Disclosure Report

For the Six Months Ended December 31, 2017

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Disclosure Report for December 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 NOTE (VANDERBILT UNIVERSITY MEDICAL CENTER) SERIES 2016D

THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE REVENUE BONDS (VANDERBILT UNIVERSITY MEDICAL CENTER) SERIES 2017A

Disclosure Report for December 31, 2017

CUSIP Nos: **592041WC7, 592041WD5, 592041WE3, 592041WF0, 592041WG8, 592041WH6, 592041WJ2, 592041XC6, 592041YB7, 592041YC5**

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Disclosure Report for December 31, 2017

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ATTENTION

This document is marked with a dated date of December 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 to operate an academic medical center including a comprehensive research, teaching, and patient care health system (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 (the “Acquisition”). VUMC owns and operates three hospitals primarily located on the main campus of the University in Nashville, Tennessee: 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 1,029 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 the 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 92 beds and provides both inpatient and outpatient partial hospitalization psychiatric services to both adult and adolescent patients. Also, VPH 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 clinicians employed by VUMC, most of whom have faculty appointments from the University, who perform billable professional medical services. The VMG is not a separate legal entity. The VMG has a 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. 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 15 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, walk-in and retail health clinics, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, accountable care organizations, and a rehabilitation hospital. These subsidiaries include clinics managed in multiple outpatient locations throughout middle Tennessee and southwestern Kentucky.

- Five limited liability subsidiaries coordinated through a holding company that support various business to business health care activities in order to improve the quality, affordability and availability of health care services. These subsidiaries include business focused on pharmacy, supply chain, and consulting services.

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. Also, 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 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 six months ended December 31, 2017.

Certain amounts in the Fiscal 2017 financial statements have been reclassified to conform to their Fiscal 2018 presentation. We reclassified interest rate swap settlements from interest expense to non-operating revenues and expenses, as well as the minority interest elimination from operating expenses to excess of revenue over expense attributable to noncontrolling interest. These changes impacted the statement of operations, as well as relevant ratios. Certain other presentation reclassifications were made to the December 31, 2016 balance sheet, which impacted the days cash on hand ratio and are described on subsequent pages. We also reflected reclassifications in the statement of changes in net assets whose net impact on net asset balances as of December 31, 2016 was to decrease unrestricted net assets by $22 million, increase temporarily restricted net assets by $20 million, and increase permanently restricted net assets by $2 million. The reclassification resulted from donor-restricted pledges and other donor-restricted gifts totaling $16 million and capital gifts totaling $6 million, which were included in unrestricted net assets as of December 31, 2016. In addition, certain reclassifications were made on the statement of cash flows, including the presentation of purchases and sales of investments, the presentation of changes in restricted cash for property, plant and equipment and endowments, and certain other reclassifications within categories.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of December 31, 2017 VUMC's facilities have 1,029 beds approved for operation, of which 1,018 were fully staffed, with 80 operating rooms. As of December 31, 2016 VUMC's facilities had 1,025 beds approved for operation, of which 1,018 were fully staffed, with 80 operating rooms. These beds are 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 Medical Center Inpatient Children's Unit, and operated observation beds and bassinet beds, total beds as of December 30, 2017 and 2016, equates to 1,246 and 1,220, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

Licensed Beds	2017	2016
Licensed-Bed Category Type		
Adult Medical Surgical	614	606
Adult Obstetric	50	50
Adult Clinical Research Center	6	14
Pediatric Medical/Surgical	129	129
Pediatric Neonatal Intensive Care	96	96
Pediatric Intensive Care	42	42
Psychiatric Care	92	88
Total Licensed Beds as of December 31, 2017 and 2016	1,029	1,025
Observation, JV, and Managed Beds and Bassinets		
Current Observation Beds	86	64
Current Bassinets	35	35
Stallworth Rehabilitation Hospital Beds (JV)(1)	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed)(2)	16	16
Total Observation, JV, and Managed Beds and Bassinets as of December 31, 2017 and 2016	217	195
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of December 31, 2017 and 2016	1,246	1,220

