to Title 26 of the United States Code Section 501(c)(3) ("501(c)(3)"). The sole member of Plan is Stanford Health Care ("SHC"), also a California nonprofit public benefit corporation and 501(c)(3) organization. SHC is the principal teaching affiliate of the Stanford University School of Medicine and provides primary and specialty health services. It operates the clinical settings through which the School of Medicine educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research. SHC delivers clinical innovation across its inpatient services, specialty health centers, physician offices, virtual care offerings and Plan programs.

[1] https://www.cms.gov/research-statistics-data-and-systemsstatistics-trends-and-reportsmcradvpartdenroldatamonthly-ma/ma-enrollment-scc-2020-02.

SHC's charitable mission and grant-making function is dedicated to serving the health care needs of the people of California. In fiscal year 2019 (the most recent data available), SHC invested over $482 million in services and activities to improve the health of the communities it serves, including $253 million for uncompensated costs of medical services for patients enrolled in Medi-Cal and other means-tested government programs. The Plan operates as an integral part of the broader charitable mission of SHC. Plan has filed concurrently with its Notice of Conversion a copy of SHC's 2018 Community Benefits Report as a Miscellaneous Public Document.

The mission of Plan is to facilitate the provision of health care to elderly individuals and other individuals eligible for governmental assistance due to special disabilities and groups identified by the United States Congress and the Internal Revenue Service as having special health care needs. In furtherance of this mission, Plan provides elderly and disabled Medicare-eligible individuals with a broad range of health services in connection with its Medicare Advantage offering. SHC views the Plan as a natural extension of its commitment to community benefit and particular focus on the special health care needs of elderly persons.

As required by Section 1399.70(c), following the conversion and on a projected basis for the next fiscal year, Plan will no longer be a nonprofit corporation. Nonetheless, Plan will continue to provide health care to elderly individuals and other individuals eligible for governmental assistance, as described above. Likewise, SHC will continue to fulfill its charitable mission and grant-making function, both of which are dedicated to serving the health care needs of the people of California. SHC's 2020 Community Benefit Plan addresses its community health investment starting in fiscal year 2020 through fiscal year 2022 and tracks previous years' commitments to improve access to and delivery of care, housing and homelessness, and economic security through community and hospital-based programs and partnerships. SHC estimates that its investment in services and activities to improve the health of the communities it serves for fiscal year 2020 and beyond will be in alignment with past investments. Please see the table, below, for SHC's past investment:

FY2017	FY2018	FY2019
$437 Million	$378 Million	$482 Million

B. <u>Expenditures incurred by Plan on Public Benefit or Charitable Activities</u>

Plan started creating the infrastructure and staffing model to support Medicare Advantage operations in 2014 in preparation for the calendar year 2015 annual election period. In total, Plan has expended a total of $130M against a revenue of $86.4M, resulting in a loss of $43.6M since its inception.

The chart below summarizes total expenditures incurred by Plan, including medical costs and administrative costs, as compared to revenue from 2014 – 2019.

	Total (2014– 2019)	2019	2018	2017	2016	2015	2014
Revenue	86,368,688	39,736,619	24,991,406	14,516,963	6,661,983	459,272	2,445
Medical Expenses	98,717,266	42,112,579	29,815,906	18,694,047	7,556,023	538,711	0
Admin Expenses	31,340,107	9,202,260	7,674,651	5,592,459	4,794,585	4,075,903	249
Total Expenses	130,057,373	51,314,839	37,490,557	24,286,506	12,350,608	4,614,614	249
Income (Loss)	-43,688,685	-11,578,220	-12,499,151	-9,769,543	-5,688,625	-4,155,342	2,196

As required by Section 1399.70(c), following the conversion, Plan will no longer be a nonprofit corporation. Nonetheless, Plan will continue to provide health care to elderly individuals and other individuals eligible for governmental assistance, as described above. The chart below summarizes projected total expenditures incurred by Plan, including medical costs and administrative costs, as compared to revenue for calendar year 2021 and 2022:

