
Disclosure Report

For the Nine Months Ended March 31, 2017

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Disclosure Report for March 31, 2017
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 March 31, 2017

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

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Disclosure Report for March 31, 2017

Table of Contents

	<u>Page</u>
Organization	3-4
Summary of Operating and Utilization Data	5-8
Summary of Financial Data	9-13
Consolidated Statement of Operations - For the Nine months ended March 31, 2017 (Unaudited)	14
Management Discussion and Analysis	15
Consolidated Statement of Changes in Net Assets - For the Nine months ended March 31, 2017 (Unaudited)	16
Consolidated Statement of Cash Flows - For the Nine months ended March 31, 2017 (Unaudited)	17
Consolidated Balance Sheet at March 31, 2017 (Unaudited)	18

Disclosure Report for March 31, 2017

ATTENTION

This document is marked with a dated date of March 31, 2017, 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 (“MCJCHV”), 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, which includes a 1% interest held by Vanderbilt Health Services, LLC, (“VHS”), a VUMC wholly owned subsidiary. VUAH, MCJCHV, 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, MCJCHV, 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 the Vanderbilt Ingram Cancer Center.

MCJCHV is a pediatric quaternary care teaching hospital licensed for 129 acute and specialty beds, 42 Pediatric Intensive Care beds, and 96 Neonatal Intensive Care beds. MCJCHV is the region’s only full-service pediatric hospital, with over 30 pediatric specialties. MCJCHV serves as a site for medical education and clinical research conducted by pediatric physician faculty, houses the only Level IV neonatal intensive care center and the only Level 1 pediatric trauma center within the region, 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. In addition, VPH also provides psychiatric assessment services and neuromodulation procedures through electroconvulsive therapy and transcranial magnetic stimulation.

The VMG is the practice group of physicians and advanced practice nurses employed by VUMC, with faculty appointments from the University, 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 as 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 are 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 nine months ended March 31, 2017.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

VUMC's facilities have 1,025 licensed and fully staffed beds approved for operation with 80 operating rooms, primarily located at VUAH, MCJCHV, and VPH. A fourth hospital, VSRH, is operated within a separate joint venture entity, which is currently owned 50% by 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 March 31, 2017, equates to 1,240.

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 March 31, 2017	<u>1,025</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>	
Current Observation Beds	84
Current Bassinets	35
Stallworth Rehabilitation Hospital Beds (JV) ⁽¹⁾	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) ⁽²⁾	16
Total Observation, JV, and Managed Beds and Bassinets as of March 31, 2017	<u>215</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of March 31, 2017	<u><u>1,240</u></u>

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

(2) Represents 12 licensed 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 the nine months ended March 31, 2017 (*\$ in thousands*):

Source	
Federal	\$ 164,450
Non-Federal	59,283
Total	<u>\$ 223,733</u>

Capital Cash Flows

Capital expenditures for the nine months ended March 31, 2017, of \$100.6 million primarily included construction in progress and internal use software costs.

Utilization

VUMC's overall functional occupancy rate was 93.4% during the nine months ended March 31, 2017, (including observation patients in inpatient beds). The average number of inpatients in the hospital at midnight census was 882 at March 31, 2017. 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 45,602. Utilization statistics of the hospitals and clinics for the nine months ended March 31, 2017, are as follows:

Licensed beds ⁽¹⁾	1,025
Hospital inpatient days ⁽²⁾	241,706
Hospital discharges	45,602
Average length of stay in days ⁽²⁾	5.3
Average occupancy level (licensed beds) ⁽²⁾	86.1%
Surgical operations ⁽³⁾	44,409
Ambulatory visits ⁽⁴⁾	1,705,446
Emergency visits	91,762

(1) Excludes nursery bassinets.

(2) Includes nursery and psychiatric hospital; does not include 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 nine months ended March 31, 2017, are presented below:

Total CMI ⁽¹⁾	2.16
Medicare CMI ⁽¹⁾	2.37

(1) Excludes normal newborns.

During the nine months ended March 31, 2017, ambulatory visits at the Medical Center totaled 1,523,346 (excluding ambulatory visits from VHS joint ventures). 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 47.7% 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 22.7% of total gross patient service revenue (based on technical related revenue) for the nine months ended March 31, 2017.

