

**Disclosure Report**  
**For the Nine Months Ended March 31, 2019**

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**Disclosure Report for March 31, 2019**

**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 March 31, 2019**

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

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## **Disclosure Report for March 31, 2019**

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## **Disclosure Report for March 31, 2019**

### **ATTENTION**

This document is marked with a dated date of March 31, 2019, 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 and supply chain.

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 nine months ended March 31, 2019.

## SUMMARY OF OPERATING AND UTILIZATION DATA

### Licensed Beds

As of March 31, 2019, VUMC's facilities have 1,051 beds approved for operation, of which 1,037 were fully staffed, with 82 operating rooms. As of March 31, 2018, 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 bassinets beds, total beds as of March 31, 2019 and 2018, 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 March 31, 2019 and 2018	<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) <sup>(1)</sup>	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) <sup>(2)</sup>	<u>16</u>	<u>16</u>
Total Observation, JV, and Managed Beds and Bassinets as of March 31, 2019 and 2018	<u>224</u>	<u>217</u>
 Total Licensed, Observation, JV, and Managed Beds and Bassinets as of March 31, 2019 and 2018	 <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 March 31, 2019 and 2018. The breakdown of direct research revenues is as follows for the nine months ended March 31, 2019 and 2018 (\$ in thousands):

<b>Source</b>	<b>FY 2019</b>	<b>FY 2018</b>
Federal	\$ 213,251	\$ 205,722
Non-Federal	70,430	69,101
Total	<u><u>\$ 283,681</u></u>	<u><u>\$ 274,823</u></u>



## Capital Cash Flows

Capital expenditures for the nine months ended March 31, 2019 and 2018, were \$149 million and \$155 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 93.5% and 92.9% during the nine months ended March 31, 2019 and 2018, 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 14 and 11 beds that are currently out of service for those periods, respectively). The average number of inpatients in the hospital at midnight census was 966 and 912 at March 31, 2019 and 2018, 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 nine months ended March 31, 2019 and 2018, are as follows:

	<b>FY 2019</b>	<b>FY 2018</b>
Licensed beds <sup>(1)</sup>	1,051	1,029
Hospital inpatient days <sup>(2)</sup>	264,659	249,934
Hospital discharges	48,211	45,972
Average length of stay in days <sup>(2)</sup>	5.5	5.4
Average occupancy level (licensed beds) <sup>(2)(3)</sup>	91.9%	88.6%
Surgical operations <sup>(4)</sup>	43,452	42,781
Ambulatory visits <sup>(5)</sup>	1,821,627	1,733,008
Emergency visits	86,239	88,165

(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 nine months ended March 31, 2019 and 2018, are presented below:

	<u>FY 2019</u>	<u>FY 2018</u>
Total CMI <sup>(1)</sup>	2.15	2.16
Medicare CMI <sup>(1)</sup>	2.36	2.36

(1) Excludes normal newborns.

During the nine months ended March 31, 2019 and 2018, ambulatory visits at the Medical Center totaled 1,573,808 and 1,518,414, 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% of outpatient visits at off-campus locations during the nine months ended March 31, 2019 and 2018.

### 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 nine months ended March 31, 2019 and 2018.

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 nine months ended March 31, 2019 and 2018:

<i>Payor Mix</i> <sup>(2)</sup>	<u>03/31/19</u> <u>Gross</u>	<u>03/31/19</u> <u>Net</u>
Commercial/Managed Care <sup>(1)</sup>	45.5%	62.0%
Medicare/Managed Medicare	32.3%	23.5%
TennCare/Medicaid	18.0%	13.5%
Uninsured (self-pay)	4.2%	1.0%
Total	<u>100.0%</u>	<u>100.0%</u>

(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> <sup>(2)</sup>	<b>03/31/18 Gross</b>	<b>03/31/18 Net</b>
Commercial/Managed Care <sup>(1)</sup>	46.6%	63.8%
Medicare/Managed Medicare	32.0%	22.7%
TennCare/Medicaid	16.8%	12.0%
Uninsured (self-pay)	4.6%	1.5%
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 77% 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 nine months ended March 31, 2019 and 2018, as well as the respective contract renewal date.