(1) Represents 80 beds in joint venture with VSRH.
(2) Represents 12 licensed beds and four observation beds managed by VUMC with Williamson 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 74% and 71% of the research expenditures conducted by VUMC as of December 31, 2017 and 2016, respectively. The breakdown of direct research revenues is as follows for the six months ended December 31, 2017 and 2016 *($ in thousands)*:

Source	2017	2016
Federal	$ 127,602	$ 100,324
Non-Federal	44,586	40,087
Total	$ 172,188	$ 140,411

Capital Cash Flows

Capital expenditures for the six months ended December 31, 2017 and 2016, of $101 million and $55 million, respectively, primarily included construction in progress and internal use software costs.

Utilization

VUMC's overall functional occupancy rate was 93.2% and 92.9% during the six months ended December 31, 2017 and 2016, respectively, (functional occupancy rate calculated as inpatient days plus observation days in inpatient units divided by total licensed beds, less research, labor & delivery, double rooms used as singles, and 11 and 7 beds that are currently out of service for those periods, respectively). The average number of inpatients in the hospital at midnight census was 909 and 874 at December 31, 2017 and 2016, respectively. Thus, VUMC has continued to operate at or above the theoretical optimal occupancy of 85% when total utilization of capacity is measured. Utilization statistics of the hospitals and clinics for the six months ended December 31, 2017 and 2016, are as follows:

	2017	**2016**
Licensed beds(1)	1,029	1,025
Hospital inpatient days(2)	167,250	160,796
Hospital discharges	31,153	30,356
Average length of stay in days(2)	5.4	5.3
Average occupancy level (licensed beds)(2)(3)	88.3%	85.3%
Surgical operations(4)	28,979	29,968
Ambulatory visits(5)	1,134,219	1,120,978
Emergency visits	57,304	61,207

(1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital.
(2) Includes nursery and psychiatric hospital; does not include the observation patients.
(3) Average occupancy level calculated as inpatient days excluding observation patients divided by total licensed beds multiplied by the number of days in the period.
(4) Excludes surgical operations performed by VUMC- employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.
(5) 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 six months ended December 31, 2017 and 2016, are presented below:

	2017	2016
Total CMI(1)	2.16	2.17
Medicare CMI(1)	2.40	2.39

(1) Excludes normal newborns.

During the six months ended December 31, 2017 and 2016, ambulatory visits at the Medical Center totaled 1,003,229 and 1,003,709, respectively (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 49% and 48% of outpatient visits at off-campus locations during this same time period, respectively.

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 20% and 23% of total gross patient service revenue (based on technical related revenue) for the six months ended December 31, 2017 and 2016, respectively.

The revenues attributable to Blue Cross are presented 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 six months ended December 31, 2017 and 2016:

Payor Mix(2)	12/31/17 Gross	12/31/17 Net
Commercial/Managed Care(1)	47.0%	63.7%
Medicare/Managed Medicare	31.9%	22.6%
Tenncare/Medicaid	16.6%	11.8%
Uninsured (self-pay)	4.5%	1.9%
Total	100.0%	100.0%

(1) Commercial includes commercial indemnity and other patient service programs provided under contractual arrangements.
(2) Percentages based on total net patient service revenue, including professional fee revenue.

Payor Mix[2]	12/31/16 Gross	12/31/16 Net
Commercial/Managed Care[1]	47.5%	64.4%
Medicare/Managed Medicare	30.6%	22.0%
Tenncare/Medicaid	18.0%	12.0%
Uninsured (self-pay)	3.9%	1.6%
Total	100.0%	100.0%

(1) Commercial includes commercial indemnity and other patient service programs provided under contractual arrangements.
(2) Percentages based on total net patient service revenue, including professional fee 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 77% of VUMC's payments for healthcare services are covered under rates contracted through July 31, 2021.

