

Disclosure Report

For the Six Months Ended December 31, 2018

Contacts:	Cecelia B. Moore, MHA, CPA, CHFP Chief Financial Officer & Treasurer Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 322-0084 cecilia.b.moore@vumc.org	Scott T. Phillips, CPA Vice President & Controller Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 875-9078 scott.t.phillips@vumc.org
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Disclosure Report for December 31, 2018

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, 2018

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

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Disclosure Report for December 31, 2018

ATTENTION

This document is marked with a dated date of December 31, 2018, 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 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 Encompass Health Corp. (formerly called 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 1,051 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 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 692 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.
- VMG is the practice group of physicians and advanced practice nurses employed by VUMC, most of whom have faculty appointments from the University, who perform billable professional medical services. VMG is not a separate legal entity. 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, VMG sets professional practice standards, bylaws, policies, and procedures. VUMC bills for services rendered by VMG

clinicians in both inpatient and outpatient locations. Collected fees derive a component of each VMG clinician's compensation. 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 16 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.
- VUMC also has a holding company that includes four limited liability subsidiaries which support various business to business activities in order to improve the quality, affordability and availability of health care services. These subsidiaries include businesses 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 and other capital projects, 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.

Certain amounts in the Fiscal 2018 financial statements and certain financial ratios have been reclassified to conform to their Fiscal 2019 presentation. Several of these changes are a result of recently issued accounting guidance.

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 30, 2018.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of December 31, 2018, VUMC's facilities have 1,051 beds approved for operation, of which 1,040 were fully staffed, with 82 operating rooms. As of December 31, 2017, VUMC's facilities had 1,029 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 31, 2018 and 2017, equates to 1,275 and 1,246, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

<u>Licensed Beds</u>	<u>FY 2019</u>	<u>FY 2018</u>
Licensed-Bed Category Type		
Adult Medical Surgical	637	614
Adult Obstetric	50	50
Adult Clinical Research Center	5	6
Pediatric Medical/Surgical	129	129
Pediatric Neonatal Intensive Care	96	96
Pediatric Intensive Care	42	42
Psychiatric Care	92	92
Total Licensed Beds as of December 31, 2018 and 2017	<u>1,051</u>	<u>1,029</u>
 <u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds	93	86
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, 2018 and 2017	<u>224</u>	<u>217</u>
 Total Licensed, Observation, JV, and Managed Beds and Bassinets as of December 31, 2018 and 2017	<u><u>1,275</u></u>	<u><u>1,246</u></u>

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

(2) Represents 12 licensed beds and four observation beds managed by VUMC within 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 75% of the research expenditures conducted by VUMC as of December 31, 2018 and 2017. The breakdown of direct research revenues is as follows for the six months ended December 31, 2018 and 2017 (*\$ in thousands*):

Source	FY 2019	FY 2018
Federal	\$ 137,954	\$ 131,630
Non-Federal	46,379	44,583
Total	<u>\$ 184,333</u>	<u>\$ 176,213</u>

Capital Cash Flows

Capital expenditures for the six months ended December 31, 2018 and 2017, were \$89 million and \$101 million, respectively. The FY 2019 period primarily includes construction of tangible assets and the FY 2018 period primarily includes software development and implementation costs, as well as the construction of tangible assets. The portion of our capital expenditures related to construction in progress for the two periods are largely related to the children's hospital expansion, as well as the adult bed expansion and clinic relocation.

Utilization

VUMC's overall functional occupancy rate was 92.5% and 93.2% during the six months ended December 31, 2018 and 2017, 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 beds that are currently out of service for those periods). The average number of inpatients in the hospital at midnight census was 955 and 909 at December 31, 2018 and 2017, 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, 2018 and 2017, are as follows:

	FY 2019	FY 2018
Licensed beds ⁽¹⁾	1,051	1,029
Hospital inpatient days ⁽²⁾	175,749	167,250
Hospital discharges	32,215	31,153
Average length of stay in days ⁽²⁾	5.5	5.4
Average occupancy level (licensed beds) ⁽²⁾⁽³⁾	90.9%	88.3%
Surgical operations ⁽⁴⁾	29,078	28,979
Ambulatory visits ⁽⁵⁾	1,204,792	1,134,219
Emergency visits	56,395	57,304

(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, 2018 and 2017, are presented below:

	FY 2019	FY 2018
Total CMI ⁽¹⁾	2.15	2.16
Medicare CMI ⁽¹⁾	2.34	2.40

(1) Excludes normal newborns.

