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## Disclosure Report

**For the Three Months Ended September 30, 2016**

Contacts:	<b>Cecelia B. Moore, MHA, CPA, CHFP</b> Chief Financial Officer & Treasurer Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 322-0084 cecelia.b.moore@vanderbilt.edu	<b>Scott T. Phillips, CPA</b> Vice President & Controller Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 875-9078 scott.t.phillips@vanderbilt.edu
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[www.mc.vanderbilt.edu](http://www.mc.vanderbilt.edu)

**Disclosure Report for September 30, 2016**  
**VANDERBILT UNIVERSITY MEDICAL CENTER**

**NOTICE**  
**relating to:**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016A**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE TAXABLE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016B**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE TAXABLE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016C (R-FLOATS)**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE TAXABLE REVENUE NOTE  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016D**

**Disclosure Report for September 30, 2016**

**CUSIP Nos:** 592041WC7, 592041WD5, 592041WE3, 592041WF0, 592041WG8, 592041WH6,  
592041WJ2, 592041RU3, 592041RV1, 592041SF5, 592041SG3, 592041XB8, 592041XC6

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## **Disclosure Report for September 30, 2016**

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## **Disclosure Report for September 30, 2016**

### **ATTENTION**

This document is marked with a dated date of September 30, 2016 and reflects information only as of that date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

The information contained in this document may include “forward looking statements” by using forward-looking words such as “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control.

Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

## ORGANIZATION

Vanderbilt University Medical Center (“VUMC”) is a Tennessee not-for-profit corporation incorporated in March of 2015 for the purpose of operating an academic medical center and a comprehensive research, teaching, and patient care health system in the state of Tennessee (the “Medical Center”). Until April 29, 2016, the Medical Center operated as a unit within Vanderbilt University (“the University” or “VU”), as a part of the University’s administrative structure, with the same governing board, legal, financial and other shared services.

VUMC began operations effective April 30, 2016 following the closing of the sale of the Medical Center by the University on April 29, 2016 (the “Acquisition”). VUMC owns and operates the three hospitals primarily located on the main campus of the University in Nashville, TN.: Vanderbilt University Adult Hospital (“VUAH”), Monroe Carell Junior Children’s Hospital at Vanderbilt (“MCJCH”) and Vanderbilt Psychiatric Hospital (“VPH”). In addition, VUMC partially owns Vanderbilt Stallworth Rehabilitation Hospital (“VSRH”), also located on the main campus of the University, through a joint venture with HealthSouth Corp. in which VUMC holds a 50% interest. Vanderbilt Health Services, LLC, (“VHS”) is currently a participant in the VSRH joint venture. VUAH, MCJCH and VPH are licensed for 1,025 beds and VSRH is licensed for 80 beds.

VUMC consists of two major operating divisions and an administrative overhead division. The operating divisions include the Clinical Enterprise and Academic Enterprise divisions. The administrative overhead division is referred to as Medical Center Administration (“MCA”).

The Clinical Enterprise division includes the professional clinical practice revenues and related expenses of the Vanderbilt Medical Group (“VMG”), and technical revenues and associated expenses for operation of VUMC’s hospitals and clinic facilities, including VUAH, MCJCH and VPH. The Clinical Enterprise also includes VHS.

VUAH is a quaternary care teaching hospital licensed for 670 acute care and specialty beds. VUAH, a Level I trauma center, provides advanced patient care, and serves as a key site for medical education and clinical research conducted by physician faculty. VUAH includes a comprehensive burn center, the Vanderbilt Transplant Center, the Vanderbilt Heart and Vascular Institute, and Vanderbilt Ingram Cancer Center.

MCJCH is a pediatric quaternary care teaching hospital licensed for 171 acute and specialty beds, and 96 Neonatal Intensive Care beds. MCJCH is the region’s only full-service pediatric hospital, with over 300 pediatric subspecialties. MCJCH serves as a site for medical education and clinical research conducted by pediatric physician faculty, houses the only Level IV neonatal intensive care center within the state of Tennessee, and is a regional referral center for extracorporeal membrane oxygenation (heart and lung failure).