	2021	2022
Revenue	80,950,000	128,163,000
Medical Expenses	69,212,000	109,899,000
Admin Expenses	12,142,000	19,244,000
Total Expenses	81,355,000	129,124,000
Income (Loss)	(405,000)	(961,000)

C. Plan’s Procedure for Avoiding Conflicts of Interest Involving Public Benefit or Charitable Activities

Plan has adopted a policy and procedure, attached as Exhibit A to this Report, regarding avoiding conflicts of interest involving Plan’s operations, which constitute Plan’s public benefit/charitable activities. Pursuant to the policy and procedure, members of the Board of Directors (“Directors”) of Plan shall at all times act in a manner consistent with their fiduciary responsibilities to Plan and shall exercise care such that no detriment to Plan results from conflicts between their interests and those of Plan. In addition, Directors shall be sensitive to the appearance of conflicts of interest, even if no actual conflict exists.

Plan will not enter into any transaction in which a Director or a member of his or her immediate family has a material financial interest, direct or indirect (an “Interested Transaction”), unless the interested Director who is aware that such an Interested Transaction is contemplated shall notify the Chair of the Board of Directors of the proposed Interested Transaction sufficiently in advance so that the Board of Directors can be provided with a full analysis and information regarding the proposed Interested Transaction before acting on it.

Plan will not enter into any Interested Transaction unless, after diligent investigation made by or on their behalf, a majority of the Directors then in office (without the interested Director voting on the matter) determines, and adopts a resolution stating, that the transaction is for the benefit of, and is fair and reasonable to, Plan, and that it appears that Plan cannot obtain a more advantageous arrangement with reasonable effort under the circumstances. If it is not reasonably practicable to obtain approval of the Board of Directors prior to Plan entering into an Interested Transaction or series of Interested Transactions, the Chair of the Board of Directors may approve the Interested Transaction or series of Interested Transactions if the determinations outlined above are made by such person , after due investigation of the transaction.

Regarding transactions with non-Stanford affiliated entities, if a Director is present at a Board of Directors or committee meeting at which approval or ratification of a transaction is sought and if such Director is a director or in a similar relationship with a non-Stanford affiliated entity, the Director will disclose to the Board of Directors or committee the Director’s relationships with such entity, and will not vote on a motion to approve or ratify the transaction.

Regarding transactions with Stanford-affiliated entities, such transactions will not ordinarily create a conflict of interest, absent a material effect on a personal interest of a Director. Accordingly, Directors of Plan who also serve as directors of Stanford-affiliated entities, including, but not limited to, SHC, may generally vote on transactions between Plan and such affiliated entity. Such Directors are acting in a fiduciary capacity to Plan when they vote as a part of Plan’s Board of Directors and should approve such a transaction only if they find it to be just and reasonable.

D. Summary of Any Conflicts That Have Occurred and the Manner in Which They Were Resolved

To date, Plan has not addressed any conflicts of interest.

Exhibit A

Stanford Health Care Advantage Board of Directors
Policy on Conflict of Interest

I. General Considerations

Directors shall at all times act in a manner consistent with their fiduciary responsibilities to the Stanford Health Care Advantage ("SHC Advantage") and shall exercise care that no detriment to SHC Advantage results from conflicts between their interests and those of SHC Advantage. In addition, Directors shall be sensitive to the appearance of conflict of interest, even if no actual conflict exists.

This policy addresses requirements for certain proposed investment transactions between a Director, or an entity in which a Director has a material financial interest, and SHC Advantage. It also addresses requirements when a Director holds a directorship or similar position in another entity with which SHC Advantage does business. The policy provides for an annual confirmation by Directors that they, to the best of their knowledge, have complied, and will use their best efforts to comply in the future, with these requirements.

II. Interested Transactions

SHC Advantage will not, without approval described in Sections III and IV hereof, enter into any Interested Transaction.

