

Quarterly Report For the Nine Month Periods Ended May 31, 2019 and May 31, 2018

INDEX	Page
Overview of Disclosure and Other Matters	2 – 3
Unaudited Financial Statements:	
Consolidated Balance Sheets as of May 31, 2019 and May 31, 2018	4
Consolidated Statements of Operations and Changes in Net Assets For the Nine Month Periods Ended May 31, 2019 and May 31, 2018	5
Consolidated Statements of Cash Flows For the Nine Month Periods Ended May 31, 2019 and May 31, 2018	6
Operating and Financial Information For the Nine Month Periods Ended May 31, 2019 and May 31, 2018	7
Liquidity	8
Status of the Project	9
APPENDIX A – Bond Issues and Related CUSIP Numbers	A-1 – A-2

Overview of Disclosure

Pursuant to the following Continuing Disclosure Agreement (the "Disclosure Agreement") executed and delivered in connection with the related bond issues (the "Bonds"), Lucile Salter Packard Children's Hospital at Stanford ("the "Corporation" or "LPCH") hereby provides financial and operating information for the nine month periods ended May 31, 2019 and May 31, 2018:

- Continuing Disclosure Agreement dated March 21, 2012 (the "Disclosure Agreement") relating to the original issue of \$251,045,000 California Health Facilities Financing Authority Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford) 2012 Series A and B (collectively the "2012 Bonds").
- Continuing Disclosure Agreement dated May 8, 2014 (the "Disclosure Agreement") relating to the original issue of \$100,000,000 California Health Facilities Financing Authority Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford) 2014 Series A.
- Continuing Disclosure Agreement dated March 31, 2016 (the "Disclosure Agreement") relating to the original issue of \$76,975,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford) 2016 Series A and \$100,000,000 California Health Facilities Financing Authority Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford) 2016 Series B.
- Continuing Disclosure Agreement dated August 17, 2017 (the "Disclosure Agreement") relating to the original issue of \$200,000,000 California Health Facilities Financing Authority Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford) 2017 Series A.

The Bonds are identified together with their corresponding CUSIPs in Appendix A of this Quarterly Report.

Please note that these financial statements include the Corporation's interest in Packard Children's Health Alliance (PCHA), a not-for-profit physician practice management organization, and Lucile Packard Foundation for Children's Health (LPFCH), a not-for-profit fundraising foundation.

Other Matters

This Quarterly Report is provided solely pursuant to the Disclosure Agreements. The filing of this Quarterly Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Corporation or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the quarter to which this Quarterly Report relates (other than as contained in this Quarterly Report), or any other date specified with respect to any of the information contained in this Quarterly Report, or that no other information exists, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell or hold the Bonds. The information contained in this Quarterly Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Quarterly Report should be construed as a prediction or representation about future financial performance of the Corporation.

This Quarterly Report was prepared by management from records maintained by the Corporation and has not been compiled, reviewed or audited by external auditors.



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Lucile Salter Packard Children's Hospital at Stanford
Consolidated Balance Sheets
As of May 31, 2019 and May 31, 2018
(in thousands of dollars)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 282,702	\$ 306,753
Short term investments in Stanford University ("University") managed pools	1,696	1,553
Patient accounts receivable ⁽¹⁾	369,300	310,492
Contributions receivable	7,348	40,709
Other receivables	45,200	54,760
Prepaid expenses, inventory and other	30,627	20,022
Total current assets	736,873	734,289
Investments	88,083	86,944
Investments in University managed pools	718,561	702,767
Board designated funds in University managed pools and other	127,790	126,721
Property and equipment, net	1,895,631	1,888,447
Beneficial interest in trusts, net	25,913	26,537
Contributions receivable, net of current portion	89,747	116,105
Equity method investments and other assets	61,304	54,118
Total assets	<u>\$ 3,743,902</u>	<u>\$ 3,735,928</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable, accrued liabilities, and deferred provider fee	\$ 149,979	\$ 213,821
Accrued salaries and related benefits	86,614	75,704
Due to related parties	68,862	73,360
Third-party payor settlements	6,232	3,508
Current portion of long-term debt and capital leases	7,955	7,875
Self-insurance reserves and other liabilities	10,792	9,052
Total current liabilities	330,434	383,320
Self-insurance reserves and other liabilities, net of current portion	43,880	38,658
Long-term debt and capital leases, net of current portion	860,654	871,273
Total liabilities	<u>1,234,968</u>	<u>1,293,251</u>
 Net assets		
Unrestricted	1,939,653	1,885,652
Temporarily restricted	335,222	329,255
Permanently restricted	234,059	227,770
Total net assets	<u>2,508,934</u>	<u>2,442,677</u>
Total liabilities and net assets	<u>\$ 3,743,902</u>	<u>\$ 3,735,928</u>

⁽¹⁾ ASC 606 was adopted on a modified retrospective basis as of September 1, 2018 and is reflected in the May 31, 2019 balances above.