VPH is a psychiatric hospital licensed for 88 beds, and provides both inpatient and outpatient partial hospitalization psychiatric services to both adult and adolescent patients.

VMG is the practice group of physicians and advanced practice nurses employed by VUMC who perform billable professional medical services. The VMG is not a separate legal entity. The VMG has a governing board which consists of the VUMC clinical service chiefs, who also serve clinical department chairs. Under the oversight of VUMC executive leadership, the VMG sets professional practice standards, bylaws, policies, and procedures for the administration of a group practice. VUMC bills for services rendered by the VMG clinicians in both inpatient and outpatient locations. Collected fees derive a component of each VMG clinician’s compensation.

The VMG includes nationally recognized physicians whose expertise spans the spectrum from primary care to the most specialized quaternary discipline. The entire clinical faculty is “board certified” or eligible for board certification. All staff members are re-credentialed every two years by the National Committee for Quality Assurance standards. All specialties and subspecialties currently recognized by the various national specialty boards are represented on the clinical faculty.

VHS serves as a holding company for 13 health care related subsidiaries and joint ventures owned with various entities, including, but not limited to, VSRH and the Vanderbilt Health Affiliated Network (“VHAN”). VHS operations primarily consist of community physician practices, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, and a rehabilitation hospital. These subsidiaries include clinics managed in multiple outpatient locations throughout middle Tennessee.

The Academic Enterprise division includes all clinically-related research, research-support activities and faculty endeavors supporting post-graduate training programs. A significant funding source for VUMC’s research has historically been the federal government. Federal funding is received from the Department of Health and Human Services, the National Institutes of Health, the Department of Defense, NASA, and other federal agencies. Sponsored research awards, including multiple-year grants and contracts from government sources, foundations, associations, and corporations signify future research commitments. In addition, core activities supporting research including advanced computing and grant administration are included in this division.

As mentioned above and throughout this document, VUMC acquired the Medical Center and its operations from the University in the Acquisition. For the purpose of funding the Acquisition, VUMC entered into certain debt agreements. Certain of these debt agreements contain certain required disclosures which outline annual and quarterly reporting requirements. In addition, certain of these debt agreements require notices of the occurrence of significant events which include but not limited to delinquencies, bond calls, rating changes, bankruptcies and mergers or acquisitions.

The VUMC fiscal year end is June 30. The information contained in this document represents the unaudited consolidated results of operations of VUMC as of and for the three months ended September 30, 2016.

## SUMMARY OF OPERATING AND UTILIZATION DATA

### Licensed Beds

VUMC's facilities have 1,025 licensed and fully staffed beds approved for operation with 72 operating rooms, primarily located at VUAH, MCJCH and VPH. A fourth hospital, VSRH, is operated within a separate joint venture entity, which is currently owned 50% by the VUMC. Counting VSRH beds, managed beds at Williamson County (Tennessee) Medical Center Inpatient Children's Unit and operated observation beds and bassinet beds, total beds as of September 30, 2016 equates to 1,205.

### VUMC Beds (Licensed, Observation, Jv, Managed)

<u>Licensed Beds</u>	<u>Available Beds</u>
Licensed-Bed Category Type	
Adult Medical Surgical	606
Adult Obstetric	50
Adult Clinical Research Center	14
Pediatric Medical/Surgical	129
Pediatric Neonatal Intensive Care	96
Pediatric Intensive Care	42
Psychiatric Care	88
Total Licensed Beds as of September 30, 2016	<u>1,025</u>
 <u>Observation, JV and Managed Beds and Bassinets</u>	
Current Observation Beds	64
Current Bassinets	20
Stallworth Rehabilitation Hospital Beds (JV) <sup>(1)</sup>	80
MCJCH at Williamson Medical Center Inpatient and Observation Unit (Managed) <sup>(2)</sup>	16
Total Observation, JV and Managed Beds and Bassinets as of September 30, 2016	<u>180</u>
 Total Licensed, Observation, JV and Managed Beds and Bassinets as of September 30, 2016	 <u><u>1,205</u></u>

(1) Represents 80 beds in joint venture with VSRH.