The following table details payments received from VUMC's largest commercial contracts as a percentage of total net patient revenue for the six months ended December 31, 2017 and 2016, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total Payments as of 12/31/17[1]	Total Payments as of 12/31/16[1]	Termination Dates
Aetna	8.6%	6.7%	12/31/2020
BlueCross[2]	32.6%	32.9%	12/31/2019
CIGNA[2]	8.0%	7.2%	9/30/2018
Humana[2]	0.7%	1.5%	10/31/2018
United	9.4%	5.5%	7/31/2021
Total as a % of total net patient revenue	59.3%	53.8%	

(1) Represents cash payments received for discharges that occurred during the six months ended December 31, 2017 and 2016, respectively. Excludes professional fee billing.
(2) If not renegotiated, contract automatically renews indefinitely.
Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represented approximately $79 and $66 million in net revenue or 7.2% and 6.2% of Hospital and Clinic net revenue for the six months ended December 31, 2017 and 2016, respectively, and have termination dates ranging from September 30, 2018 through July 31, 2021.

SUMMARY OF FINANCIAL DATA

Cash and Investments

The VUMC Board of Directors (the "Board") approves the 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 December 31, 2017, including working capital.

Summary of Cash and Investments Asset Allocation
As of December 31, 2017

	Working Capital	Unrestricted and Restricted Investments(1)	Self-Insurance Trust	Total
Cash & Cash Equivalents	52%	0%	0%	39%
Short-Term Investments	24%	0%	0%	19%
Equity Investments	0%	41%	49%	11%
Hedged Equity Investments	0%	10%	12%	3%
Fixed Income Investments	11%	37%	28%	16%
Hedged Debt Investments	0%	1%	4%	1%
Other Marketable Alternatives(2)	0%	6%	6%	1%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	9%	0%	0%	6%
Restricted Cash & Cash Equivalents	4%	1%	1%	3%
Split Interest Trusts	0%	4%	0%	1%
	100%	100%	100%	100%

(1) Includes new endowment 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 December 31, 2017 and 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 *($ in thousands)*:

Summary of Unrestricted Cash and Cash Equivalents

	FY 2018	FY 2017[5]
Cash and cash equivalents[1]	$ 441,612	$ 466,933
Less: restricted cash and cash equivalents included above	(24,520)	(16,373)
Total unrestricted cash and cash equivalents	417,092	$ 450,560
Unrestricted investments[2]	475,019	274,415
Total unrestricted cash and investments	892,111	$ 724,975
Average daily operating expenses[3]	$ 10,571	$ 9,655
Days cash on hand[4]	84.4	75.1

(1) Cash and cash equivalents, as reported on the unaudited balance sheet, are composed of assets that are or may be readily converted to cash.

(2) Unrestricted investments may be comprised of U.S. small, mid and larger capitalization stocks, international stocks, intermediate term fixed income securities, mutual funds, exchange traded funds, hedge funds, real estate and private equity and generally may be liquidated within four business days or less.

(3) Average daily operating expenses include all VUMC financial flows to the University excluding the 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 three months then ended.

(5) Certain amounts in the Fiscal 2017 financial statements have been reclassified to conform to their Fiscal 2018 presentation. This includes a reclassification reducing cash and cash equivalents, with a corresponding increase in noncurrent investments limited as to use, related to gifts restricted for usage in capital projects. In addition we reclassified interest rate swap settlements from interest expense to non-operating revenues and expenses. We also reclassified the minority interest elimination from operating expenses to excess of revenues over expenses attributable to noncontrolling interests. These two changes to the statement of operations impacted the calculation of average daily operating expenses by an immaterial amount. Certain other presentation reclassifications were made between investments and other asset categories, which impacted the unrestricted investments in footnote 2 by an immaterial amount.