Lucile Salter Packard Children's Hospital at Stanford
Consolidated Statements of Operations and Changes in Net Assets
For the Nine Month Periods Ended May 31, 2019 and May 31, 2018

(in thousands of dollars)

	2019	2018 ⁽²⁾
Operating revenues		
Net patient service revenue before provision for doubtful accounts		\$ 1,063,671
Provision for doubtful accounts		(6,588)
Net patient service revenue after provision for doubtful accounts ⁽¹⁾	1,230,441	1,057,083
Provider fee	128,581	91,074
Other revenue	71,053	58,849
Net assets released from restrictions used for operations	20,267	15,747
Total operating revenues	1,450,342	1,222,753
Operating expenses		
Salaries and benefits	601,010	548,480
Professional services	12,918	13,047
Supplies	107,880	92,603
Purchased services	433,279	394,161
Provider fee	31,769	32,356
Other	84,804	92,327
Interest	25,487	10,897
Depreciation and amortization	87,524	70,903
Total operating expenses	1,384,671	1,254,774
Income/(Loss) from operations	65,671	(32,022)
Interest income	3,838	3,570
Income and gains from University managed pools and other	9,088	32,371
Income tax expense	(748)	(180)
Other	-	(375)
Excess of revenues over expenses	77,849	3,364
Net assets released from restrictions used for purchases of property and equipment	2,666	352,896
Transfers to University and other	(14,284)	(15,998)
Increase in unrestricted net assets	66,231	340,263
Changes in temporarily restricted net assets		
Contributions and other	4,001	25,305
Income and gains from University managed pools	7,972	20,931
Change in value of beneficial interest in remainder trusts	(119)	(92)
Net assets released from restrictions for operations	(20,267)	(15,747)
Purchase of property and equipment	(2,666)	(352,896)
Transfers from University and other	967	208
Decrease in temporarily restricted net assets	(10,112)	(322,291)
Changes in permanently restricted net assets		
Contributions and other	6,844	807
Change in value of beneficial interest in remainder trusts	(535)	495
Transfers to University and other	(238)	(661)
Increase in permanently restricted net assets	6,071	641
Increase in net assets	62,190	18,613
Net assets		
Beginning of period	2,446,744	2,424,064
End of period	\$2,508,934	\$ 2,442,677

⁽¹⁾ ASC 606 was adopted on a modified retrospective basis as of September 1, 2018 and is reflected in the May 31, 2019 balances above.

⁽²⁾ Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on total net assets or change in net assets.

All information is preliminary and subject to change

Lucile Salter Packard Children's Hospital at Stanford
Consolidated Statements of Cash Flow
For the Nine Month Periods Ended May 31, 2019 and May 31, 2018
(in thousands of dollars)

	2019	2018 ⁽²⁾
Cash flows from operating activities		
Change in net assets	\$ 62,190	\$ 18,613
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	85,699	68,914
Provision for doubtful accounts ⁽¹⁾	-	6,588
Loss/(gains) from University managed pools	260	(33,561)
Gains from Investments	(1,218)	(7,478)
Contributions and investment income restricted by donors	(28,485)	(38,217)
Earnings in excess of distributions in equity method investees	(2,470)	-
Change in beneficial interest in trusts	654	515
Changes in operating assets and liabilities		
Patient accounts receivable ⁽¹⁾	(80,967)	(29,587)
Beneficial interest in trusts	237	-
Contributions receivable	49,281	18,150
Due to/from related parties	10,058	(516)
Other receivables, inventory, other assets, prepaid expenses and other	548	(14,496)
Accounts payable, accrued liabilities, and deferred provider fee	(23,964)	59,057
Accrued salaries and related benefits	17,232	16,571
Third-party payor settlements	2,388	1,065
Self-insurance and other liabilities	6,753	4,805
Cash provided by operating activities	<u>98,196</u>	<u>70,423</u>
Cash flows from investing activities		
Purchases of investments in University managed pools and other	(15,302)	(11,942)
Sales of investments in University managed pools and other	10,378	14,763
Decrease in assets limited as to use	-	33,090
Purchases of property and equipment	(111,285)	(228,047)
Cash used in investing activities	<u>(116,209)</u>	<u>(192,136)</u>
Cash flows from financing activities		
Payment of long term debt	(2,075)	-
Contributions and investment income restricted by donors	28,485	38,217
Transfers to related parties	(14,164)	(16,434)
Cash provided by financing activities	<u>12,246</u>	<u>21,783</u>
Net decrease in cash and cash equivalents	<u>(5,767)</u>	<u>(99,930)</u>
Cash and cash equivalents		
Beginning of period	288,469	406,683
End of period	<u>\$ 282,702</u>	<u>\$ 306,753</u>
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	\$ 23,715	\$ 6,620
Income taxes paid	\$ 748	\$ 52
Noncash activities		
(Decrease)/ Increase in accounts payable related to purchases of property and equipment	(19,831)	427
Donated securities received	567	6,468