(2) Represents 12 license beds and four observation beds managed by VUMC with Williamson County Medical Center, Franklin, TN.

## VUMC Research Revenues

VUMC receives revenues from research grants which are both federally and non-federally sponsored. The Department of Health and Human Services, the National Institutes of Health, the Department of Defense, NASA, and other federal agencies supported over 70% of the research expenditures conducted by VUMC. The breakdown of direct research revenues is as follows for three months ended September 30, 2016 (*\$ in thousands*):

### Source

Federal	\$ 47,378
Non-Federal	18,580
Total	<u>\$ 65,958</u>

## Capital Cash Flows

Capital expenditures included primarily construction in progress and internal use software costs for the three months ended September 30, 2016:

	<i>(in millions)</i>
Capital Expenditures	\$24.0

## Utilization

VUMC's overall functional occupancy rate was 93.3% during the three months ended September 30, 2016 (including observation patients in inpatient beds). The average number of inpatients in the hospital at midnight census was 879 at September 30, 2016. Thus, the Medical Center has continued to operate at or above the theoretical optimal occupancy of 85% when total utilization of capacity is measured. These high inpatient utilization rates yielded discharges of 15,317.

### Utilization Statistics of the Hospitals and Clinics for the Three Months Ended 9-30-16

Licensed beds <sup>(1)</sup>	1,025
Hospital inpatient days <sup>(2)</sup>	80,905
Hospital discharges	15,317
Average length of stay in days <sup>(2)</sup>	5.3
Average occupancy level (licensed beds) <sup>(2)</sup>	86.7%
Surgical operations <sup>(3)</sup>	14,868
Ambulatory visits <sup>(4)</sup>	557,375
Emergency visits	30,466

(1) Excludes nursery bassinets.

(2) Includes nursery and psychiatric hospital; does not include the observation patients.

(3) Excludes surgical operations performed by VUMC- employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.

(4) Includes visits related to VHS joint ventures.

### VUMC Inpatient Acuity

Across all inpatients, VUMC's inpatient acuity is measured by case mix index ("CMI"). VUMC's total CMI and CMI for Medicare patients for the three months ended September 30, 2016 are presented below:

#### Case Mix Index for the Three Months Ended September 30, 2016

Total CMI	2.18
Medicare CMI	2.36

During the three months ended September 30, 2016, ambulatory visits at the Medical Center totaled 503,053. While the majority of the VMG adult and children's ambulatory practice is located in VUAH on the main campus, VUMC health care services are offered outside the main campus, with approximately 48% of outpatient visits at off-campus locations during this same time period.

### VUMC Payor Mix

The Medical Center received payment on behalf of most of its patients from a number of third parties, including Blue Cross and other private insurers, the federal government through Medicare, and the federal and state governments through Medicaid. TennCare, the State's managed care plan operating under a Section 1115 Medicaid demonstration waiver from the federal government, provides the majority of Medicaid revenues. The remaining Medicaid revenues are from Medicaid patients who live outside of the State. Blue Cross, one of VUMC's largest payors represented 23% of total gross patient service revenue for the three months ended September 30, 2016.