During the six months ended December 31, 2018 and 2017, ambulatory visits at the Medical Center totaled 1,042,209 and 1,003,229, 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 48% and 49% of outpatient visits at off-campus locations during the six months ended December 31, 2018 and 2017, respectively.

VUMC Payor Mix

The Medical Center receives 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% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the six months ended December 31, 2018 and 2017.

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, 2018 and 2017:

	12/31/18 Gross	12/31/18 Net
<i>Payor Mix</i> ⁽²⁾		
Commercial/Managed Care ⁽¹⁾	45.6%	62.8%
Medicare/Managed Medicare	32.2%	19.7%
TennCare/Medicaid	18.1%	16.9%
Uninsured (self-pay)	4.1%	0.6%
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.

<i>Payor Mix</i> ⁽²⁾	12/31/17	12/31/17
	Gross	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.

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. Over 73% of VUMC's payments for healthcare services are covered under contracted rates. Termination dates for the most material contracts are presented in the below table.

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, 2018 and 2017, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total Payments as of 12/31/18 ⁽¹⁾	Total Payments as of 12/31/17 ⁽¹⁾	Termination Dates
Aetna	8.0%	8.6%	12/31/2021
BlueCross ⁽²⁾	29.5%	32.6%	12/31/2023
CIGNA ⁽²⁾	8.8%	8.0%	9/30/2019
Humana ⁽²⁾	0.8%	0.7%	10/31/2019
United	7.9%	9.4%	7/31/2021
Total as a % of total net patient revenue	55.0%	59.3%	

(1) Represents cash payments received for discharges that occurred during the three months ended September 30, 2018 and 2017, respectively. Excludes professional fee billing.

(2) If not renegotiated by either party, contract renews indefinitely.
Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represented approximately \$105.8 and \$78.8 million in net revenue or 6.9% and 7.2% of Hospital and Clinic net revenue for the six months ended December 31, 2018 and 2017, respectively, and have termination dates ranging from October 31, 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 advisors to provide professional investment analysis and guidance to assist in evaluating the performance of the funds. 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, 2018, including working capital.

Summary of Cash and Investments Asset Allocation As of December 31, 2018

	Working Capital	Unrestricted and Restricted Investments⁽¹⁾	Self- Insurance Trust	Total
Cash & Cash Equivalents	65%	0%	0%	44%
Short-Term Investments	16%	0%	0%	11%
Equity Investments	0%	33%	45%	11%
Hedged Equity Investments	0%	12%	14%	4%
Fixed Income Investments	14%	31%	24%	18%
Hedged Debt Investments	0%	17%	10%	5%
Other Marketable Alternatives ⁽²⁾	0%	5%	6%	2%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	5%	0%	1%	4%
Split Interest Trusts	0%	2%	0%	1%
	100%	100%	100%	100%

(1) Includes permanent endowment funds of \$30.3 million and quasi endowment funds of \$80.4 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of December 31, 2018 and 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

	<u>FY 2019</u>	<u>FY 2018</u>
Cash and cash equivalents ⁽¹⁾	\$ 509,970	\$ 441,612
Less: restricted cash and cash equivalents included above	(27,309)	(24,520)
Less: restricted pending donor gifts included above	<u>(1,211)</u>	<u>(6,167)</u>
Total unrestricted cash and cash equivalents	481,450	\$ 410,925
Unrestricted investments ⁽²⁾	<u>496,584</u>	<u>481,201</u>
Total unrestricted cash and investments	<u>978,034</u>	<u>\$ 892,126</u>
Average daily operating expenses ⁽³⁾	<u>\$ 11,209</u>	<u>\$ 10,573</u>
Days cash on hand ⁽⁴⁾	<u>87.3</u>	<u>84.4</u>

- (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. This excludes the principal payments on the Subordinated Promissory Note, which as of the first quarter of FY19 is held by a third party. As of December 31, 2017, the Subordinated Promissory Note was held by VU.
- (4) Unrestricted cash and investments divided by average daily operating expenses (excluding depreciation and amortization) for the six months then ended.