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

	<b>Total Payments as of 03/31/19<sup>(1)</sup></b>	<b>Total Payments as of 03/31/18<sup>(1)</sup></b>	<b>Termination Dates</b>
Aetna	7.8%	7.9%	12/31/2021
BlueCross <sup>(2)</sup>	29.9%	29.3%	12/31/2023
CIGNA <sup>(2)</sup>	8.4%	8.4%	9/30/2019
Humana <sup>(2)</sup>	0.8%	0.7%	10/31/2019
United	7.9%	8.9%	7/31/2021
Total as a % of total net patient revenue	54.8%	55.2%	

(1) Represents cash payments received for discharges that occurred during the nine months ended March 31, 2019 and 2018, 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 \$164 and \$114 million in net revenue or 7.2% and 7.0% of Hospital and Clinic net revenue for the nine months ended March 31, 2019 and 2018, respectively, and have termination dates ranging from October 31, 2019 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 March 31, 2019, including working capital.

#### Summary of Cash and Investments Asset Allocation As of March 31, 2019

	<b>Working Capital</b>	<b>Unrestricted and Restricted Investments<sup>(1)</sup></b>	<b>Self- Insurance Trust</b>	<b>Total</b>
Cash & Cash Equivalents	65%	0%	0%	43%
Short-Term Investments	15%	0%	0%	10%
Equity Investments	0%	30%	41%	11%
Hedged Equity Investments	0%	13%	14%	4%
Fixed Income Investments	14%	31%	28%	19%
Hedged Debt Investments	0%	19%	10%	6%
Other Marketable Alternatives <sup>(2)</sup>	0%	5%	6%	2%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	6%	0%	1%	4%
Split Interest Trusts	0%	2%	0%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes permanent endowment funds of \$35.8 million and quasi endowment funds of \$87.4 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of March 31, 2019 and 2018. 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><b>FY 2019</b></u>	<u><b>FY 2018</b></u>
Cash and cash equivalents <sup>(1)</sup>	\$ 524,930	\$ 455,131
Less: restricted cash and cash equivalents included above	(30,860)	(24,869)
Less: restricted pending donor gifts included above	(483)	(105)
Total unrestricted cash and cash equivalents	<u>\$ 493,587</u>	<u>\$ 430,157</u>
Unrestricted investments <sup>(2)</sup>	<u>519,762</u>	<u>446,276</u>
Total unrestricted cash and investments	<u><u>\$ 1,013,349</u></u>	<u><u>\$ 876,433</u></u>
Average daily operating expenses <sup>(3)</sup>	<u><u>\$ 11,351</u></u>	<u><u>\$ 10,647</u></u>
Days cash on hand <sup>(4)</sup>	<u><u>89.3</u></u>	<u><u>82.3</u></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 March 31, 2018, 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 nine months then ended.

## Debt Service Coverage

The following tables set forth, for the nine months ended March 31, 2019 and 2018, 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):

<b>As of March 31, 2019</b>		
	<b><u>Actual</u></b>	<b><u>Annualized</u></b>
Excess of revenues over expenses <sup>(1)</sup>	\$ 123,340	\$ 164,453
Unrealized losses on investments <sup>(2)</sup>	7,122	9,496
Unrealized loss on interest rate swaps, net of cash settlements	9,931	13,241
Depreciation and amortization	78,790	105,053
Interest	42,411	56,548
Income available to pay debt service	<u>\$ 261,594</u>	<u>\$ 348,791</u>
Maximum annual debt service		\$ 98,957
Maximum annual debt service coverage <sup>(3)</sup>		3.5x
Annual debt service (Scheduled) <sup>(4)</sup>		\$ 64,626
Annual debt service coverage (Scheduled) <sup>(5)</sup>		5.4x