The revenues attributable to Blue Cross are in the commercial/managed care category in the following table, which sets forth the sources of gross amounts of patient service revenue as well as gross amounts of patient service revenue net of contractual allowances for the three months ended September 30, 2016:

<i>Payor Mix</i>	<b>Gross</b>	<b>Net</b>
Commercial/Managed Care <sup>(1)</sup>	45.8%	63.2%
Medicare/Managed Medicare	30.2%	21.4%
TennCare/Medicaid	19.4%	12.9%
Uninsured (self-pay)	4.6%	2.5%
Total	<u>100.0%</u>	<u>100.0%</u>

(1) Commercial includes commercial indemnity and other patient service programs provided under contractual arrangement

VUMC's major commercial managed care contracts are multi-year agreements, typically three to four years with automatic annual escalators. Commercial contracts reimburse the facility on case rates with stop loss provisions for inpatient medical/surgical services and fee schedules for outpatient services. VPH is reimbursed on per diems. VUMC has no agreements based on full risk or capitation reimbursement. Three major commercial contracts utilize performance on quality metrics as a basis for a portion of the annual escalators. One existing Medical Center commercial contract has two episode-based payment bundles effective July 1, 2015, with upside risk only. Over 78% of VUMC's payments for healthcare services are covered under rates contracted through fiscal year ended June 30, 2018.

The following table details payments received from VUMC's largest commercial contracts as a percentage of total net patient revenue for the three months ended September 30, 2016, as well as the respective contract renewal date.

**Commercial Contract Payments as a Percentage of Total Net Patient Revenue**

<u><b>Commercial Contract</b></u>	<u><b>Total Payments</b></u> <sup>(1)</sup>	<u><b>Termination Dates</b></u>
Aetna	5.7%	12/31/2018
BlueCross	31.3%	12/31/2019
CIGNA	5.3%	9/30/2018 <sup>(2)</sup>
Humana	1.5%	11/1/2018
United	4.6%	12/31/2016
Total as a % of total net patient revenue	<u>48.4%</u>	

(1) Includes global and professional billing payments.

(2) If not renegotiated, contract automatically renews indefinitely.

Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represent approximately \$32.8 million in net revenue or 6.3% of total net revenue for the three months ended September 30, 2016 and have termination dates ranging from December 31, 2016 to March 31, 2017.

## SUMMARY OF FINANCIAL DATA

### Cash and Investments

The VUMC Board of Directors (the “Board”) approves the primary investment policy, while the Board’s Executive Committee is responsible for appointing and removing investment managers, monitoring asset allocation within the policy guidelines, and other ongoing oversight of the investment portfolio. VUMC utilizes external investment consultants to provide professional investment analysis and guidance and to assist in evaluating the performance of the fund managers. As the risk profile of VUMC matures, VUMC management anticipates undertaking modest additional risk, through asset allocation adjustments, in order to improve long-term investment returns. The table below summarizes VUMC’s investment allocation as of September 30, 2016 including working capital.

#### Summary of Cash and Investments Asset Allocation (as of September 30, 2016)

	<b>Working Capital</b>	<b>Unrestricted and Restricted Investments <sup>(1)</sup></b>	<b>Self- Insurance Trust</b>	<b>Total</b>
Cash & Cash Equivalents	79%	1%	1%	61%
Short-Term Investments	11%	0%	0%	9%
Equity Investments	0%	42%	55%	11%
Hedged Equity Investments	0%	8%	7%	2%
Fixed Income Investments	10%	13%	26%	12%
Hedged Debt Investments	0%	0%	4%	0%
Other Marketable Alternatives <sup>(2)</sup>	0%	8%	8%	2%
Non-Marketable Investments	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	0%	14%	0%	2%
Bonds in Workers Comp Account	0%	8%	0%	1%
Split Interest Trusts	0%	6%	0%	1%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes new endowment funds of \$2.2 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of September 30, 2016. This financial information is provided for informational purposes only and is not necessarily, and should not be assumed to be, an indication of the results that will be achieved in the future.

### Summary of Unrestricted Cash and Cash Equivalents

*(\$ in thousands)*

Cash and cash equivalents(1)	\$ 524,630
Less: restricted cash and cash equivalents included above	<u>(14,053)</u>
Total unrestricted cash and cash equivalents	<u>\$ 510,577</u>
Unrestricted investments(2)	<u>224,985</u>
Total unrestricted cash and investments	<u><u>\$ 735,562</u></u>
Average daily operating expenses(3)	<u><u>\$ 9,533</u></u>
Days cash on hand(4)	<u><u>77.2</u></u>

(1) Cash and cash equivalents as reported on unaudited balance sheet.