As used herein, the term "Interested Transaction" shall mean any transaction with SHC Advantage in which a Director or a member of his or her "Immediate Family" has a material financial interest, direct or indirect, provided that the following shall not be deemed to be Interested Transactions:

(i) the rates or charges involved in the transaction are determined by competitive bids or the transaction involves the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority;

(ii) the transaction involves services as a bank or depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services, and the transaction is at standard rates and terms offered to the general public;

(iii) the amount involved in the transaction does not exceed $100,000 and the transaction is one in which the Director has only an indirect interest and does not exercise management supervision;

(iv) the Director's interest in the transaction arises only from (a) or (b) below, or both:

    (a) from his or her position as a director of another corporation or organization that is a party to the transaction; or

(b) from the direct or indirect ownership by the Director or a member of his or her Immediate Family of less than a 10% equity interest in another entity that is a party to the transaction.

(v) the Director's interest in a transaction arises solely from his or her position as a limited partner in a partnership; or

(vi) the Director's interest arises solely from the holding of an equity interest, or an interest as a creditor, in another entity with which SHC Advantage does business and the transaction is not material to such other entity.

As used herein, the term "Immediate Family" shall mean the spouse of the Director, the minor children or other dependents of the Director, and other related persons occupying the same home as the Director.

An interested Director who is aware that such an Interested Transaction is contemplated shall notify the Chair of the Board of the proposed transaction sufficiently in advance so that the Board can be provided with full analysis and information regarding the Interested Transaction before acting on it.

III. Approval Required

SHC Advantage shall not enter into any Interested Transaction unless, after diligent investigation made by or on their behalf, a majority of the Directors then in office (without the interested Director voting on the matter) determines, and adopts a resolution stating, that the transaction is for the benefit of, and is fair and reasonable to, SHC Advantage, and that it appears that SHC Advantage cannot obtain a more advantageous arrangement with reasonable effort under the circumstances.

IV. Approval by the Chair of the Board

If it is not reasonably practicable to obtain approval of the Board prior to SHC Advantage entering into the Interested Transaction or series of Interested Transactions, the Chair of the Board (or in the absence of the Chair, any Vice Chair) may approve in advance the Interested Transaction or Interested Transactions if the determinations outlined in Section III are made by such person, after due investigation of the transaction. At its next meeting, the Board, if it determines by a majority of the Directors then in office (without the interested Director voting on the matter) that such determinations are correct, will ratifySara such actions by adopting a resolution so stating.

V. Transactions with Non-Stanford Affiliated Entities With Which a Director is in a Similar Relationship (absent a material financial interest in the transaction)

If a Director is present at a Board or committee meeting at which approval or ratification of a transaction is sought and if such Director is a director or in a similar relationship with a non-Stanford affiliated entity which is or will be the other party to the transaction, the Director will disclose to the Board or committee the Director's relationships with such entity, and will not vote on a motion to approve or ratify the transaction. (If, in addition, the transaction is an Interested Transaction, the provisions of Section III and IV here of will apply.)

Transactions between SHC Advantage and Stanford Health Care ("SHC"), Stanford University, Lucile Packard Children's Hospital Stanford ("LPCH") or other Stanford-affiliated entities will not ordinarily create a conflict of interest, absent a material effect on a personal interest of a Director. Accordingly, Directors of SHC Advantage who also serve as Directors of SHC or LPCH may generally vote on transactions between SHC Advantage and SHC or LPCH. Such Directors are acting in a fiduciary capacity to SHC Advantage when they vote as a part of the SHC Advantage Board of Directors and should approve such a transaction only if they find it to be just and reasonable.

VI. Annual Statement by Director

Annually, each Director will complete a statement provided by SHC Advantage staff confirming the Director has, to the best of his or her knowledge, complied, and will use his or her best efforts to comply in the future, with this policy.

VII. Further Advice

Directors having questions about this policy and its application are invited to consult with the Office of the General Counsel.