



CEDARS-SINAI®

Annual Financial Report

Year End Unaudited Financial Statements & Other Information



For the Year Ended June 30, 2017

Confidential Presentation



CEDARS-SINAI MEDICAL CENTER.

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(Excluding Restricted Funds)



FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017
FYE 06/30/17

STATISTICS:

Average occupied beds for the month of June 2017 were 704 or 18 (2.6%) favorable to the budgeted amount of 686 and the same as last year's 704 average occupied beds. Year-to-date average occupied beds totaled 714 and 2.2% favorable to last year's average occupied beds of 698. YTD Average daily non admitted observation patients increased to 29 patients a day from 26 patients a day in the prior year.

Average length of stay (patient days / admissions) for the month of June 2017 was 5.0 days which was unfavorable to the budgeted amount of 4.9 days but favorable to last year's 5.1 days. Year-to-date average length of stay totaled 5.2 days which was the same as last year.

Admissions for the month of June 2017 were 4,239 or 73 (1.8%) favorable to the budgeted amount of 4,166 and 127 (3.1%) more than last year's 4,112 admissions. Year-to-date admissions totaled 50,446 and was 2.0% favorable to last year's admissions of 49,437.

Patient days for the month of June 2017 were 21,129 or 547 (2.7%) favorable to the budgeted amount of 20,582 and was 0.1% favorable to last year's 21,107 patient days. Year-to-date patients days totaled 260,550 which was 2.3% favorable to last year's patient days of 254,668.

BALANCE SHEET:

Cash and unrestricted investments (including marketable securities and board designated assets) increased by \$151 million to \$2.024 billion at June 30, 2017 from \$1.873 billion at June 30, 2016. The Medical Center's operating activities provided \$418 million in cash and unrestricted investments while investing activities used \$561 million (due to the purchase of the 6500 Wilshire building) and financing activities provided \$294 million (due to the issuance of the Series 2016A & 2016B Bonds).

Net patient receivables decreased by \$1 million to \$536 million at June 30, 2017 compared to \$537 million at June 30, 2016. Days in accounts receivable increased to 66.9 days at June 30, 2017 from 63.4 days at June 30, 2016 (based on three-month average of net patient service revenues).

Inventory, prepaid expenses, and other current assets totaled \$120 million at June 30, 2017 which was \$11 million less than the \$131 million balance at June 30, 2016. The decrease was primarily due to the timing of recording the Hospital Fee Program.

Due from third-party payors decreased by \$1 million as of June 30, 2017 as a result of receipt of a cost report settlement for the prior year.

Net property, plant and equipment increased by \$358 million to \$2.132 billion at June 30, 2017 compared to \$1.774 billion at June 30, 2016. This is attributed to capital expenditures totaling \$518 million (including the purchase of the 6500 Wilshire building), offset by depreciation of \$160 million.

Assets whose use is limited increased by \$154 million to \$727 million at June 30, 2017 compared to \$573 million at June 30, 2016 due to the net bond proceeds remaining from the Series 2016A issuance held for future capital expenditures.

Other assets totaled \$407 million at June 30, 2017 compared to \$359 million at June 30, 2016. The increase relates to acquisitions of property held for future use.

BALANCE SHEET (CONTINUED)

Accounts payable and accrued liabilities totaled \$263 million at June 30, 2017 which was \$35 million less than the \$298 million recognized at June 30, 2016. The decrease was attributed to the timing of the payments.

Accrued payroll and related expenses totaled \$279 million at June 30, 2017 which was \$14 million less than the \$293 million at June 30, 2016. This decrease was attributed to 6 days in this year's salary accrual compared to last year's 19 days.

Long-term debt including current portion was \$1.306 billion at June 30, 2017 which was \$326 million more than the \$980 million at June 30, 2016. This increase is attributed to the issuance of the Series 2016A (new money) and 2016B Bonds (2009 refunding) which was partially offset by principal repayments/amortization of bond premiums on existing debt.

Long-term accrued workers' compensation and malpractice insurance claims totaled \$131 million at June 30, 2017 which was more \$3 million than the \$128 million at June 30, 2016. This increase was attributed to scheduled accruals offset by claim payments.

Other long term liabilities totaled \$70 million at June 30, 2017 which was \$50 million less than the \$120 million at June 30, 2016. This decrease was attributed to funding for the pension plan (\$55 million) and partially offset by scheduled accruals for pension costs.

Net assets have increased by \$458 million to \$3.984 billion at June 30, 2017 from \$3.526 billion at June 30, 2016. This change is primarily attributed to operating results and investment returns.