Debt Service Coverage

The following tables set forth, for the six months ended December 31, 2017 and 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 *($ in thousands)*:

As of December 31, 2017

	Actual	Annualized
Excess of revenues over expenses[1]	$ 54,166	$ 108,332
Unrealized gains on investments[2]	(4,106)	(8,212)
Unrealized gain on interest rate swap	(375)	(750)
Depreciation and amortization	49,928	99,856
Interest	29,104	58,208
Income available to pay debt service	$ 128,717	$ 257,434
Maximum annual debt service		$ 94,912
Maximum annual debt service coverage[3]		2.7x
Annual debt service (Scheduled)[4]		$ 62,763
Annual debt service coverage (Scheduled)[5]		4.1x

(1) Excludes gifts, grants, bequests, donations, or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service, and includes all VUMC financial flows to the University as presented in the most recent offering statement, excluding the principal payments on the Subordinated Promissory Note.
(2) Unrealized (gains)/losses on endowed assets are excluded due to restrictions on uses which are inconsistent with their use for the payment of debt service.
(3) Maximum annual debt service coverage consists of estimated annual income available to pay debt service divided by maximum annual debt service.
(4) Represents smoothed debt service scheduled for the fiscal year. Actual payments forecasted for the fiscal year are $58.0 million.
(5) Annual debt service coverage consists of estimated annual income available to pay debt service divided by annual debt service.
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As of December 31, 2016

	Actual[6]	Annualized
Excess of revenues over expenses[1]	$ 112,737	$ 225,474
Unrealized gains on investments[2]	(1,154)	(2,308)
Unrealized gain on interest rate swap	(23,267)	(46,534)
Depreciation and amortization	44,578	89,156
Interest	24,528	49,056
Income available to pay debt service	$ 157,422	$ 314,844
Maximum annual debt service		$ 74,942
Maximum annual debt service coverage[3]		4.2x
Annual debt service (Scheduled)[4]		$ 52,124
Annual debt service coverage (Scheduled)[5]		6.0x

(1) Excludes gifts, grants, bequests, donations, or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service, and includes all VUMC financial flows to the University as presented in the most recent offering statement, excluding the principal payments on the Subordinated Promissory Note.

(2) Unrealized (gains)/losses on endowed assets are excluded due to restrictions on uses which are inconsistent with their use for the payment of debt service.

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

(4) Represents smoothed debt service scheduled for the fiscal year.

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

(6) Certain amounts in the Fiscal 2017 financial statements have been reclassified to conform to their Fiscal 2018 presentation. We reclassified interest rate swap settlements from interest expense to non-operating revenues and expenses on the statement of operations, which impacted interest presented in the calculation above by an immaterial amount.

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the six months ended December 31, 2017 and 2016, *($ in thousands)*:

	FY 2018	FY 2017[4]
Long-term debt[1]	$ 1,428,097	$ 1,195,977
Unrestricted net assets	768,019	599,864
Total capitalization	$ 2,196,116	$ 1,795,841
Ratio of long-term debt to capitalization (%)	65.0%	66.6%
EBIDA	$ 266,396	$ 363,688
Ratio debt to total EBIDA[2]	5.4x	3.3x
Total unrestricted cash and investments	$ 892,111	$ 724,975
Ratio cash to debt (%)[3]	62.5%	60.6%

(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.
(4) Certain amounts in the Fiscal 2017 financial statements have been reclassified to conform to their Fiscal 2018 presentation. We reclassified interest rate swap settlements from interest expense to non-operating revenues and expenses on the statement of operations, which impacted EBIDA presented in the calculation above by an immaterial amount. In addition, we adjusted unrestricted net assets for certain items previously discussed in this document, including pledges and certain capital gifts, for which the related net assets should be considered restricted.

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. Information regarding the current interest rate exchange agreements, including mandatory termination provisions, is as follows *($ in thousands)*:

Description	Notional Amount	Rate Paid	Rate Received [1]	Maturity	Fair Value
Fixed-payer interest rate agreement	$ 75,000	4.119%	68% LIBOR	4/29/2021	$ 32,586
Fixed-payer interest rate agreement	$ 75,000	4.179%	68% LIBOR	4/29/2023	32,242
					$ 64,828

(1) Rate received represents 68% of 1 month LIBOR during each monthly settlement period.