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 nine months ended March 31, 2017:

<i>Payor Mix</i> ⁽²⁾	Gross	Net
Commercial/Managed Care ⁽¹⁾	46.0%	62.5%
Medicare/Managed Medicare	30.2%	22.5%
TennCare/Medicaid	19.6%	13.1%
Uninsured (self-pay)	4.2%	1.9%
Total	100.0%	100.0%

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

(2) Based on technical related revenue.

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 nine months ended March 31, 2017, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total Payments⁽¹⁾	Termination Dates
Aetna	7.1%	12/31/2018
BlueCross	31.8%	12/31/2019 ⁽²⁾
CIGNA	8.1%	9/30/2018
Humana	1.1%	11/1/2018
United	7.0%	6/15/2017 ⁽³⁾
Total as a % of total net patient revenue	<u>55.1%</u>	

(1) Represents cash payments received for discharges that occurred during the nine months ended March 31, 2017. Based on technical billing payments.

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

(3) Term date extended to June 15, 2017. Contract anticipated to renew with a four year term ending on June 30, 2021.

Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represented approximately \$101.7 million in net revenue or 7.1% of total net revenue (based on technical related revenue) for the nine months ended March 31, 2017, and have termination dates ranging from June 15, 2017, through December 31, 2018.

SUMMARY OF FINANCIAL DATA

Cash and Investments

The VUMC Board of Directors (the “Board”) approves the primary investment policy, while VUMC management 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 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 March 31, 2017, including working capital.

Summary of Cash and Investments Asset Allocation

	<u>Working Capital</u>	<u>Unrestricted and Restricted Investments⁽¹⁾</u>	<u>Self- Insurance Trust</u>	<u>Total</u>
Cash & Cash Equivalents	71%	1%	0%	54%
Short-Term Investments	19%	0%	0%	14%
Equity Investments	0%	36%	56%	11%
Hedged Equity Investments	0%	6%	5%	1%
Fixed Income Investments	10%	10%	27%	11%
Hedged Debt Investments	0%	1%	4%	1%
Other Marketable Alternatives ⁽²⁾	0%	6%	8%	1%
Non-Marketable Investments	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	0%	30%	0%	5%
Bonds In Worker's Comp Account	0%	6%	0%	1%
Split Interest Trusts	0%	4%	0%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes permanently endowed funds raised since April 30, 2016.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of March 31, 2017. 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 (*\$ in thousands*):

Summary of Unrestricted Cash and Cash Equivalents

Cash and cash equivalents ⁽¹⁾	\$ 506,298
Less: restricted cash and cash equivalents included above	<u>(16,852)</u>
Total unrestricted cash and cash equivalents	\$ 489,446
Unrestricted investments ⁽²⁾	<u>284,175</u>
Total unrestricted cash and investments	<u><u>\$ 773,621</u></u>
Average daily operating expenses ⁽³⁾	<u><u>\$ 9,777</u></u>
Days cash on hand ⁽⁴⁾	<u><u>79.1</u></u>

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

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

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

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

Debt Service Coverage

The following table sets forth, for the nine months ended March 31, 2017, 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 (*\$ in thousands*):

	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses	\$ 156,962	\$ 209,283
Less: Unrealized gains on investments ⁽¹⁾	(8,191)	(10,922)
Less: Unrealized gain on interest rate swap	(25,956)	(34,608)
Plus: Depreciation and amortization	67,599	90,132
Plus: Interest	41,164	54,885
Income available to pay debt service	<u>\$ 231,578</u>	<u>\$ 308,770</u>
Maximum annual debt service		\$ 78,570
Maximum annual debt service coverage ⁽²⁾		3.9x
Annual debt service (Scheduled) ⁽³⁾		\$ 52,851
Annual debt service coverage (Scheduled) ⁽⁴⁾		5.8x

(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) Represents smoothed debt service scheduled for the fiscal year. Actual payments forecasted for the fiscal year are \$41.2 million.