STATEMENT OF OPERATIONS:

Net patient service revenues for the year ended June 30, 2017 totaled \$3.032 billion which was \$47 million favorable to the budgeted amount of \$2.985 billion and \$24 million favorable to the \$3.008 billion last year. The increase in net patient service revenue is attributed to the continued strong increase in volume offset, in part, by the continued deterioration of commercial exchange net reimbursement, a decrease in inpatient reimbursement from Medicare, and lesser stop loss volume on commercial accounts compared to budget.

Other operating revenue for the year ended June 30, 2017 was \$269 million which was \$42 million favorable to the budgeted amount of \$227 million and exceeded the \$255 million recognized during the same period in the prior year as a result of more research revenues recognized due to satisfying donor imposed restrictions as well as the receipt of \$9.0 million from the County of Los Angeles based on the Trauma Center Services Agreement.

Expenses for the year ended June 30, 2017 were \$2.980 billion compared to a budgeted total of \$2.931 billion and \$2.880 billion last year. Included in expenses are salaries and related expenses totaling \$1.725 billion year to date, compared to a budgeted total of \$1.617 billion and \$1.600 billion last year. Supplies and other expenses for the year ended June 30, 2017 were \$1.037 billion which was \$66 million less than the budgeted total of \$1.102 billion and \$17 million less than the \$1.054 billion recognized last year. Professional fees for the year ended June 30, 2017 were \$25 million which was \$6 million less than the budgeted total of \$31 million and \$7 million less than the \$32 million recognized last year. Depreciation expenses for the year ended June 30, 2017 were \$160 million which was \$10 million more than the budgeted total of \$150 million and was the same amount recognized last year.

Based on these results, operating income totaled \$321 million for the year ended June 30, 2017 which was \$40 million more than budgeted amount of \$281 million.

Lastly, there was a loss on extinguishment of the 2009 Series Bonds recorded in November 2016 totaling \$42 million resulting from the issuance of the Series 2016B Bonds which advance refunded the 2009 Series Bonds. This loss should be viewed as a one time charge to non-operating income as compared to the cash flow savings expected to be realized over the life of the new Bonds as a result of paying a lower interest rate.

STATEMENT OF CASH AND UNRESTRICTED INVESTMENTS FLOWS (EXCLUDING RESTRICTED FUNDS):

Cash and unrestricted investments flows provided by operations for the year ended June 30, 2017 totaled \$418 million compared to the \$383 million that had been budgeted to be provided by operations. The unfavorable results were attributed to unfavorable variances from accounts payable and other accrued liabilities (\$38 million), other long term liabilities (\$22 million), due to/from affiliates (\$19 million), accrued payroll and related liabilities (\$10 million), premium and costs of issuance amortization/write-offs (\$2 million); and partially offset by the favorable variances from change in pension liability (\$49 million), inventory, prepaid expenses, and other current assets (\$19 million), depreciation (\$10 million), and patient accounts receivable (\$8 million).

Cash and unrestricted investments flows used by investing activities for the year ended June 30, 2017 totaled \$561 million, which represents an unfavorable variance of \$279 million as compared to the \$282 million budgeted to be used in investing activities. These unfavorable results were primarily attributed to unfavorable capital expenditures as compared to budget (\$290 million), increase in assets held by trustee (\$120 million), and increase in other assets and long-term investments (\$34 million); and partially offset by favorable investment return (\$162 million), and less transfers to affiliates (\$3 million).

Cash and unrestricted investments flows provided by financing activities for the year ended June 30, 2017 was \$294 million compared to the \$22 million that had been budgeted to be used by financing activities. The favorable results were primarily attributed to the proceeds from the issuance of the Series 2016A & 2016B bonds (\$751 million) which were offset by the repayment of the Series 2009 Bonds (\$393 million) and the loss on extinguishment of the 2009 Series Bonds (\$42 million).

The net results of the operating, investing and financing activities for the year ended June 30, 2017 is to increase the Medical Center's net cash and unrestricted investments by \$151 million, which represents a favorable result of \$72 million as compared to the \$79 million budgeted increase in cash and unrestricted investments.

FINANCIAL RATIOS:

	June 2017	June 2016
Current Ratio	4.7	4.2
Days in Patients Receivables	66.9	63.4
Days in Current Liabilities	75.6	83.4
Debt to Equity	0.33	0.28
Debt Service Coverage Ratio ¹	5.7	5.9
Return on Equity ¹	7.0%	10.9%
Return on Revenues ^{1, 2}	8.4%	11.7%

1. The debt service coverage, return on equity and return on revenue ratios do not include net investment income.
2. Return on revenues includes bad debt as a revenue reduction before the calculation of the ratio.

