

Disclosure Report
For the Three Months Ended September 30, 2018

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Disclosure Report for September 30, 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 September 30, 2018

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

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Disclosure Report for September 30, 2018

ATTENTION

This document is marked with a dated date of September 30, 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 I 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 health care activities in order to improve the quality, affordability and availability of health care services. These subsidiaries include business focused on pharmacy, supply chain, and consulting services.

The Academic Enterprise division includes all clinically-related research, research-support activities, and faculty endeavors supporting post-graduate training programs. A significant funding source for VUMC's research has historically been the federal government. Federal funding is received from the Department of Health and Human Services, the National Institutes of Health, the Department of Defense, NASA, and other federal agencies. Sponsored research awards, including multiple-year grants and contracts from government sources, foundations, associations, and corporations signify future research commitments. Also, core activities supporting research, including advanced computing and grant administration, are included in this division.

As mentioned above and throughout this document, VUMC acquired the Medical Center and its operations from the University in the Acquisition. For the purpose of funding the Acquisition 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 statement of operations have been reclassified to conform to their Fiscal 2019 presentation.

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 three months ended September 30, 2018.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of September 30, 2018, VUMC's facilities have 1,051 beds approved for operation, of which 1,049 were fully staffed, with 82 operating rooms. As of September 30, 2017, VUMC's facilities had 1,029 beds approved for operation, of which 1,013 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 September 30, 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	636	614
Adult Obstetric	50	50
Adult Clinical Research Center	6	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 September 30, 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 September 30, 2018 and 2017	<u>224</u>	<u>217</u>
 Total Licensed, Observation, JV, and Managed Beds and Bassinets as of September 30, 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 with Williamson Medical Center, Franklin, TN.

VUMC Research Revenues

VUMC receives revenues from research grants which are both federally and non-federally sponsored. The Department of Health and Human Services, the National Institutes of Health, the Department of Defense, NASA, and other federal agencies supported over 75% and 74% of the research expenditures conducted by VUMC as of September 30, 2018 and 2017, respectively. The breakdown of direct research revenues is as follows for the three months ended September 30, 2018 and 2017 (\$ in thousands):

Source	FY 2019	FY 2018
Federal	\$ 63,571	\$ 59,433
Non-Federal	21,696	21,217
Total	<u>\$ 85,267</u>	<u>\$ 80,650</u>

Capital Cash Flows

Capital expenditures for the three months ended September 30, 2018 and 2017, of \$50 million and \$46 million, respectively. The FY 2018 period primarily includes construction of tangible assets and the FY 2017 period primarily includes software development and implementation costs. 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 clinical relocation.

Utilization

VUMC's overall functional occupancy rate was 92.6% and 94.5% during the three months ended September 30, 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 2 and 16 beds that are currently out of service for those periods, respectively). The average number of inpatients in the hospital at midnight census was 956 and 907 at September 30, 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 three months ended September 30, 2018 and 2017, are as follows:

	FY 2019	FY 2018
Licensed beds ⁽¹⁾	1,051	1,029
Hospital inpatient days ⁽²⁾	87,961	83,445
Hospital discharges	16,098	15,812
Average length of stay in days ⁽²⁾	5.5	5.3
Average occupancy level (licensed beds) ⁽²⁾⁽³⁾	91.7%	88.1%
Surgical operations ⁽⁴⁾	14,419	14,679
Ambulatory visits ⁽⁵⁾	556,461	567,859
Emergency visits	27,525	28,685

(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 three months ended September 30, 2018 and 2017, are presented below:

	FY 2019	FY 2018
Total CMI ⁽¹⁾	2.15	2.18
Medicare CMI ⁽¹⁾	2.34	2.41

(1) Excludes normal newborns.

During the three months ended September 30, 2018 and 2017, ambulatory visits at the Medical Center totaled 515,531 and 513,307, 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 47% and 48% of outpatient visits at off-campus locations during the three months ended September 30, 2018 and 2017, respectively.

VUMC Payor Mix

The Medical Center received payment on behalf of most of its patients from a number of third parties, including Blue Cross and other private insurers, the federal government through Medicare, and the federal and state governments through Medicaid. TennCare, the State’s managed care plan operating under a Section 1115 Medicaid demonstration waiver from the federal government, provides the majority of Medicaid revenues. The remaining Medicaid revenues are from Medicaid patients who live outside of the State. Blue Cross, one of VUMC’s largest payors represented 19% and 22% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the three months ended September 30, 2018 and 2017, respectively.