Debt Service Coverage

The following tables set forth, for the six months ended December 31, 2018 and 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):

As of December 31, 2018

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 62,572	\$ 125,144
Unrealized losses on investments ⁽²⁾	34,478	68,956
Unrealized loss on interest rate swaps, net of cash settlements	3,555	7,110
Depreciation and amortization	51,358	102,716
Interest	31,072	62,144
Income available to pay debt service	\$ 183,035	\$ 366,070
Maximum annual debt service		\$ 98,495
Maximum annual debt service coverage ⁽³⁾		3.7x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 64,639
Annual debt service coverage (Scheduled) ⁽⁵⁾		5.7x

(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, which is now held by a third party.

(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 during the fiscal year are equal to smoothed debt service.

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

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 swaps, net of cash settlements	2,055	4,110
Depreciation and amortization	49,928	99,856
Interest	29,494	58,988
Income available to pay debt service	\$ 131,537	\$ 263,074
Maximum annual debt service		\$ 94,912
Maximum annual debt service coverage ⁽³⁾		2.8x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 62,763
Annual debt service coverage (Scheduled) ⁽⁵⁾		4.2x

- (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, which as of the first quarter of fiscal 2019 is held by a third party.
- (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 during the fiscal year were \$57.7 million.
- (5) Annual debt service coverage consists of estimated annual 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 six months ended December 31, 2018 and 2017, (\$ in thousands):

	<u>FY 2019</u>	<u>FY 2018</u>
Long-term debt ⁽¹⁾	\$ 1,428,314	\$ 1,428,097
Net assets without donor restrictions	<u>878,838</u>	<u>768,011</u>
Total capitalization	<u>\$ 2,307,152</u>	<u>\$ 2,196,108</u>
Ratio of long-term debt to capitalization (%)	61.9%	65.0%
EBIDA	\$ 290,002	\$ 267,176
Ratio debt to total EBIDA ⁽²⁾	4.9x	5.3x
Total unrestricted cash and investments	\$ 978,034	\$ 892,126
Ratio cash to debt (%) ⁽³⁾	68.5%	62.5%

(1) Total outstanding long-term debt, including current maturities, excluding the Subordinate Promissory Note, which is now held by a third party.

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

<u>Description</u>	<u>Notional Amount</u>	<u>Rate Paid</u>	<u>Rate Received</u> ⁽¹⁾	<u>Maturity</u>	<u>Fair Value</u>
Fixed-payer interest rate agreement	\$ 75,000	4.119%	68% LIBOR	4/29/2021	\$ 27,735
Fixed-payer interest rate agreement	\$ 75,000	4.179%	68% LIBOR	4/29/2023	<u>28,074</u>
					<u>\$ 55,809</u>

(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 lessee in a 99 year ground lease with Vanderbilt University. VUMC classifies these leases as operating leases. The follow schedule represents our annual commitments of minimum rentals on non-cancelable operating leases by fiscal year (*\$ in thousands*):

	<u>Equipment</u>	<u>Property</u>	<u>Ground Lease</u>	<u>Total</u>
2019	\$ 33,337	\$ 54,480	\$ 19,020	\$ 106,837
2020	25,201	53,930	19,020	98,151
2021	18,331	45,638	19,020	82,989
2022	12,215	37,466	19,020	68,701
2023	7,692	34,625	19,020	61,337
Thereafter	5,164	209,727	1,749,840	1,964,731
Total	<u>\$ 101,940</u>	<u>\$ 435,866</u>	<u>\$ 1,844,940</u>	<u>\$ 2,382,746</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY19 YTD operating earnings before interest, depreciation and amortization (EBIDA) of \$156 million was \$46 million greater than FY18 YTD operating EBIDA of \$110 million. The increase in EBIDA was driven by a \$161 million increase in operating revenue, largely offset by a \$114 million increase in operating expenses, excluding interest, depreciation and amortization. FY19 YTD operating results of \$74 million was \$43 million greater than FY18 YTD operating results of \$31 million. Interest, depreciation and amortization totaled \$82 million for the current fiscal year-to-date period, which was \$3 million greater than FY18 interest, depreciation and amortization of \$79 million. Excess of revenues over expenses was \$63 million which is \$8 million greater than FY18 YTD excess of revenues over expenses of \$54 million. The increase is due to the increase in operating income mentioned above offset by a decrease of \$35 million in non-operating income.