(2) Unrestricted investments are comprised of current and noncurrent investments and board designated quasi-endowment funds.

(3) Average daily operating expenses include all VUMC financial flows to the University excluding principal payments on Subordinated Promissory Note to VU.

(4) Unrestricted cash and investments divided by average daily operating expenses (excluding depreciation and amortization) for the three months then ended.

## Debt Service Coverage

The following table sets forth, for the three months ended September 30, 2016, VUMC's income available for debt service, and indicates the extent to which such income available for debt service would provide coverage for maximum annual and annual debt service on all long-term debt.

<i>(in thousands)</i>	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses	\$ 47,360	\$ 189,440
Less: unrealized gains on investments <sup>(1)</sup>	(5,546)	(22,184)
Less: unrealized gain on interest rate swap	(10)	(40)
Plus: depreciation and amortization	21,516	86,064
Plus: interest	13,710	54,840
Income available to pay debt service	<u>\$ 77,030</u>	<u>\$ 308,120</u>
Maximum annual debt service		\$ 74,942
Maximum annual debt service coverage <sup>(2)</sup>		4.1x
Annual debt service (Scheduled)		\$ 52,124
Annual debt service coverage (Scheduled) <sup>(3)</sup>		5.9x

(1) Excludes appreciation of endowed assets.

(2) Maximum annual debt service coverage consists of estimated annualized income available to pay debt service divided by maximum annual debt service.

(3) Annual debt service coverage consists of estimated annualized income available to pay debt service divided by annual debt service.

## Capitalization

The following table provides VUMC's capitalization ratios as of and for the three months ended September 30, 2016 on an annualized basis:

### Capitalization Ratios

(\$ in thousands)

Long Term Debt <sup>(1)</sup>	\$ 1,193,310
Unrestricted Net Assets	<u>556,715</u>
Total Capitalization	<u><u>\$ 1,750,025</u></u>
Ratio of Long-Term Debt to Capitalization (%)	68.2%
EBIDA (annualized)	\$ 330,344
Ratio Debt to Total EBIDA <sup>(2)</sup>	3.6x
Total Unrestricted Cash and Investments	\$ 735,562
Ratio Cash to Debt (%) <sup>(3)</sup>	61.6%

(1) Total outstanding long term debt, including current maturities, excluding the Subordinate Promissory Note to VU.

(2) Total outstanding long term debt divided by total EBIDA, which includes realized gains from sale of assets incurred in the normal course of operations, investment income (all gains), unrestricted gifts or restricted gifts released from restrictions (spent on the purpose), unrealized gain or loss on interest rate swap and equity earnings in unconsolidated organizations.

(3) Unrestricted cash and investments divided by Long-Term Debt, which includes unrestricted cash and cash equivalents and unrestricted investments.

### Interest Rate Exchange Agreements

VUMC uses an interest rate exchange agreement as part of its debt portfolio management strategy. These agreements do not include collateral pledging requirements. Mandatory termination provisions on each agreement are shown below with information regarding the current interest rate exchange agreement is as follows: (\$ in thousands)

<u>Description</u>	<u>Notional</u>					<u>Fair Value</u>
	<u>Amount</u>	<u>Rate Paid</u>	<u>Rate Received</u>	<u>Maturity</u>		
Fixed-payer interest rate agreement <sup>(1)</sup>	\$750,000	4.1190%	68% LIBOR	5/1/2040	\$	45,131
Fixed-payer interest rate agreement <sup>(2)</sup>	\$750,000	4.1790%	68% LIBOR	5/1/2040		<u>44,395</u>
					\$	<u><u>89,526</u></u>

(1) Includes a mandatory termination provision on April 29, 2021

(2) Includes a mandatory termination provision on April 29, 2023

### Existing Lease Agreements

VUMC leases certain property and equipment under leases with terms ranging from two to twenty years. VUMC classifies these leases as operating leases.