The revenues attributable to Blue Cross are presented in the commercial/managed care category in the following table, which sets forth the sources of gross amounts of patient service revenue as well as gross amounts of patient service revenue net of contractual allowances for the three months ended September 30, 2018 and 2017:

	09/30/18 Gross	09/30/18 Net
<i>Payor Mix</i> ⁽²⁾		
Commercial/Managed Care ⁽¹⁾	45.9%	63.5%
Medicare/Managed Medicare	31.9%	22.6%
TennCare/Medicaid	18.1%	13.2%
Uninsured (self-pay)	4.1%	0.7%
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⁾	09/30/17	09/30/17
	Gross	Net
Commercial/Managed Care ⁽¹⁾	46.5%	64.0%
Medicare/Managed Medicare	31.4%	22.1%
TennCare/Medicaid	17.5%	11.7%
Uninsured (self-pay)	4.6%	2.2%
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.

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 87% 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 three months ended September 30, 2018 and 2017, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total	Total	Termination
	Payments as	Payments as	Dates
	of 09/30/18⁽¹⁾	of 09/30/17⁽¹⁾	
Aetna	7.7%	7.9%	12/31/2020
BlueCross ⁽²⁾	29.7%	31.5%	12/31/2023
CIGNA ⁽²⁾	8.9%	7.8%	9/30/2019
Humana ⁽²⁾	0.6%	0.7%	10/31/2019
United	8.3%	7.9%	7/31/2021
Total as a % of total net patient revenue	<u>55.2%</u>	<u>55.8%</u>	

(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 \$54.1 and \$37.1 million in net revenue or 7.2% and 6.8% of Hospital and Clinic net revenue for the three months ended September 30, 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 September 30, 2018, including working capital.

Summary of Cash and Investments Asset Allocation As of September 30, 2018

	<u>Working Capital</u>	<u>Unrestricted and Restricted Investments⁽¹⁾</u>	<u>Self- Insurance Trust</u>	<u>Total</u>
Cash & Cash Equivalents	63%	1%	0%	41%
Short-Term Investments	16%	0%	0%	10%
Equity Investments	0%	33%	45%	12%
Hedged Equity Investments	0%	13%	15%	4%
Fixed Income Investments	14%	27%	24%	19%
Hedged Debt Investments	0%	19%	10%	6%
Other Marketable Alternatives ⁽²⁾	0%	5%	6%	2%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	2%	0%	0%	1%
Restricted Cash & Cash Equivalents	5%	0%	0%	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 \$31.7 million and quasi endowment funds of \$89.5 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of September 30, 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⁾	\$ 472,812	\$ 543,252
Less: restricted cash and cash equivalents included above	<u>(25,308)</u>	<u>(22,410)</u>
Total unrestricted cash and cash equivalents	447,504	\$ 520,842
Unrestricted investments ⁽²⁾	<u>510,726</u>	<u>429,566</u>
Total unrestricted cash and investments	<u>958,230</u>	<u>\$ 950,408</u>
Average daily operating expenses ⁽³⁾	<u>\$ 11,093</u>	<u>\$ 10,459</u>
Days cash on hand ⁽⁴⁾	<u>86.4</u>	<u>90.9</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 September 30, 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 three months then ended.

Debt Service Coverage

The following tables set forth, for the three months ended September 30, 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 September 30, 2018		
	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 43,629	\$ 174,516
Unrealized gains on investments ⁽²⁾	(4,766)	(19,064)
Unrealized gain on interest rate swap, net of cash settlements	(3,901)	(15,604)
Depreciation and amortization	25,376	101,504
Interest	15,405	61,620
Income available to pay debt service	\$ 75,743	\$ 302,972
Maximum annual debt service		\$ 97,972
Maximum annual debt service coverage ⁽³⁾		3.1x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 64,784
Annual debt service coverage (Scheduled) ⁽⁵⁾		4.7x

(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 September 30, 2017

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 38,311	\$ 153,244
Unrealized gains on investments ⁽²⁾	(7,002)	(28,008)
Unrealized loss on interest rate swap, net of cash settlements	621	2,484
Depreciation and amortization	23,655	94,620
Interest	14,267	57,068
Income available to pay debt service	\$ 69,852	\$ 279,408
Maximum annual debt service		\$ 94,408
Maximum annual debt service coverage ⁽³⁾		3.0x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 62,486
Annual debt service coverage (Scheduled) ⁽⁵⁾		4.5x