The primary drivers of the \$35 million decrease in non-operating income was a year to date loss in investment income of \$14 million in FY19 compared to a year to date gain of \$20 million in FY18. This negative variance was comprised of year to date unrealized losses on investments of \$34 million (of which \$23 million occurred in the month of December) driven by market volatility; the MSCI world index returned a -9% for FY19 YTD, partially offset by realized gains of \$9 million. In addition, there were unfavorable mark to market adjustments of the interest rate exchange agreements' obligations, net of settlements, of \$2 million. The increase in the unfavorable mark to market adjustments of the interest rate exchange agreements obligation is due to the unfavorable interest rate changes compared to the prior year.

Revenues

FY19 YTD operating revenue increased approximately \$161 million, or 8%, to \$2,171 million, from \$2,010 million a year earlier. The primary driver of the increase in revenues was a \$143 million, or 8%, increase in patient service revenue to \$1,860 million from \$1,717 million a year earlier. The remaining increase is driven by increases in academic and research revenue and other operating revenue of \$11 million and \$6 million, respectively.

Expenses

FY19 YTD expense increased approximately \$117 million, or 6%, to \$2,097 million from \$1,979 million a year earlier. The primary drivers of this increase were increases in salaries, wages and benefits (\$54 million), drug costs (\$37 million), and medical supplies (\$17 million). The increase in these expenses is primarily due to increased staffing and supply needs to meet additional demand associated with higher net patient service revenue.

Balance Sheet / Cash Flow

FY19 YTD net assets increased by approximately \$78 million primarily due to excess of revenues over expenses, restricted contributions net of those released from restriction, additional endowments, including appreciation, and change in noncontrolling interest's net assets of approximately \$63 million, \$9 million, \$4 million and \$2 million, respectively. Cash, including cash equivalents and restricted cash, decreased by approximately \$22 million which was primarily due to a \$31 million reduction in restricted cash offset by a \$9 million increase in cash and cash equivalents. The increase in cash and cash equivalents of \$9 million was driven by EBIDA of \$156 million, partially offset by \$37 million of investment purchases, net of sales, \$89 million for the construction of certain long-lived assets, and a \$22 million increase in working capital due primarily to the reduction in accounts payable and other accrued items.

Conclusion

Our YTD FY19 operating results reflect our focus on increases net patient service revenue while continuing to tightly manage our variable and fixed costs, which is evidenced by the fact that expenses grew at a rate of 6% while revenue and net patient revenue grew at 8%. In addition to the significantly improved operating performance, the balance sheet has improved year over year. Accounts receivable is relatively flat compared to the prior period as we continue to improve our days sales outstanding while growing our net revenue per day, which has resulted in a slight improvement in cash and cash equivalents.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2018 AND JUNE 30, 2018
(\$ in thousands)

	December 31, 2018	June 30, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 509,970	\$ 500,908
Current investments	120,692	134,467
Patient accounts receivable	477,056	474,385
Grants and contracts receivable, net	50,407	57,748
Inventories	69,244	72,636
Other current assets	86,546	85,843
Total current assets	1,313,915	1,325,987
Restricted cash	46,337	77,257
Noncurrent investments	295,503	262,846
Noncurrent investments limited as to use	176,705	183,585
Property, plant, and equipment, net	1,316,643	1,306,639
Other noncurrent assets	37,420	35,877
Total assets	\$ 3,186,523	\$ 3,192,191
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 5,690	\$ 5,774
Accounts payable and other accrued expenses	218,930	268,087
Estimated payables under third-party programs	60,563	72,947
Accrued compensation and benefits	180,726	197,945
Current portion of deferred revenue	40,753	37,303
Current portion of medical malpractice self-insurance reserves	16,558	16,558
Total current liabilities	523,220	598,614
Long-term debt, net of current installments	1,509,707	1,512,698
Fair value of interest rate exchange agreements	55,809	54,206
Noncurrent portion of medical malpractice self-insurance reserves	51,191	57,520
Noncurrent portion of deferred revenue	18,320	18,719
Other noncurrent liabilities	22,992	22,804
Total liabilities	2,181,239	2,264,561
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	871,217	807,481
Net assets without donor restrictions related to noncontrolling interests	7,621	5,724
Total net assets without donor restrictions	878,838	813,205
Net assets with donor restrictions	126,446	114,425
Total net assets	1,005,284	927,630
Total liabilities and net assets	\$ 3,186,523	\$ 3,192,191

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(\$ in thousands)