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 December 31, 2017 *($ in thousands)*:

	Equipment	Property	Ground Lease	Total
2018	$ 29,041	$ 47,811	$ 18,602	$ 95,454
2019	18,472	41,739	18,602	78,813
2020	13,879	40,030	18,602	72,511
2021	9,579	32,262	18,602	60,443
2022	8,149	29,056	18,602	55,807
Thereafter	5,279	197,772	1,730,026	1,933,077
Total	$ 84,399	$ 388,670	$ 1,823,036	$ 2,296,105

MANAGEMENT DISCUSSION AND ANALYSIS

FY18 YTD operating earnings before interest, depreciation and amortization (EBIDA) of $110 million was $38 million less than FY17 YTD operating EBIDA of $148 million. The decline in EBIDA was driven by a $163 million increase in operating expenses, excluding interest, depreciation and amortization, partially offset by a $124 million increase in operating revenue. FY18 YTD operating results of $31 million were $48 million less than FY17 YTD operating results of $79 million. The decrease in operating results is driven by the $38 million decrease in operating EBIDA and a $10 million increase in interest, depreciation and amortization. Interest, depreciation and amortization totaled $79 million for the current fiscal year-to-date period compared to $69 million in the prior year. Excess of revenues over expenses was $54 million which is $59 million less than FY17 YTD excess of revenues over expenses of $113 million. The decrease is due to the decrease in operating income discussed above in addition to a decrease of $11 million in non-operating income.

The $48 million reduction in year-over-year operating income was anticipated in our budget and was primarily driven by our new electronic medical record (EMR) implementation. Our December year-to-date budgeted operating income was $15 million compared to FY18 YTD actual operating income of $31 million. Our budgeted FY18 YTD operating income of $15 million is $64 million less than prior year operating income of $79 million. The decrease in budgeted operating income of $64 million is due to a budgeted increase in operating expenses of $166 million (YTD budgeted operating expenses of $1,973 million) when compared to the prior year, partially offset by a budgeted increase in operating revenue of $102 million (YTD budgeted operating revenue of $1,988 million). This budgeted reduction in operating income when compared to the prior year was due to the anticipated impact of the EMR implementation.

The primary drivers of the $11 million decrease in non-operating income were decreased favorable mark to market adjustments of the interest rate exchange agreements' obligations ($22 million) and a decrease in gift income ($2 million), partially offset by an increase in investment income ($13 million). The decrease in the favorable mark to market adjustments of the interest rate exchange agreements obligation is due to the slowing of the increase in LIBOR compared to the prior year. The decrease in gift income is due to the recognition of gift income when donor restrictions are met and the relative timing of meeting such restrictions. The positive investment income variance was driven by realized and unrealized gains due to favorable market performance and an increase in the amount of funds invested compared to the prior period.

Revenues

FY18 YTD operating revenue increased approximately $124 million, or 7%, to $2,010 million, from $1,886 million a year earlier. The primary driver of the increase in revenues was a $73 million, or 4%, increase in net patient service revenue to $1,717 million from $1,644 million a year earlier. The increase in net patient service revenue was driven by increased volumes and favorable payer mix. The notable volume increases are inpatient days (6,454 year-over-year increase) and discharges (797 year-over-year increase). These volumes exclude the impact of VHS entities.

Expenses

FY18 YTD expense increased approximately $172 million, or 10%, to $1,979 million from $1,807 million a year earlier. The primary drivers of this increase were increases in salaries, wages and benefits ($68 million), services and other expense ($53 million), drug costs ($22 million), and medical supplies ($8 million). The increase in salaries, wages and benefits is primarily due to increased staffing to meet additional demand associated with higher clinical volumes, research contracts, and training costs for staff related to our system implementation. Services and other expense increase is mainly due to increased consulting, management fees, and contract labor ($30 million) primarily related to EMR implementation combined with an increase in sub-contracts expense ($18 million), related primarily to increased grant and contract revenue.