The following is a schedule by fiscal year of future minimum rentals on noncancelable operating leases as of September 30, 2016:

<i>(\$ in thousands)</i>	<u>Equipment</u>	<u>Property</u>	<u>Ground Lease</u>	<u>Total</u>
2017	16,289	43,802	13,500	73,591
2018	12,508	42,286	18,000	72,794
2019	8,066	40,946	18,000	67,012
2020	4,856	39,227	18,000	62,083
2021	2,844	31,248	18,000	52,092
Thereafter	54	189,629	1,692,000	1,881,683
Total	<u>\$ 44,617</u>	<u>\$ 387,138</u>	<u>\$ 1,777,500</u>	<u>\$ 2,209,255</u>

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)**

The unaudited consolidated statement of revenues and expenses for the three months ended September 30, 2016 is as follows:

<b>Operating Revenue</b>	<i>(in thousands)</i>
Net patient service revenue, net of provision for bad debts	\$ 820,136
Academic and research revenue	83,859
Other operating revenue	33,201
<b>Total operating revenue</b>	<u>937,196</u>
 <b>Operating Expenses</b>	
Salaries, wages and benefits	495,826
Supplies and drugs	168,471
Facilities and equipment	59,720
Purchased services and other expense	139,310
Depreciation and amortization expense	21,516
Interest	13,710
<b>Total operating expense</b>	<u>898,553</u>
<b>Income from operations</b>	<u>38,643</u>
 <b>Nonoperating Revenue &amp; Expense</b>	
Income from investments	7,175
Gift income	917
Earnings of unconsolidated organizations	615
Unrealized loss from interest rate swap	10
<b>Total nonoperating revenue &amp; expense</b>	<u>8,717</u>
 <b>Excess of revenues over expenses</b>	<u><u>\$ 47,360</u></u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Income from operations and excess of revenue over expenses for the three months ended September 30, 2016 was \$38.6 million and \$47.4 million, respectively. Additionally, operating earnings before interest, depreciation and amortization (EBIDA) totaled \$82.6 million for the same period.

### **Revenues**

Operating revenues totaled approximately \$937.2 million for the three months ended September 30, 2016. Net patient service revenue, net of bad debts totaled \$820.1 million representing 87.5% of operating revenue. VUMC inpatient discharges were approximately 15,300 for the three month period ended September 30, 2016. Over the same period, surgical cases (inpatient and outpatient) were 5,626 and 9,242, respectively. VUMC's inpatient acuity, measured by case mix index ("CMF") for Medicare patients and in total was 2.36 and 2.18, respectively during the three months ended September 30, 2016. During the three months ended September 30, 2016, ambulatory visits at VUMC totaled 557,375 including visits from VHS joint ventures.

### **Expenses**

Operating expense totaled approximately \$898.6 million for the three months ended September 30, 2016 representing 95.9% of total revenue. Salaries, wages and benefits totaled approximately \$495.8 million representing 52.9% of total operating revenue. Supplies and drugs totaled approximately \$168.4 million representing 18.0% of total revenue. Purchased services and other expense totaled approximately \$139.3 million representing 14.9% of revenue. The remaining \$94.9 million in operating expenses represents facilities and equipment, depreciation and amortization and interest.

### **Non-Operating**

The Non-Operating income for the period was primarily driven by \$7.1 million of investment income (including unrealized).

### **Balance Sheet / Cash Flow**

Cash and cash equivalents totaled approximately \$524.6 million at September 30, 2016 compared to cash of \$603 million as of June 30, 2016. The primary drivers of the decrease in cash was capital expenditures of \$24 million and investment purchases of \$139 million partially offset by excess revenues over expenses before depreciation and amortization for the three months ended September 30, 2016 of \$68.9 million (excess revenue over expense of \$47.4 million plus depreciation and amortization of \$21.5 million).