⁽¹⁾ ASC 606 was adopted on a modified retrospective basis as of September 1, 2018 and is reflected in the May 31, 2019 balances above.

⁽²⁾ Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on total cash flows.

All information is preliminary and subject to change

Lucile Salter Packard Children's Hospital at Stanford
Operating and Financial Information
For the Nine Month Periods Ended May 31, 2019 and May 31, 2018

	Nine Months Ended	
	May 31	May 31
	2019	2018
Licensed Beds	396	397
Discharges - Total	10,294	10,015
Patient Days - Total	67,311	63,616
Average Length of Stay	6.5	6.4
Discharges - OB	3,577	3,622
Patient Days - OB	12,319	12,460
Average Length of Stay - OB	3.4	3.4
Discharges - Pediatric	6,717	6,393
Patient Days - Pediatric	54,992	51,156
Average Length of Stay - Pediatric	8.2	8.0
Adjusted Patient Days	84,716	80,495
Average Daily Census	246.6	233.0
Percent Occupancy ⁽¹⁾	62.3%	64.3%
Pediatric CMI	2.08	2.14
Inpatient Surgical Procedures	3,096	2,773
Outpatient Surgical Procedures	3,668	3,464
Clinic Visits ⁽²⁾	220,950	207,258
Clinic Visits - PCHA	215,983	200,508

⁽¹⁾ Based on licensed beds; not all licensed beds are in use.

⁽²⁾ Includes Faculty Practice Organization (FPO) clinic visits only.

All information is preliminary and subject to change

Lucile Salter Packard Children's Hospital at Stanford

Liquidity

As of May 31, 2019 and August 31, 2018

(in thousands of dollars)

	As of May 31, 2019	As of August 31, 2018
Cash and cash equivalents	\$ 282,702	\$ 288,469
Investments - includes LPCH & LPFCH	205,102	206,012
Investments in University managed pools ⁽¹⁾	731,028	724,423
Total cash, cash equivalents and investments	<u>\$ 1,218,832</u>	<u>\$ 1,218,904</u>
Less temporarily and permanently restricted assets ⁽²⁾	<u>(377,246)</u>	<u>(393,562)</u>
Total unrestricted cash, cash equivalents, and investments	<u>\$ 841,586</u>	<u>\$ 825,342</u>
Days cash on hand ⁽³⁾	177	190

⁽¹⁾ Investments in University managed pools consist of funds invested in the University managed Pool.

⁽²⁾ Excludes grant funds and donor restricted funds that have already been spent on the project but cannot be released from Temporary Restricted Net Assets until the project is in service.

⁽³⁾ Total liquid assets times the number of days in the period divided by the total operating expenses in the period, net of depreciation and amortization.

All information is preliminary and subject to change

Lucile Salter Packard Children's Hospital at Stanford Status of Project

The Corporation was in the construction phase of an extensive capital expansion and improvement program to modernize its facilities, address capacity constraints and equip the Hospital with its own diagnostic and treatment platform, independent of Stanford Hospital and Clinics (collectively, the "Project").

In December 2017, Phase 1 of the Project was complete (including the two new patient bed towers) and patients were moved into the expansion. In July 2018, six surgical suites and three cardiac catheterization labs opened and became operational. Management completed the remaining components of the Project in calendar year 2018.

The cost of LPCH's project has exceeded its originally estimated amount of \$1.2 billion because of cost increases related to changes in technology, change orders, and market availability of subcontractors such as electricians, among other factors. While the construction is complete, the final payments for services are expected to be completed in calendar year 2019. LPCH management believes that sources of funding are adequate to cover remaining costs.