(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 March 31, 2018**

	<u><b>Actual</b></u>	<u><b>Annualized</b></u>
Excess of revenues over expenses <sup>(1)</sup>	\$ 78,019	\$ 104,025
Unrealized gains on investments <sup>(2)</sup>	(480)	(640)
Unrealized gain on interest rate swaps, net of cash settlements	(5,540)	(7,387)
Depreciation and amortization	78,480	104,640
Interest	44,582	59,443
Income available to pay debt service	<u>\$ 195,061</u>	<u>\$ 260,081</u>
Maximum annual debt service		\$ 97,064
Maximum annual debt service coverage <sup>(3)</sup>		2.7x
Annual debt service (Scheduled) <sup>(4)</sup>		\$ 62,826
Annual debt service coverage (Scheduled) <sup>(5)</sup>		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, 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 \$58.2 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 nine months ended March 31, 2019 and 2018, (\$ in thousands):

	<b>FY 2019</b>	<b>FY 2018</b>
Long-term debt <sup>(1)</sup>	\$ 1,429,337	\$ 1,427,680
Net assets without donor restrictions	938,798	793,313
Total capitalization	<u>\$ 2,368,135</u>	<u>\$ 2,220,993</u>
Ratio of long-term debt to capitalization (%)	60.4%	64.3%
EBIDA	\$ 326,055	\$ 268,108
Ratio debt to total EBIDA <sup>(2)</sup>	4.4x	5.3x
Total unrestricted cash and investments	\$ 1,013,349	\$ 876,433
Ratio cash to debt (%) <sup>(3)</sup>	70.9%	61.4%

(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):

<b>Description</b>	<b>Notional Amount</b>	<b>Rate Paid</b>	<b>Rate Received <sup>(1)</sup></b>	<b>Maturity</b>	<b>Fair Value</b>
Fixed-payer interest rate agreement	\$ 75,000	4.119%	68% LIBOR	4/29/2021	\$ 30,423
Fixed-payer interest rate agreement	\$ 75,000	4.179%	68% LIBOR	4/29/2023	30,853
					<u>\$ 61,276</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*):

	<b>Equipment</b>	<b>Property</b>	<b>Ground Lease</b>	<b>Total</b>
2019	\$ 33,276	\$ 55,010	\$ 19,020	\$ 107,306
2020	28,746	54,522	19,020	102,288
2021	22,421	45,970	19,020	87,411
2022	15,004	37,801	19,020	71,825
2023	7,828	35,082	19,020	61,930
Thereafter	5,206	211,125	1,749,840	1,966,171
Total	<u>\$ 112,481</u>	<u>\$ 439,510</u>	<u>\$ 1,844,940</u>	<u>\$ 2,396,931</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

FY19 YTD operating earnings before interest, depreciation and amortization (EBIDA) of \$228 million was \$61 million greater than FY18 YTD operating EBIDA of \$167 million. The increase in EBIDA was driven by a \$256 million increase in operating revenue, largely offset by a \$195 million increase in operating expenses, excluding interest, depreciation and amortization. FY19 YTD operating results of \$107 million was \$63 million greater than FY18 YTD operating results of \$44 million. Interest, depreciation and amortization totaled \$121 million for the current fiscal year-to-date period, which was \$2 million less than FY18 interest, depreciation and amortization of \$123 million. Excess of revenues over expenses was \$123 million which is \$45 million greater than FY18 YTD excess of revenues over expenses of \$78 million. The increase is due to the increase in operating income mentioned above offset by a decrease of \$18 million in non-operating income.

The primary drivers of the \$18 million decrease in non-operating income was a decrease in investment income of \$4 million from \$17 million in FY19 compared to \$21 million in FY18. This negative variance was comprised of year to date unrealized losses on investments of \$7 million driven by market volatility; the MSCI All Country World index returned only 2% for FY19 YTD (compared to 11% in the prior year YTD period), 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 \$15 million. The increase in the unfavorable mark to market adjustments of the interest rate exchange agreements obligation is due to unfavorable interest rate changes compared to the prior year.

### **Revenues**

FY19 YTD operating revenue increased approximately \$256 million, or 8%, to \$3,293 million, from \$3,037 million a year earlier. The primary driver of the increase in revenues was a \$231 million, or 9%, increase in patient service revenue to \$2,811 million from \$2,580 million a year earlier. The remaining increase is driven by increases in academic and research revenue and other operating revenue of \$13 million and \$11 million, respectively.