	Six Months Ended	
	December 31,	
	2018	2017
Operating revenues		
Patient service revenue	\$ 1,860,255	\$ 1,716,977
Academic and research revenue	236,150	224,872
Other operating revenue	74,411	68,258
Total operating revenues	<u>2,170,816</u>	<u>2,010,107</u>
Operating expenses		
Salaries, wages, and benefits	1,126,251	1,072,402
Supplies and drugs	430,607	371,853
Facilities and equipment	129,377	124,098
Services and other	328,260	331,702
Depreciation and amortization	51,358	49,928
Interest	31,072	29,494
Total operating expenses	<u>2,096,925</u>	<u>1,979,477</u>
Income from operations	<u>73,891</u>	<u>30,630</u>
Nonoperating revenues and expenses		
(Loss) income from investments	(13,513)	20,306
Gift income	6,155	5,793
Earnings of unconsolidated organizations	1,425	1,695
Unrealized loss on interest rate exchange agreements, net of cash settlements	<u>(3,555)</u>	<u>(2,055)</u>
Total nonoperating revenues and expenses	<u>(9,488)</u>	<u>25,739</u>
Excess of revenues over expenses	64,403	56,369
Excess of revenues over expenses attributable to noncontrolling interests	<u>(1,831)</u>	<u>(2,203)</u>
Excess of revenues over expenses attributable to VUMC	62,572	54,166
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	1,897	(154)
Net asset reclassification	880	(53)
Other changes	284	73
Total changes in net assets without donor restrictions	<u>\$ 65,633</u>	<u>\$ 54,032</u>

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(\$ in thousands)**

	Six Months Ended December 31,	
	2018	2017
Net assets without donor restrictions		
Net assets without donor restrictions at the beginning of the period	\$ 813,205	\$ 713,979
Excess of revenue over expense	62,572	54,166
Change in noncontrolling interest's net assets	1,897	(154)
Net asset reclassification	880	(53)
Other changes	284	73
Change in net assets without donor restrictions	<u>65,633</u>	<u>54,032</u>
Unrestricted net assets at the end of the period	<u>\$ 878,838</u>	<u>\$ 768,011</u>
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 114,425	\$ 86,923
Contributions	16,997	23,527
Change in endowment appreciation	(947)	-
Net assets released from restrictions	(3,149)	(2,926)
Net asset reclassification	(880)	53
Change in net assets with donor restrictions	<u>12,021</u>	<u>20,654</u>
Net assets with donor restrictions at the end of the period	<u>\$ 126,446</u>	<u>\$ 107,577</u>
Total net assets		
Beginning of the period	\$ 927,630	\$ 800,902
Change in total net assets	<u>77,654</u>	<u>74,686</u>
End of the period	<u>\$ 1,005,284</u>	<u>\$ 875,588</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(\$ in thousands)

	Six Months Ended	
	December 31,	
	2018	2017
Cash flows from operating activities		
Change in total net assets	\$ 77,654	\$ 74,686
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	51,358	49,928
Amortization of debt issuance costs, and original issue premium and discount	7	316
Loss on disposal of assets	46	359
Undistributed equity in earnings of equity method affiliates	(1,039)	(550)
Net realized and unrealized loss (gain) on investments	24,614	(14,105)
Purchases of trading securities	(119,633)	(220,841)
Sales of trading securities	111,020	119,731
Unrealized loss (gain) on interest rate exchange agreements	1,602	(375)
Restricted contributions for endowments and property, plant, and equipment	(9,524)	(17,588)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(2,671)	(67,592)
Accounts payable and other accrued expenses	(21,457)	(9,369)
Other assets and other liabilities, net	(23,512)	14,999
Net cash provided by (used in) operating activities	88,465	(70,401)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(88,844)	(101,303)
Purchases of long-term securities	(132,296)	(117,570)
Sales and maturities of long-term securities	104,293	56,826
Proceeds on sale of property, plant, and equipment	220	-
Net cash used in investing activities	(116,627)	(162,047)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	276,334
Debt issuance costs	-	(2,750)
Repayment of long-term debt	(2,500)	(52,500)
Principal payments under capital lease obligations	(786)	(561)
Restricted contributions for endowments and property, plant, and equipment	9,524	17,588
Proceeds from (distributions to) noncontrolling interests	66	(2,357)
Net cash provided by financing activities	6,304	235,754
Net change in cash, cash equivalents, and restricted cash	(21,858)	3,306
Cash, cash equivalents, and restricted cash		
Beginning of the period	578,165	553,735
End of the period	\$ 556,307	\$ 557,041