



# Stanford

## HEALTH CARE

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### STANFORD MEDICINE

### Quarterly Financial Disclosure For the Nine Month Periods Ended May 31, 2018 and 2017

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### STANFORD MEDICINE

Pursuant to the following Continuing Disclosure Agreements (collectively, the “Disclosure Agreements”) executed and delivered in connection with the related bond issues (collectively, the “Bonds”), Stanford Health Care (the “Corporation”) hereby provides financial and utilization information for the nine month periods ended May 31, 2018 and 2017:

- Continuing Disclosure Agreement dated June 2, 2008, relating to the original issue of \$156,200,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-1 and A-3;
- Continuing Disclosure Agreement dated June 16, 2010, relating to the original issue of \$296,055,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2010 Series A and B;
- Continuing Disclosure Agreement dated June 15, 2011, relating to the reoffering of \$272,365,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-2, A-3 and B-2;
- Continuing Disclosure Agreement dated May 23, 2012, relating to the original issue of \$408,320,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2012 Series A and B; and
- Continuing Disclosure Agreement dated May 23, 2012, relating to the original issue of \$60,000,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2012 Series C; and
- Continuing Disclosure Agreement dated June 30, 2015, relating to the original issue of \$100,000,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care) 2015 Series A.
- Continuing Disclosure Agreement dated December 28, 2017, relating to the original issue of \$454,200,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Health Care), 2017 Series A.



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### STANFORD MEDICINE

The Bonds are identified together with their corresponding CUSIPs in Appendix A of this quarterly disclosure report. Additionally, the Treasury department of the Corporation maintains a world-wide web site to which it makes certain disclosure documents available to the general public at <https://stanfordhealthcare.org/about-us/bondholder-general-financial-information.html>.

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

For further information, please contact:

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**Stanford Health Care**  
**Consolidated Balance Sheet - Unaudited**  
**As of May 31, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 673,213	\$ 675,096
Short term investments	388,884	232,275
Patient accounts receivable, net of allowance for doubtful accounts of \$211,000 and \$200,000 at May 31, 2018 and 2017, respectively	610,455	646,246
Other receivables	65,628	60,240
Inventories	56,528	47,010
Prepaid expenses and other	48,700	43,152
Total current assets	<u>1,843,408</u>	<u>1,704,019</u>
Investments	432,087	145,925
Investments at equity	78,503	-
Investments in University managed pools	1,372,197	1,273,261
Assets limited as to use, held by trustee	-	112,139
Property and equipment, net	3,133,091	2,725,258
Other assets	112,704	145,100
Total assets	<u>\$ 6,971,990</u>	<u>\$ 6,105,702</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 460,818	\$ 335,027
Accrued salaries and related benefits	218,704	220,845
Due to related parties	18,999	34,822
Third-party payor settlements	28,552	24,555
Current portion of long-term debt	13,775	13,520
Revolving line of credit	-	100,000
Debt subject to short-term remarketing arrangements	228,200	228,200
Self-insurance reserves and other	44,526	43,994
Total current liabilities	<u>1,013,574</u>	<u>1,000,963</u>
Self-insurance reserves and other, net of current portion	140,275	122,248
Other long-term liabilities	223,564	264,950
Pension liability	16,881	68,064
Long-term debt, net of current portion	1,720,712	1,195,982
Total liabilities	<u>3,115,006</u>	<u>2,652,207</u>
<b>Net assets:</b>		
Unrestricted:		
Stanford Health Care	3,194,110	2,819,644
Noncontrolling interests	24,130	20,665
Total unrestricted	<u>3,218,240</u>	<u>2,840,309</u>
Temporarily restricted	630,511	605,042
Permanently restricted	8,233	8,144
Total net assets	<u>3,856,984</u>	<u>3,453,495</u>
Total liabilities and net assets	<u>\$ 6,971,990</u>	<u>\$ 6,105,702</u>

All information is preliminary and subject to change.