AVERAGE OCCUPIED BEDS

YEAR ENDED JUNE 30, 2017

	2017 Actual	2017 Budget	Variance	2016 Actual
July	686	665	3.2%	663
August	702	679	3.4%	673
September	709	672	5.5%	665
Quarter 1	699	672	4.0%	667
October	692	678	2.1%	689
November	691	686	0.7%	694
December	710	659	7.7%	666
Quarter 2	698	674	3.5%	683
January	750	689	8.9%	705
February	731	698	4.7%	756
March	753	683	10.2%	747
Quarter 3	745	690	7.9%	736
April	720	675	6.7%	703
May	719	678	6.0%	714
June	704	686	2.6%	704
Quarter 4	714	680	5.1%	707
Y-T-D	714	679	5.1%	698

AVERAGE LENGTH OF STAY

YEAR ENDED JUNE 30, 2017

(Calculation = Patient Days / Admissions)

	2017 Actual	2017 Budget	Variance	2016 Actual
July	5.1	4.9	(3.9)%	5.0
August	5.0	4.9	(1.0)%	5.1
September	5.1	4.9	(3.4)%	5.0
Quarter 1	5.1	4.9	(2.8)%	5.1
October	5.3	4.9	(7.1)%	5.3
November	5.1	4.9	(4.0)%	5.1
December	5.3	4.9	(7.1)%	5.0
Quarter 2	5.2	4.9	(6.1)%	5.1
January	5.3	4.9	(7.5)%	5.2
February	5.0	4.9	(2.0)%	5.3
March	5.2	4.9	(5.9)%	5.3
Quarter 3	5.2	4.9	(5.1)%	5.2
April	5.3	4.9	(7.5)%	5.2
May	5.2	4.9	(4.7)%	5.2
June	5.0	4.9	(0.8)%	5.1
Quarter 4	5.2	4.9	(4.3)%	5.2
Y-T-D	5.2	4.9	(4.6)%	5.2



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ADMISSIONS

YEAR ENDED JUNE 30, 2017

	2017 Actual	2017 Budget	Variance	2016 Actual
July	4,152	4,178	(0.6)%	4,089
August	4,363	4,266	2.3%	4,092
September	4,157	4,081	1.9%	3,960
Quarter 1	12,672	12,525	1.2%	12,141
October	4,057	4,257	(4.7%)	4,025
November	4,030	4,167	(3.3%)	4,046
December	4,166	4,142	0.6%	4,139
Quarter 2	12,253	12,566	(2.5%)	12,210
January	4,382	4,325	1.3%	4,217
February	4,055	3,958	2.5%	4,032
March	4,460	4,288	4.0%	4,400
Quarter 3	12,897	12,571	2.6%	12,649
April	4,071	4,099	(0.7%)	4,068
May	4,314	4,257	1.3%	4,257
June	4,239	4,166	1.8%	4,112
Quarter 4	12,624	12,522	0.8%	12,437
Y-T-D	50,446	50,184	0.5%	49,437

PATIENT DAYS

YEAR ENDED JUNE 30, 2017

	2017 Actual	2017 Budget	Variance	2016 Actual
July	21,269	20,618	3.2%	20,543
August	21,756	21,064	3.3%	20,859
September	21,256	20,147	5.5%	19,942
Quarter 1	64,281	61,829	4.0%	61,344
October	21,459	21,016	2.1%	21,372
November	20,727	20,580	0.7%	20,812
December	22,000	20,438	7.6%	20,651
Quarter 2	64,186	62,034	3.5%	62,835
January	23,264	21,360	8.9%	21,865
February	20,454	19,555	4.6%	21,170
March	23,338	21,177	10.2%	23,145
Quarter 3	67,056	62,092	8.0%	66,180
April	21,612	20,237	6.8%	21,082
May	22,286	21,020	6.0%	22,120
June	21,129	20,582	2.7%	21,107
Quarter 4	65,027	61,839	5.2%	64,309
Y-T-D	260,550	247,794	5.1%	254,668



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Balance Sheets

(In millions)

Assets

Current assets:

	June 30, 2017	June 30, 2016
Cash and cash equivalents	\$ 251	\$ 663
Marketable securities	998	547
Board-designated assets	775	\$ 663
Current portion of assets limited as to use	1	20
Pledge receivable, current portion	29	39
Patient accounts receivable, net	536	537
Due from third-party payers	14	15
Due from affiliates or parent	43	24
Inventories	32	31
Prepaid expenses and other assets	88	100
Total current assets	2,767	2,639