### **Expenses**

FY19 YTD expense increased approximately \$193 million, or 6%, to \$3,186 million from \$2,993 million a year earlier. The primary drivers of this increase were increases in salaries, wages and benefits (\$78 million), drug costs (\$54 million), and medical supplies (\$25 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. In addition, drug expense has also increased due to increased usage of high cost drugs in the outpatient setting, also associated with increased net patient service revenue. An additional driver of the unfavorable medical supply variance is an increase in lung, heart and kidney transplants when compared to prior year.

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

FY19 YTD net assets increased by approximately \$145 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 \$123 million, \$11 million, \$8 million and \$2 million, respectively. Cash, including cash equivalents and restricted cash, decreased by approximately \$9 million which was primarily due to a \$33 million reduction in restricted cash offset by a \$24 million increase in cash and cash equivalents. The increase in cash and cash equivalents of \$24 million was driven by EBIDA of \$228 million, partially offset by \$22 million of unrestricted investment purchases, net of sales, \$149 million for the construction of certain long-lived assets, and a \$40 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 increasing net patient service revenue while continuing to tightly manage our variable and fixed costs, evidenced by the fact that expenses grew at a rate of 6% while revenue and net patient revenue grew at 8% and 9%, respectively. In addition to the improved operating performance, the balance sheet 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, resulting in a slight improvement in cash and cash equivalents.

**CONSOLIDATED BALANCE SHEET**  
**AS OF MARCH 31, 2019 AND JUNE 30, 2018**  
(\$ in thousands)

	<b>March 31, 2019 (Unaudited)</b>	<b>June 30, 2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 524,930	\$ 500,908
Current investments	117,964	134,467
Patient accounts receivable	479,372	474,385
Grants and contracts receivable, net	50,630	57,748
Inventories	71,026	72,636
Other current assets	85,068	85,843
Total current assets	1,328,990	1,325,987
Restricted cash	44,684	77,257
Noncurrent investments	314,395	262,846
Noncurrent investments limited as to use	192,702	183,585
Property, plant, and equipment, net	1,350,946	1,306,639
Other noncurrent assets	37,264	35,877
Total assets	<u>\$ 3,268,981</u>	<u>\$ 3,192,191</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current installments of long-term debt	\$ 6,827	\$ 5,774
Accounts payable and other accrued expenses	215,987	268,087
Estimated payables under third-party programs	53,656	72,947
Accrued compensation and benefits	197,596	197,945
Current portion of deferred revenue	41,735	37,303
Current portion of medical malpractice self-insurance reserves	16,558	16,558
Total current liabilities	532,359	598,614
Long-term debt, net of current installments	1,508,343	1,512,698
Fair value of interest rate exchange agreements	61,276	54,206
Noncurrent portion of medical malpractice self-insurance reserves	52,716	57,520
Noncurrent portion of deferred revenue	18,121	18,719
Other noncurrent liabilities	23,779	22,804
Total liabilities	2,196,594	2,264,561
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	930,636	807,481
Net assets without donor restrictions related to noncontrolling interests	8,162	5,724
Total net assets without donor restrictions	938,798	813,205
Net assets with donor restrictions	133,589	114,425
Total net assets	1,072,387	927,630
Total liabilities and net assets	<u>\$ 3,268,981</u>	<u>\$ 3,192,191</u>

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018**  
(\$ in thousands)