Balance Sheet / Cash Flow

FY18 YTD net assets increased by approximately $75 million due to excess of revenues over expenses, restricted gifts in excess of expense, and additional endowments of approximately $54 million, $8 million and $13 million, respectively. Cash decreased by approximately $79 million which was primarily due to $162 million of investment purchases, net of sales, $82 million of cash received that is restricted for the construction of long lived assets, and $101 million of construction of certain long lived assets. These decreases in cash are partially offset by a $221 million debt issuance, net of repayments. The remaining changes in the balance sheet were primarily timing items such as increases in receivables due to the EMR implementation.

Conclusion

Although lower operating results were noted thus far in FY 18 compared to prior year, we expected and planned for this decrease in our budget in conjunction with the system conversion. We anticipate stronger results in the 3rd and 4th quarters as we move farther past the EMR implementation. The academic and research enterprise exhibited financial stability versus plan.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2017 AND JUNE 30, 2017
($ in thousands)

	December 31, 2017	June 30, 2017
Assets	**(Unaudited)**	
Current		
Cash and cash equivalents	$ 441,612	$ 520,857
Current investments	209,447	133,977
Patient accounts receivable, net of allowance for bad debts of $153.2 million and $130.5 million as of December 31, 2017 and June 30 2017, respectively	452,827	378,704
Estimated receivables under third-party programs	520	12,642
Grants and contracts receivable, net	41,956	67,249
Inventories	68,467	67,478
Other current assets	73,561	69,058
Total current assets	1,288,390	1,249,965
Non-current investments	182,390	94,412
Non-current investments limited as to use	297,653	202,592
Property, plant, and equipment, net	1,262,027	1,219,768
Other non-current assets	36,230	34,593
Total assets	$ 3,066,690	$ 2,801,330
Liabilities and Net Assets		
Current		
Current installments of long-term debt	$ 6,315	$ 5,753
Accounts payable and other accrued expenses	243,074	272,641
Estimated payables under third-party programs	42,373	37,072
Accrued compensation and benefits	178,438	194,739
Current portion of deferred revenue	47,280	39,353
Current portion of medical malpractice self-insurance reserves	17,161	17,161
Total current liabilities	534,641	566,719
Long-term debt, net of current installments	1,513,866	1,288,346
Fair value of interest rate exchange agreements	64,828	65,203
Non-current portion of medical malpractice self-insurance reserves	57,542	54,373
Non-current portion of deferred revenue	5,202	10,694
Other non-current liabilities	15,023	15,093
Total liabilities	2,191,102	2,000,428
Net assets		
Unrestricted net assets controlled by Vanderbilt University Medical Center	762,282	708,088
Unrestricted net assets related to noncontrolling interests	5,737	5,891
Total unrestricted net assets	768,019	713,979
Temporarily restricted net assets	76,701	69,058
Permanently restricted net assets	30,868	17,865
Total net assets	875,588	800,902
Total liabilities and net assets	$ 3,066,690	$ 2,801,330

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(Unaudited)
($ in thousands)

	Six Months Ended December 31,	
	2017	**2016**
Operating Revenues		
Patient service revenue, net of contractual adjustments and discounts	$ 1,794,604	$ 1,706,946
Provision for bad debts	(77,627)	(62,697)
Patient service revenue, net	1,716,977	1,644,249
Academic and research revenue	220,844	182,584
Other operating revenue	72,286	58,945
Total operating revenues	2,010,107	1,885,778
Operating Expenses		
Salaries, wages, and benefits	1,072,402	1,004,800
Supplies and drugs	371,853	337,875
Facilities and equipment	124,301	116,090
Services and other	331,516	278,746
Depreciation and amortization	49,928	44,578
Interest	29,104	24,529
Total operating expenses	1,979,104	1,806,618
Income from operations	31,003	79,160
Non-operating Revenues & Expenses		
Income from investments	20,306	6,884
Gift income	5,793	7,368
Earnings of unconsolidated organizations	1,695	1,336
Unrealized (loss) gain on interest rate exchange agreements, net of cash settlements	(2,055)	20,413
Other non-operating gains (losses), net	(373)	-
Total non-operating revenues & expenses	25,366	36,001
Excess of revenues over expenses	56,369	115,161
Excess of revenues over expenses attributable to noncontrolling interests	(2,203)	(2,424)
Excess of revenues over expenses attributable to VUMC	54,166	112,737
Other Changes in Unrestricted Net Assets		
Change in noncontrolling interest's net assets	(154)	(61)
Net asset reclassification	(53)	(22,233)
Plant contributions placed into service	8	-
Other changes	73	-
Total changes in unrestricted net assets	$ 54,040	$ 90,443