**Stanford Health Care**  
**Consolidated Statement of Operations and**  
**Changes in Net Assets – Unaudited**  
**For the Nine Month Periods Ended May 31, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue	\$ 3,512,337	\$ 3,235,057
Provision for doubtful accounts	(47,387)	(72,722)
Net patient service revenue less provision for doubtful accounts	3,464,950	3,162,335
Premium revenue	67,125	60,201
Other revenue	101,817	96,774
Net assets released from restrictions used for operations	3,420	5,929
Total operating revenues	<u>3,637,312</u>	<u>3,325,239</u>
Operating expenses:		
Salaries and benefits	1,536,093	1,484,650
Professional services	29,439	30,121
Supplies	495,331	436,398
Purchased services	906,996	851,683
Depreciation and amortization	127,020	112,752
Interest	24,163	32,539
Other	330,520	275,342
Expense recoveries from related parties	(91,290)	(81,959)
Total operating expenses	<u>3,358,272</u>	<u>3,141,526</u>
Income from operations	279,040	183,713
Interest and investment income	17,470	11,146
Earnings on equity method investments	1,558	-
Increase in value of University managed pools	83,817	103,321
Swap interest and change in value of swap agreements	45,593	92,083
Loss on extinguishment of debt	(48,541)	-
Excess of revenues over expenses	378,937	390,263
Other changes in unrestricted net assets:		
Transfer to Stanford University	(54,797)	(21,017)
Change in net unrealized gains on investments	1,840	712
Net assets released from restrictions used for:		
Purchase of property and equipment	287	880
Noncontrolling capital (distribution) contributions	(1,200)	301
Increase in unrestricted net assets	<u>325,067</u>	<u>371,139</u>
Changes in temporarily restricted net assets:		
Transfer from Stanford University	2,138	2,333
Contributions and other	27,320	28,108
Investment income	416	548
Gains on University managed pools	1,093	3,776
Net assets released from restrictions used for:		
Operations	(3,420)	(5,929)
Purchase of property and equipment	(287)	(880)
Increase in temporarily restricted net assets	<u>27,260</u>	<u>27,956</u>
Changes in permanently restricted net assets:		
Contributions	89	250
Increase in permanently restricted net assets	<u>89</u>	<u>250</u>
Increase in net assets	352,416	399,345
Net assets, beginning of year	<u>3,504,568</u>	<u>3,054,150</u>
Net assets, end of year	<u>\$ 3,856,984</u>	<u>\$ 3,453,495</u>

All information is preliminary and subject to change.

**Stanford Health Care**  
**Consolidated Statement of Cash Flows – Unaudited**  
**For the Nine Month Periods Ended**  
**May 31, 2018 and 2017**  
(In Thousands)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in Stanford Health Care net assets	\$ 350,346	\$ 398,813
Change in noncontrolling interests	2,070	532
Total change in net assets	352,416	399,345
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	48,541	-
Depreciation and amortization	124,578	111,363
Provision for doubtful accounts	47,387	72,722
Change in fair value of interest rate swaps	(57,629)	(92,083)
Increase in value of University managed pools	(83,817)	(103,321)
Unrealized gains on investments	(2,786)	(4,260)
Realized losses on investments	-	460
Excess of income of equity method investees over distributions received	(1,941)	-
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	29,527	(3,953)
Premiums received from bond issuance	76,138	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(47,108)	(159,035)
Due to related parties	(51,577)	(25,006)
Other receivables, inventory, other assets, prepaid expenses and other	(8,051)	12,098
Accounts payable, accrued liabilities and pension liabilities	88,408	7,515
Accrued salaries and related benefits	(37,055)	(15,974)
Third-party payor settlements	10,403	1,607
Self-insurance reserves	8,131	4,016
Cash provided by operating activities	<u>495,565</u>	<u>205,494</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(512,119)	(171,645)
Sales of investments	38,190	29,567
Purchases of investments at equity	(7,889)	-
Purchases of investments in University managed pools	(332)	(649)
Sales of investments in University managed pools	86	150,776
Decrease in assets limited as to use and other	58,134	123,649
Purchases of property and equipment	(358,412)	(440,564)
Cash used in investing activities	<u>(782,342)</u>	<u>(308,866)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debt	954,200	-
Borrowing on revolver	(135,000)	100,000
Costs of issuance of debt	(6,822)	(30)
Payment of long-term debt and capital lease obligations	(538,114)	(12,175)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	(24,383)	213
Cash provided by financing activities	<u>249,881</u>	<u>88,008</u>
Net decrease in cash and cash equivalents	(36,896)	(15,364)
Cash and cash equivalents, beginning of year	710,109	690,460
Cash and cash equivalents, end of year	<u>\$ 673,213</u>	<u>\$ 675,096</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid, net of amounts capitalized	\$ 32,263	\$ 39,458
<b>Supplemental disclosures of non cash information:</b>		
Increase (decrease) in payables for property and equipment	\$ 32,243	\$ (4,660)
Equity transfers from related parties, net	3,639	396
Assets and liabilities acquired under capital leases	479	725