Assets limited to use:

Investments	516	480
Pledge receivable, less current portion	91	93
Funds Held by trustee	120	-

Net property, plant and equipment	2,132	1,774
Other assets	407	359
Total assets	\$ 6,033	\$ 5,345



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Balance Sheets

(In millions)

Liabilities and net assets

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 263	\$ 298
Accrued payroll and related liabilities	279	293
Due to third-party payers	-	-
Current maturities of long-term debt	42	29
Total current liabilities	584	620
Long-term debt, less current maturities	1,264	951
Accrued workers' compensation and malpractice insurance claims, less current portion	131	128
Other liabilities	70	120
Net assets:		
Unrestricted	3,331	2,904
Temporarily restricted	344	327
Permanently restricted	309	295
Total net assets	3,984	3,526
Total liabilities and net assets	\$ 6,033	\$ 5,345

STATEMENT OF REVENUE & EXPENSES

YEAR ENDED JUNE 30, 2017

(In millions)

	2017 Actual	2017 Budget	2016 Actual	2015 Actual
Patient Revenue				
-Inpatient - Routine Care	\$ 2,900	\$ 2,780	\$ 2,832	\$ 2,543
-Inpatient - Ancillary Services	7,191	6,731	6,457	5,722
-Outpatient	5,601	5,099	4,950	4,431
Total Patient Revenue	15,692	14,610	14,239	12,696
Deductions	12,660	11,625	11,231	9,847
Net Patient Revenue	3,032	2,985	3,008	2,849
Other Operating Revenue	269	227	255	242
Total Revenue	3,301	3,212	3,263	3,091
Expenses	2,980	2,931	2,880	2,711
Income from Operations before Extinguishment of Debt	<u>\$ 321</u>	<u>\$ 281</u>	<u>\$ 383</u>	<u>\$ 380</u>



CEDARS-SINAI MEDICAL CENTER
Statements of Changes in Net Assets
Year Ended June 30, 2017
(In millions)

Unrestricted net assets activity

Operating income before extinguishment of debt	\$ 321
Investment income (loss) associated with future operating and capital needs	172
Gain (loss) on extinguishment of debt	(42)
Excess of revenues over expenses	451
Transfer to affiliates	(76)
Net assets released from restrictions used for the purchase of property and equipment	3
Change in pension liability	49
Increase in unrestricted net assets	427

Temporarily restricted net assets activity

Contributions and grants	183
Investment income	12
Net assets released from restrictions	(178)
Increase in temporarily restricted net assets	17

Permanently restricted net assets activity

Contributions	14
Increase in permanently restricted net assets	14
Increase in net assets	458
Net assets at beginning of year	3,526
Net assets at end of year	\$ 3,984



CEDARS-SINAI MEDICAL CENTER

STATEMENT OF OPERATING CASH AND INVESTMENT FLOWS (EXCLUDING RESTRICTED FUNDS)
YEAR ENDED JUNE 30, 2017
(In millions)

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating activities:			
Operating income	\$ 321	\$ 281	\$ 40
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation	160	150	10
Bond premium amortization and write-off of COI and premiums	(10)	(8)	(2)
Changes in operating assets and liabilities:			
Patient accounts receivable	1	(7)	8
Due to/from third-party payers	1	1	-
Inventories, prepaids and other current assets	11	(8)	19
Due to/from affiliates	(19)	-	(19)
Accounts payable and other accrued liabilities	(35)	3	(38)
Accrued payroll and related liabilities	(14)	(4)	(10)
Change in pension liability	49	-	49
Other long-term liabilities	(47)	(25)	(22)
Net cash & unrestricted investments provided by operating activities	418	383	35
Investing activities:			
Increase in assets held by trustee	(120)	-	(120)
Expenditures for property and equipment	(518)	(228)	(290)
Investment income and contributions	206	44	162
Increase in other assets and long-term investments	(53)	(19)	(34)
Transfer to affiliates	(76)	(79)	3
Net cash & unrestricted investments used in investing activities	(561)	(282)	(279)
Financing activities:			
Principal payments on long-term debt	(22)	(22)	-
Proceeds from issuance of debt	751	-	751
Repayment of debt upon extinguishment	(393)	-	(393)
Loss on extinguishment of debt	(42)	-	(42)
Net cash & unrestricted investments used in financing activities	294	(22)	316
Increase (decrease) in cash & unrestricted investments	\$ 151	\$ 79	\$ 72