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(Unaudited)
($ in thousands)

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Unrestricted Net Assets		
Unrestricted net assets at the beginning of the period	$ 713,979	$ 509,421
Excess of revenue over expenses	54,166	112,737
Change in noncontrolling interest's net assets	(154)	(61)
Net asset reclassification	(53)	(22,233)
Plant contributions placed into service	8	-
Other changes	73	-
Change in unrestricted net assets	54,040	90,443
Unrestricted net assets at the end of the period	$ 768,019	$ 599,864
Temporarily Restricted Net Assets		
Temporarily restricted net assets at the beginning of the period	$ 69,058	$ 26,985
Contributions	10,596	19,740
Net assets released from restrictions	(2,926)	(7,368)
Net asset reclassification	(19)	19,757
Plant contributions released	(8)	-
Change in temporarily restricted net assets	7,643	32,129
Temporarily restricted net assets at the end of the period	$ 76,701	$ 59,114
Permanently Restricted Net Assets		
Permanently restricted net assets at the beginning of the period	$ 17,865	$ 6,769
Contributions	12,931	1,936
Net asset reclassification	72	2,476
Change in permanently restricted net assets	13,003	4,412
Permanently restricted net assets at the end of the period	$ 30,868	$ 11,181
Total net assets at the beginning of the period	$ 800,902	$ 543,175
Change in total net assets	74,686	126,984
Total net assets at the end of the period	$ 875,588	$ 670,159

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(Unaudited)
($ in thousands)

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Cash Flows from Operating Activities:		
Change in total net assets	$ 74,686	$ 126,984
Adjustments to reconcile change in total net assets to net cash used in operating activities:		
Depreciation and amortization	49,928	44,578
Amortization of debt issuance costs, and original issue premium and discount, net of write-offs	316	(226)
Provision for bad debts	77,627	62,697
Loss on disposal of assets	359	528
Undistributed equity in earnings of equity method affiliates	(550)	246
Net realized and unrealized gain on investments	(14,105)	(3,782)
Purchases of trading securities	(220,841)	(219,805)
Sales of trading securities	119,731	26,887
Unrealized gain on interest rate exchange agreements	(375)	(23,267)
Restricted contributions for endowments and property, plant, and equipment	(17,588)	(7,013)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(151,750)	(122,366)
Accounts payable and other accrued expenses	(15,344)	34,677
Other assets and other liabilities, net	27,504	6,843
Net cash used in operating activities	(70,402)	(73,019)
Cash Flows from Investing Activities:		
Purchase of property, plant, and equipment	(101,303)	(54,508)
Purchases of long-term securities	(126,559)	(7,324)
Sales and maturities of long-term securities	65,465	8,419
Change in restricted cash for property, plant, and equipment contributions	(82,200)	(5,077)
Net cash used in investing activities	(244,597)	(58,490)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	276,334	-
Debt issuance costs	(2,750)	-
Repayment of long-term debt	(52,500)	(2,500)
Principal payments under capital lease obligations	(561)	(92)
Restricted contributions for endowments and property, plant, and equipment	17,588	7,013
Distributions to noncontrolling interests	(2,357)	(2,485)
Net cash provided by financing activities	235,754	1,936
Net change in cash and cash equivalents	(79,245)	(129,573)
Cash and cash equivalents at the beginning of the period	520,857	596,506
Cash and cash equivalents at the end of the period	$ 441,612	$ 466,933