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

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the nine months ended March 31, 2017, on an annualized basis (\$ in thousands):

Long-Term Debt ⁽¹⁾	\$ 1,197,525
Unrestricted Net Assets	657,629
Total Capitalization	<u>\$ 1,855,153</u>
Ratio of Long-Term Debt to Capitalization (%)	64.6%
EBIDA (annualized)	\$ 354,300
Ratio Debt to Total EBIDA ⁽²⁾	3.4x
Total Unrestricted Cash and Investments	\$ 773,621
Ratio Cash to Debt (%) ⁽³⁾	64.6%

(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 interest rate exchange agreements 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 agreements as follows (\$ in thousands):

Description	Notional Amount	Rate Paid	Rate Received	Maturity	Fair Value
Fixed-payer interest rate agreement ⁽¹⁾	\$ 75,000	4.119%	68% LIBOR	5/1/2040	\$ 31,950
Fixed-payer interest rate agreement ⁽²⁾	\$ 75,000	4.179%	68% LIBOR	5/1/2040	31,630
					<u>\$ 63,580</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. In addition, VUMC is the lessor in a 99 year ground lease with Vanderbilt University. VUMC classifies these leases as operating leases. The following is a schedule by fiscal year of future minimum rentals on non-cancelable operating leases as of March 31, 2017 (*\$ in thousands*):

	Equipment	Property	Ground Lease	Total
2017	\$ 7,025	\$ 11,104	\$ 4,500	\$ 22,629
2018	18,084	44,254	18,000	80,338
2019	13,782	43,381	18,000	75,163
2020	9,077	41,886	18,000	68,963
2021	6,135	33,729	18,000	57,864
Thereafter	7,062	194,022	1,692,000	1,893,084
Total	<u>\$ 61,165</u>	<u>\$ 368,376</u>	<u>\$ 1,768,500</u>	<u>\$ 2,198,041</u>

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED MARCH 31, 2017
(Unaudited)
(\$ in thousands)

Operating Revenue

Net patient service revenue, net of provision for bad debts	\$ 2,465,101
Academic and research revenue	281,237
Other operating revenue	99,523
Total operating revenue	<u>2,845,861</u>

Operating Expenses

Salaries, wages and benefits	1,523,587
Supplies and drugs	524,008
Facilities and equipment	176,414
Purchased services and other expense	411,212
Depreciation and amortization expense	67,599
Interest	41,164
Total operating expense	<u>2,743,984</u>
Income from operations	<u>101,877</u>

Non-operating Revenue & Expense

Income from investments	16,243
Gift income	10,014
Earnings of unconsolidated organizations	2,872
Unrealized gain from interest rate swap	25,956
Total non-operating revenue & expense	<u>55,085</u>

Excess of revenues over expenses	<u><u>\$ 156,962</u></u>
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MANAGEMENT DISCUSSION AND ANALYSIS

Income from operations and excess of revenue over expenses for the nine months ended March 31, 2017, was \$101.9 million and \$157.0 million, respectively. Additionally, earnings before interest, depreciation, and amortization (EBIDA) including non-operating, as calculated in the “Summary of Financial Data” section of this document, totaled \$265.7 million for the same period.

Revenues

Operating revenues totaled approximately \$2,845.9 million for the nine months ended March 31, 2017. Net patient service revenue, net of bad debts, totaled \$2,465.1 million representing 86.6% of operating revenue. VUMC inpatient discharges were 45,602 for the nine month period ended March 31, 2017. Over the same period, inpatient and outpatient surgical cases excluding surgical operations performed by VUMC- employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary were 16,169 and 28,240, respectively. VUMC’s inpatient acuity, measured by CMI (excluding normal newborns) for Medicare patients and in total was 2.37 and 2.16, respectively, during the nine months ended March 31, 2017. During the nine months ended March 31, 2017, ambulatory visits at VUMC totaled 1,705,446 including visits from VHS joint ventures.

Expenses

Operating expense totaled approximately \$2,744.0 million for the nine months ended March 31, 2017, representing 96.4% of total revenue. Salaries, wages, and benefits totaled approximately \$1,523.6 million representing 53.5% of total operating revenue. Supplies and drugs totaled approximately \$524.0 million representing 18.4% of total operating revenue. Purchased services and other expense totaled approximately \$411.2 million representing 14.4% of operating revenue. The remaining \$285.2 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 investment income (including unrealized) and income from the interest rate swaps of \$16.2 million and \$26.0 million, respectively.