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)**

The unaudited consolidated statement of changes in net assets for the three months ended September 30, 2016 is as follows:

<b>Changes in unrestricted net assets</b>	<i>(in thousands)</i>
Excess of revenue over expenses	\$ 47,360
Total changes in unrestricted net assets	<u>47,360</u>
 <b>Changes in temporarily restricted net assets</b>	
Contributions	5,267
Net assets released from restrictions	<u>(2,396)</u>
Total changes in temporarily restricted net assets	<u>2,871</u>
 <b>Changes in permanently restricted net assets</b>	
Contributions	2,232
Appreciation of permanently restricted assets	<u>221</u>
Total changes in permanently restricted net assets	<u>2,453</u>
 Total changes in net assets	 <u><u>\$ 52,684</u></u>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)**

The consolidated statement of cash flows for the the three months ended September 30, 2016 is as follows:

<b>Cash flows from operating activities:</b>	<i>(in thousands)</i>
Total change in net assets	\$ 52,684
<b>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</b>	
Depreciation and amortization	21,516
Loss on equity method investee	615
Net unrealized gain on investments	(5,767)
(Decrease) increase in cash due to changes in:	
Patient accounts receivable	(17,123)
Inventory	(1,333)
Prepaid expenses	(3,064)
Accounts payable and accrued expense	(1,549)
Estimated net receivables and payables - third party	16,057
Accrued compensation and benefits	(20,405)
Other assets	35,330
Other liabilities	10,418
Net cash provided by operating activities	<u>87,379</u>
<b>Cash flows from investing activities:</b>	
Purchase of property, plant and equipment	(24,002)
Purchase of investments	(140,581)
Net cash used in investing activities	<u>(164,583)</u>
<b>Cash flows from financing activities:</b>	
Principal payments on long-term debt	(1,250)
Net cash used in financing activities	<u>(1,250)</u>
 <b>Net change in cash and cash equivalents</b>	 <b>(78,454)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>603,084</b>
<b>Cash and cash equivalents at end of the period</b>	<b><u>\$ 524,630</u></b>

**CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 2016 (UNAUDITED)**

**Assets**

Current	<i>(in thousands)</i>
Cash and cash equivalents	\$ 524,630
Current investments	73,301
Patient accounts receivable, net of allowance for bad debts	360,364
Estimated receivables under third-party programs	20,340
Current pledge receivable, net	5,851
Grants and contracts receivable, net	63,114
Inventories	63,258
Prepaid expenses	11,618
Investments limited as to use	2,296
Other current assets	34,118
Total current assets	<u>1,158,890</u>
Non-current investments	69,502
Non-current investments limited as to use	192,348
Non-current pledge receivable, net	7,882
Equity in unconsolidated organizations	18,360
Property, plant, and equipment, net	1,131,264
Other non-current assets	6,574
Total assets	<u>\$ 2,584,820</u>

**Liabilities and Net Assets**

Current	
Current installments of long-term debt	\$ 5,000
Accounts payable and other accrued expenses	226,262
Estimated payables under third-party programs	58,263
Accrued compensation and benefits	179,705
Current portion of deferred revenue	45,097
Current portion of self insurance reserves and claims	20,657
Total current liabilities	<u>534,984</u>
Non-current portion of deferred revenue	6,455
Non-current portion of self insurance reserves and claims	69,986
Fair value of interest rate exchange agreements	89,526
Long-term debt, net of current installments	1,286,227
Other non-current liabilities	1,849
Total liabilities	<u>1,989,027</u>
Net assets	
Unrestricted net assets controlled by Vanderbilt University Medical Center	551,256
Unrestricted net assets related to noncontrolling interests	5,459
Total unrestricted net assets	<u>556,715</u>
Temporarily restricted net assets	29,856
Permanently restricted net assets	9,222
Total net assets	<u>595,793</u>
Total liabilities and net assets	<u>\$ 2,584,820</u>