All information is preliminary and subject to change.

**Stanford Health Care  
Historical Utilization Statistics  
For the Nine Month Periods Ended  
May 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Discharges</b>		
Acute	19,498	18,857
Behavioral Health	626	582
<b>Total</b>	<b><u>20,124</u></b>	<b><u>19,439</u></b>
<b>Patient Days</b>		
Acute	108,096	110,280
Behavioral Health	6,898	7,135
<b>subtotal</b>	<b><u>114,994</u></b>	<b><u>117,415</u></b>
Short Stay OP	11,787	12,138
<b>Total</b>	<b><u>126,781</u></b>	<b><u>129,553</u></b>
<b>Average Daily Census</b>		
Acute	396.0	404.0
Behavioral Health	25.3	26.1
<b>Total</b>	<b><u>421.2</u></b>	<b><u>430.1</u></b>
<b>Average Length of Stay</b>		
Acute	5.54	5.8
Behavioral Health	11.0	12.3
<b>Total</b>	<b><u>5.7</u></b>	<b><u>6.0</u></b>
<b>Case Mix Index</b>	2.43	2.43
<b>Emergency room visits*</b>	57,631	55,672
<b>Short Stay OP procedures</b>	32,778	30,508
<b>Other Outpatient visits</b>	597,110	571,235
<b>Surgeries</b>		
Inpatient	9,691	10,197
Outpatient	17,942	16,896
<b>Total</b>	<b><u>27,633</u></b>	<b><u>27,093</u></b>

Source: Corporation records

\* ER visits include patients who got admitted as inpatients.

All information is preliminary and subject to change.

## **ADDITIONAL INFORMATION**

A ballot initiative sponsored by the Service Employees International Union-United Healthcare Workers West has qualified for the November 2018 ballot in the City of Palo Alto, California that would, if approved by the voters, regulate the amounts that Stanford Health Care (“SHC”) could collect for services provided to patients covered by private payors in its hospital and clinic facilities in Palo Alto. If passed, the initiative would be effective January 1, 2019 but purports to apply retroactively to services in fiscal years ending after that date, and so could apply to services commencing September 1, 2018, the beginning of SHC’s Fiscal Year 2019.

The initiative would cap reimbursement for patient care services at 115% of certain components of costs of direct patient care, electronic health information technology costs, staff training and patient education and counseling. Significant categories of costs would be omitted from the reimbursable payment amount and the amount of such disallowed costs could be material and adverse to the operations and results of SHC. SHC cannot predict whether the initiative will pass. SHC is vigorously opposing the initiative and has filed legal challenges to its validity.



## APPENDIX A

### Bond Issues and Related CUSIP Numbers

**California Health Facilities Financing Authority  
Refunding Revenue Bonds  
(Stanford Hospital and Clinics)  
2008 Series A-1**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LHM2	11/15/2018	4.00	475,000
13033LHN0	11/15/2019	4.00	225,000
13033LHP5	11/15/2020	4.00	675,000

**California Health Facilities Financing Authority**  
**Refunding Revenue Bonds**  
**(Stanford Hospital and Clinics)**  
**2008 Series A-2**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LNC7	11/15/2018	4.00	700,000
13033LND5	11/15/2019	4.00	325,000
13033LNE3	11/15/2020	5.00	1,000,000
13033LNF0	11/15/2021	5.00	450,000