Balance Sheet / Cash Flow

Cash and cash equivalents totaled approximately \$506.3 million at March 31, 2017, compared to cash of \$603.1 million as of June 30, 2016. The primary drivers of the decrease in cash were net investment purchases of \$211.6 million and capital expenditures of \$100.6 million partially offset by excess revenues over expenses before depreciation and amortization for the nine months ended March 31, 2017, of \$224.6 million (excess revenue over expense of \$157.0 million plus depreciation and amortization of \$67.6 million).

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED MARCH 31, 2017
(Unaudited)
(\$ in thousands)

Changes in unrestricted net assets

Excess of revenue over expense	\$ 156,962
Change in noncontrolling interest's net assets	56
Net asset reclassification	(8,031)
Other changes	(779)
Total changes in unrestricted net assets	<u>148,208</u>

Changes in temporarily restricted net assets

Contributions	17,242
Net assets released from restrictions	(3,312)
Net asset reclassification	7,250
Total changes in temporarily restricted net assets	<u>21,180</u>

Changes in permanently restricted net assets

Contributions	4,614
Net asset reclassification	781
Total changes in permanently restricted net assets	<u>5,395</u>

Total changes in net assets	<u><u>\$ 174,783</u></u>
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2017
(Unaudited)
(\$ in thousands)

Cash Flows from Operating Activities:

Total change in net assets	\$ 174,783
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	67,599
Loss on disposal of assets	1,415
Gain on equity method investee	(678)
Net unrealized gain on investments	(8,191)
(Decrease) increase in cash due to changes in:	
Patient accounts receivable	(49,606)
Inventory	(510)
Prepaid expenses	3,523
Accounts payable and accrued expense	13,412
Estimated net receivables and payables – third-party	15,768
Accrued compensation and benefits	(21,720)
Other assets	48,471
Other liabilities	(25,039)
Net cash provided by operating activities	<u>219,227</u>

Cash Flows from Investing Activities:

Purchase of property, plant and equipment	(100,627)
Purchase of investments	(211,636)
Net cash used in investing activities	<u>(312,263)</u>

Cash Flows from Financing Activities:

Principal payments on long-term debt	(3,750)
Net cash used in financing activities	<u>(3,750)</u>

Net change in unrestricted cash and cash equivalents	(96,786)
Unrestricted cash and cash equivalents at beginning of the period	<u>603,084</u>
Unrestricted cash and cash equivalents at end of the period	<u><u>\$ 506,298</u></u>

CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2017
(Unaudited)
(\$ in thousands)

Assets

Current

Cash and cash equivalents	\$ 506,298
Current investments	132,451
Patient accounts receivable, net of allowance for bad debts	392,847
Estimated receivables under third-party programs	31,315
Current pledge receivable, net	5,851
Grants and contracts receivable, net	56,902
Inventories	62,435
Prepaid expenses	5,031
Other current assets	28,764

Total current assets	1,221,894
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Non-current investments	64,714
Non-current investments limited as to use	213,029
Non-current pledge receivable, net	7,882
Equity in unconsolidated organizations	19,706
Property, plant, and equipment, net	1,168,057
Other non-current assets	5,679

Total assets	\$ 2,700,961
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Liabilities and Net Assets

Current

Current installments of long-term debt	\$ 5,000
Accounts payable and other accrued expenses	242,918
Estimated payables under third-party programs	68,950
Accrued compensation and benefits	178,390
Current portion of deferred revenue	43,408
Current portion of self-insurance reserves and claims	20,657
Other current liabilities	203

Total current liabilities	559,526
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Non-current portion of deferred revenue	6,440
Non-current portion of self-insurance reserves and claims	61,670
Fair value of interest rate exchange agreements	63,580
Long-term debt, net of current installments	1,288,358
Other non-current liabilities	3,429

Total liabilities	1,983,003
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Net assets

Unrestricted net assets controlled by Vanderbilt University Medical Center	652,046
Unrestricted net assets related to noncontrolling interests	5,583
Total unrestricted net assets	657,629
Temporarily restricted net assets	48,165
Permanently restricted net assets	12,164

Total net assets	717,958
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Total liabilities and net assets	\$ 2,700,961
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