	Nine Months Ended March 31,	
	2019	2018
<b>Operating revenues</b>		
Patient service revenue	\$ 2,811,063	\$ 2,579,610
Academic and research revenue	363,169	349,969
Other operating revenue	118,742	107,473
Total operating revenues	3,292,974	3,037,052
<b>Operating expenses</b>		
Salaries, wages, and benefits	1,700,652	1,622,411
Supplies and drugs	656,474	567,827
Facilities and equipment	196,891	188,275
Services and other	510,926	491,473
Depreciation and amortization	78,790	78,480
Interest	42,411	44,582
Total operating expenses	3,186,144	2,993,048
Income from operations	106,830	44,004
<b>Nonoperating revenues and expenses</b>		
(Loss) income from investments	16,917	21,207
Gift income	10,064	7,849
Earnings of unconsolidated organizations	2,536	2,838
Unrealized loss on interest rate exchange agreements, net of cash settlements	(9,931)	5,540
Total nonoperating revenues and expenses	19,586	37,434
Excess of revenues over expenses	126,416	81,438
Excess of revenues over expenses attributable to noncontrolling interests	(3,076)	(3,419)
Excess of revenues over expenses attributable to VUMC	123,340	78,019
<b>Other changes in net assets without donor restrictions</b>		
Change in noncontrolling interest's net assets	2,438	626
Net asset reclassification	(184)	686
Other changes	(1)	3
Total changes in net assets without donor restrictions	\$ 125,593	\$ 79,334

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018**  
(\$ in thousands)

	Nine Months Ended March 31,	
	2019	2018
<b>Net assets without donor restrictions</b>		
Net assets without donor restrictions at the beginning of the period	\$ 813,205	\$ 713,979
Excess of revenue over expense	123,340	78,019
Change in noncontrolling interest's net assets	2,438	626
Net asset reclassification	(184)	686
Other changes	(1)	3
Change in net assets without donor restrictions	125,593	79,334
Net assets without donor restrictions at the end of the period	\$ 938,798	\$ 793,313
<b>Net assets with donor restrictions</b>		
Net assets with donor restrictions at the beginning of the period	\$ 114,425	\$ 86,923
Contributions	24,662	26,849
Change in endowment appreciation	645	1,157
Net assets released from restrictions	(6,327)	(4,163)
Net asset reclassification	184	(686)
Change in net assets with donor restrictions	19,164	23,157
Net assets with donor restrictions at the end of the period	\$ 133,589	\$ 110,080
<b>Total net assets</b>		
Beginning of the period	\$ 927,630	\$ 800,902
Change in total net assets	144,757	102,491
End of the period	\$ 1,072,387	\$ 903,393

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018**  
(\$ in thousands)

	Nine Months Ended March 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Change in total net assets	\$ 144,757	\$ 102,491
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	78,790	78,480
Amortization of debt issuance costs, and original issue premium and discount	5	313
Loss on disposal of assets	432	349
Undistributed equity in earnings of equity method affiliates	(935)	(912)
Net realized and unrealized gain on investments	(1,965)	(12,836)
Purchases of trading securities	(177,630)	(282,129)
Sales of trading securities	166,707	216,898
Change in split-interest trusts	-	(101)
Unrealized loss (gain) on interest rate exchange agreements	7,069	(9,107)
Restricted contributions for endowments and property, plant, and equipment	(13,276)	(19,759)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(4,987)	(120,025)
Accounts payable and other accrued expenses	(25,482)	3,200
Other assets and other liabilities, net	(9,720)	25,680
Net cash provided by (used in) operating activities	<u>163,765</u>	<u>(17,458)</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(148,912)	(154,666)
Purchases of long-term securities	(228,190)	(158,174)
Sales and maturities of long-term securities	196,913	88,107
Proceeds on sale of property, plant, and equipment	220	648
Net cash used in investing activities	<u>(179,969)</u>	<u>(224,085)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	-	276,334
Debt issuance costs	-	(2,750)
Repayment of long-term debt	(3,750)	(53,750)
Principal payments under capital lease obligations	(1,235)	(850)
Restricted contributions for endowments and property, plant, and equipment	13,276	19,759
Distributions to noncontrolling interests	(638)	(2,793)
Net cash provided by financing activities	<u>7,653</u>	<u>235,950</u>
Net change in cash, cash equivalents, and restricted cash	<u>(8,551)</u>	<u>(5,593)</u>
<b>Cash, cash equivalents, and restricted cash</b>		
Beginning of the period	578,165	553,735
End of the period	<u>\$ 569,614</u>	<u>\$ 548,142</u>