**California Health Facilities Financing Authority**  
**Refunding Revenue Bonds**  
**(Stanford Hospital and Clinics)**  
**2008 Series A-3**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LNQ6	11/15/2018	3.00	550,000
13033LNR4	11/15/2019	4.00	275,000
13033LNS2	11/15/2020	5.00	800,000
13033LNT0	11/15/2021	4.00	375,000

**California Health Facilities Financing Authority  
Refunding Revenue Bonds  
(Stanford Hospital and Clinics)  
2008 Series B-2-1**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Current Commercial Paper Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LNX1	11/15/2045	1.30	\$ 42,050,000

**California Health Facilities Financing Authority**  
**Refunding Revenue Bonds**  
**(Stanford Hospital and Clinics)**  
**2008 Series B-2-2**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Current Commercial Paper Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LNY9	11/15/2045	1.20	\$ 42,050,000

**California Health Facilities Financing Authority**  
**Refunding Revenue Bonds**  
**(Stanford Hospital and Clinics)**  
**2010 Series A**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LHZ3	11/15/2018	5.00	6,130,000
13033LJA6	11/15/2019	5.00	6,435,000
13033LJB4	11/15/2020	5.00	6,760,000



**California Health Facilities Financing Authority  
Revenue Bonds  
(Stanford Hospital and Clinics)  
2012 Series A**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LYQ4	08/15/2032	5.00	\$ 1,960,000
13033LYR2	08/15/2042	5.00	43,380,000
13033LZS0	08/15/2051	5.00	294,660,000



**California Health Facilities Financing Authority  
Revenue Bonds  
(Stanford Hospital and Clinics)  
2012 Series B**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033LYY7	08/15/2018	3.00	2,000,000
13033LZG5	08/15/2018	5.00	3,920,000
13033LYZ4	08/15/2019	5.00	6,650,000
13033LZA8	08/15/2020	4.00	2,500,000
13033LZH3	08/15/2020	5.00	4,475,000
13033LZB6	08/15/2021	4.00	6,810,000
13033LZC4	08/15/2022	4.00	875,000
13033LZJ9	08/15/2022	5.00	6,680,000
13033LZD2	08/15/2023	5.00	7,430,000

**California Health Facilities Financing Authority**  
**Revenue Bonds**  
**(Stanford Hospital and Clinics)**  
**2012 Series C**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Initial Windows Spread to SIFMA (%)</b>	<b>Original Principal Amount</b>
13033LZN0	08/15/2051	.25	\$ 60,000,000

**California Health Facilities Financing Authority**  
**Revenue Bonds**  
**(Stanford Health Care)**  
**2015 Series A**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13033L8Q3	08/15/2052	4.25	\$ 25,000,000
13033L8P5	08/15/2054	5.00	\$ 75,000,000

**California Health Facilities Financing Authority  
Refunding Revenue Bonds  
(Stanford Health Care)  
2017 Series A**

<b>CUSIP</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Original Principal Amount</b>
13032UPY8	11/15/2021	5.00	\$7,125,000
13032UPZ5	11/15/2022	5.00	\$9,635,000
13032UQA9	11/15/2023	5.00	\$13,475,000
13032UQB7	11/15/2024	5.00	\$17,615,000
13032UQC5	11/15/2025	5.00	\$18,480,000
13032UQD3	11/15/2026	5.00	\$19,320,000
13032UQE1	11/15/2027	5.00	\$20,260,000
13032UQF8	11/15/2028	5.00	\$21,225,000
13032UQG6	11/15/2029	5.00	\$22,270,000
13032UQH4	11/15/2030	5.00	\$23,340,000
13032UQJ0	11/15/2031	5.00	\$24,465,000
13032UQK7	11/15/2032	5.00	\$25,695,000
13032UQL5	11/15/2033	5.00	\$26,805,000
13032UQM3	11/15/2034	5.00	\$23,390,000
13032UQN1	11/15/2035	5.00	\$19,310,000
13032UQP6	11/15/2036	5.00	\$26,160,000
13032UQQ4	11/15/2037	5.00	\$30,225,000
13032UQR2	11/15/2040	4.00	\$105,405,000