APPENDIX A

Bond Issues and Related CUSIP Numbers

**California Health Facilities Financing Authority
Revenue Bonds
(Lucile Salter Packard Children's Hospital at Stanford)
2012 Series A and B
2014 Series A
2016 Series A and B
2017 Series A**

Bond Series	Principal Amount	CUSIP No	Maturity Term
2012 Series A	\$ 200,000,000	13033LWR4	August 15, 2051
2012 Series B	\$ 2,590,000	13033LWY9	August 15, 2019
2012 Series B	\$ 2,850,000	13033LWZ6	August 15, 2020
2012 Series B	\$ 3,045,000	13033LXA0	August 15, 2021
2012 Series B	\$ 3,070,000	13033LXB8	August 15, 2022
2012 Series B	\$ 3,290,000	13033LXC6	August 15, 2023
2012 Series B	\$ 6,550,000	13033LXD4	August 15, 2024
2012 Series B	\$ 6,980,000	13033LXE2	August 15, 2025
2012 Series B	\$ 7,245,000	13033LXF9	August 15, 2026
2012 Series B	\$ 1,585,000	13033LXG7	August 15, 2027
2014 Series A	\$ 3,230,000	13033L2Z9	August 15, 2025
2014 Series A	\$ 3,475,000	13033L3A3	August 15, 2026
2014 Series A	\$ 3,470,000	13033L3B1	August 15, 2027
2014 Series A	\$ 3,250,000	13033L3C9	August 15, 2028
2014 Series A	\$ 3,460,000	13033L3D7	August 15, 2029
2014 Series A	\$ 3,610,000	13033L3E5	August 15, 2030
2014 Series A	\$ 17,290,000	13033L3F2	August 15, 2034
2014 Series A	\$ 62,215,000	13033L3G0	August 15, 2043
2016 Series A	\$ 3,255,000	13032UCQ9	August 15, 2019
2016 Series A	\$ 3,285,000	13032UCR7	August 15, 2020
2016 Series A	\$ 3,320,000	13032UCS5	August 15, 2021
2016 Series A	\$ 3,370,000	13032UCT3	August 15, 2022
2016 Series A	\$ 3,435,000	13032UCU0	August 15, 2023
2016 Series A	\$ 5,040,000	13032UCV8	August 15, 2027
2016 Series A	\$ 6,930,000	13032UCW6	August 15, 2028
2016 Series A	\$ 7,160,000	13032UCX4	August 15, 2029
2016 Series A	\$ 7,430,000	13032UCY2	August 15, 2030
2016 Series A	\$ 7,690,000	13032UCZ9	August 15, 2031
2016 Series A	\$ 7,995,000	13032UDA3	August 15, 2032
2016 Series A	\$ 8,260,000	13032UDB1	August 15, 2033
2016 Series B	\$ 100,000,000	13032UDC9	August 15, 2055

APPENDIX A

Bond Issues and Related CUSIP Numbers

**California Health Facilities Financing Authority
Revenue Bonds
(Lucile Salter Packard Children's Hospital at Stanford)
2012 Series A and B
2014 Series A
2016 Series A and B
2017 Series A**

Bond Series	Principal Amount	CUSIP No	Maturity Term
2017 Series A	\$ 2,110,000	13032UPA0	November 15, 2019
2017 Series A	\$ 2,270,000	13032UPB8	November 15, 2020
2017 Series A	\$ 2,605,000	13032UPC6	November 15, 2021
2017 Series A	\$ 2,765,000	13032UPD4	November 15, 2022
2017 Series A	\$ 3,430,000	13032UPE2	November 15, 2023
2017 Series A	\$ 195,000	13032UPF9	November 15, 2024
2017 Series A	\$ 200,000	13032UPG7	November 15, 2025
2017 Series A	\$ 1,400,000	13032UPH5	November 15, 2026
2017 Series A	\$ 1,900,000	13032UPJ1	November 15, 2027
2017 Series A	\$ 2,075,000	13032UPK8	November 15, 2028
2017 Series A	\$ 2,290,000	13032UPL6	November 15, 2029
2017 Series A	\$ 2,505,000	13032UPM4	November 15, 2030
2017 Series A	\$ 2,705,000	13032UPN2	November 15, 2031
2017 Series A	\$ 2,915,000	13032UPP7	November 15, 2032
2017 Series A	\$ 1,590,000	13032UPQ5	November 15, 2033
2017 Series A	\$ 1,660,000	13032UPR3	November 15, 2034
2017 Series A	\$ 1,745,000	13032UPS1	November 15, 2035
2017 Series A	\$ 1,835,000	13032UPT9	November 15, 2036
2017 Series A	\$ 1,930,000	13032UPU6	November 15, 2037
2017 Series A	\$ 11,225,000	13032UPV4	November 15, 2042
2017 Series A	\$ 11,070,000	13032UPW2	November 15, 2047
2017 Series A	\$ 137,505,000	13032UPX0	November 15, 2056