- (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 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 three months ended September 30, 2018 and 2017, (\$ in thousands):

	<u>FY 2019</u>	<u>FY 2018</u>
Long-term debt ⁽¹⁾	\$ 1,428,523	\$ 1,425,336
Unrestricted net assets	<u>859,133</u>	<u>752,432</u>
Total capitalization	<u>\$ 2,287,656</u>	<u>\$ 2,177,768</u>
Ratio of long-term debt to capitalization (%)	62.4%	65.4%
EBIDA	\$ 337,641	\$ 304,936
Ratio debt to total EBIDA ⁽²⁾	4.2x	4.7x
Total unrestricted cash and investments	\$ 958,230	\$ 950,408
Ratio cash to debt (%) ⁽³⁾	67.1%	66.7%

- (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	\$ 24,822
Fixed-payer interest rate agreement	\$ 75,000	4.179%	68% LIBOR	4/29/2023	<u>24,486</u>
					<u>\$ 49,308</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	\$ 32,833	\$ 53,955	\$ 19,020	\$ 105,808
2020	24,188	52,227	19,020	95,435
2021	17,692	44,052	19,020	80,764
2022	11,774	35,992	19,020	66,786
2023	7,579	33,548	19,020	60,147
Thereafter	5,123	199,868	1,749,840	1,954,831
Total	<u>\$ 99,189</u>	<u>\$ 419,642</u>	<u>\$ 1,844,940</u>	<u>\$ 2,363,771</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY19 YTD operating earnings before interest, depreciation and amortization (EBIDA) of \$67 million was \$1 million greater than FY18 YTD operating EBIDA of \$66 million. The increase in EBIDA was driven by a \$58 million increase in operating revenue, largely offset by a \$57 million increase in operating expenses, excluding interest, depreciation and amortization. FY19 YTD operating results of \$27 million were in line with FY18 YTD operating results. Interest, depreciation and amortization totaled \$41 million for the current fiscal year-to-date period compared to \$40 million in the prior year. Excess of revenues over expenses was \$44 million which is \$5 million greater than FY18 YTD excess of revenues over expenses of \$39 million. The increase is due to an increase of \$5 million in non-operating income.

The primary drivers of the \$5 million increase in non-operating income was a favorable mark to market adjustments of the interest rate exchange agreements' obligations, net of settlements, (\$5 million). The increase in the favorable mark to market adjustments of the interest rate exchange agreements obligation is due to the favorable interest rate changes compared to the prior year.

Revenues

FY19 YTD operating revenue increased approximately \$58 million, or 6%, to \$1,064 million, from \$1,006 million a year earlier. The primary driver of the increase in revenues was a \$49 million, or 6%, increase in net patient service revenue to \$915 million from \$866 million a year earlier. The remaining increase is driven by increases in academic and research revenue and other operating revenue of \$4 million and \$5 million, respectively.

Expenses

FY19 YTD expense increased approximately \$58 million, or 6%, to \$1,038 million from \$980 million a year earlier. The primary drivers of this increase were increases in salaries, wages and benefits (\$27 million), drug costs (\$21 million), and medical supplies (\$9 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 \$49 million primarily due to excess of revenues over expenses, restricted contributions net of release, and additional endowments, including appreciation, of approximately \$44 million, \$1 million and \$3 million, respectively. Cash decreased by approximately \$28 million which was primarily due to \$24 million of investment purchases, net of sales, and \$50 million of construction of certain long-lived assets. These decreases in cash are partially offset by operating EBIDA of \$67 million. The remaining changes in the balance sheet were primarily timing items.

Conclusion

Operating results in FY19 were consistent with the prior year signaling stabilization following the November 2017 EMR system implementation.

**CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018 AND 2017
(\$ in thousands)**

	September 30, 2018	June 30, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 472,812	\$ 500,908
Current investments	115,937	134,467
Patient accounts receivable	486,971	474,385
Grants and contracts receivable, net	48,678	57,748
Inventories	66,906	72,636
Other current assets	90,451	85,843
Total current assets	1,281,755	1,325,987
Noncurrent investments	305,337	262,846
Noncurrent investments limited as to use	248,228	260,842
Property, plant, and equipment, net	1,304,629	1,306,639
Other noncurrent assets	38,251	35,877
Total assets	\$ 3,178,200	\$ 3,192,191
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 5,679	\$ 5,774
Accounts payable and other accrued expenses	211,566	268,087
Estimated payables under third-party programs	66,645	72,947
Accrued compensation and benefits	198,926	197,945
Current portion of deferred revenue	41,708	37,303
Current portion of medical malpractice self-insurance reserves	16,558	16,558
Total current liabilities	541,082	598,614
Long-term debt, net of current installments	1,511,178	1,512,698
Fair value of interest rate exchange agreements	49,308	54,206
Noncurrent portion of medical malpractice self-insurance reserves	57,817	57,520
Noncurrent portion of deferred revenue	18,528	18,719
Other noncurrent liabilities	23,235	22,804
Total liabilities	2,201,148	2,264,561
Net assets		
Unrestricted net assets controlled by Vanderbilt University Medical Center	851,633	807,481
Unrestricted net assets related to noncontrolling interests	7,500	5,724
Total unrestricted net assets	859,133	813,205
Temporarily restricted net assets	80,236	79,496
Permanently restricted net assets	37,683	34,929
Total net assets	977,052	927,630
Total liabilities and net assets	\$ 3,178,200	\$ 3,192,191

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(\$ in thousands)

	Three Months Ended	
	September 30,	
	2018	2017
Operating revenues		
Patient service revenue	\$ 915,067	\$ 865,672
Academic and research revenue	110,358	106,413
Other operating revenue	38,935	34,160
Total operating revenues	\$ 1,064,360	\$ 1,006,245
Operating expenses		
Salaries, wages, and benefits	556,692	529,996
Supplies and drugs	217,566	186,395
Facilities and equipment	64,880	62,065
Services and other	157,672	161,620
Depreciation and amortization	25,376	23,655
Interest	15,406	15,879
Total operating expenses	\$ 1,037,592	\$ 979,610
Income from operations	\$ 26,768	\$ 26,635
Nonoperating revenues and expenses		
Income from investments	\$ 10,038	\$ 9,935
Gift income	2,947	2,369
Earnings of unconsolidated organizations	602	1,014
Unrealized gain on interest rate exchange agreements, net of cash settlements	3,901	(622)
Total nonoperating revenues and expenses	\$ 17,488	\$ 12,696
Excess of revenues over expenses	\$ 44,256	\$ 39,331
Excess of revenues over expenses attributable to noncontrolling interests	(627)	(1,020)
Excess of revenues over expenses attributable to VUMC	\$ 43,629	\$ 38,311
Other changes in unrestricted net assets		
Change in noncontrolling interest's net assets	1,776	(141)
Net asset reclassification	524	283
Other changes	(1)	-
Total changes in unrestricted net assets	\$ 45,928	\$ 38,453

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(\$ in thousands)**

	Three Months Ended September 30,	
	2018	2017
Unrestricted net assets		
Unrestricted net assets at the beginning of the period	\$ 813,205	\$ 713,979
Excess of revenue over expense	43,629	38,311
Change in noncontrolling interest's net assets	1,776	(141)
Net asset reclassification	524	283
Other changes	(1)	-
Change in unrestricted net assets	<u>45,928</u>	<u>38,453</u>
Unrestricted net assets at the end of the period	<u>\$ 859,133</u>	<u>\$ 752,432</u>
Temporarily restricted net assets		
Temporarily restricted net assets at the beginning of the period	\$ 79,496	\$ 69,058
Contributions	2,361	2,913
Endowment appreciation	601	-
Net assets released from restrictions	(1,698)	(1,665)
Net asset reclassification	(524)	(301)
Change in temporarily restricted net assets	<u>740</u>	<u>947</u>
Temporarily restricted net assets at the end of the period	<u>\$ 80,236</u>	<u>\$ 70,005</u>
Permanently restricted net assets		
Permanently restricted net assets at the beginning of the period	\$ 34,929	\$ 17,865
Contributions	2,754	3,240
Net asset reclassification	-	18
Change in permanently restricted net assets	<u>2,754</u>	<u>3,258</u>
Permanently restricted net assets at the end of the period	<u>\$ 37,683</u>	<u>\$ 21,123</u>
Total net assets		
Beginning of the period	\$ 927,630	\$ 800,902
Change in total net assets	<u>49,422</u>	<u>42,658</u>
End of the period	<u>\$ 977,052</u>	<u>\$ 843,560</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(\$ in thousands)

	Three Months Ended	
	September 30,	
	2018	2017
Cash flows from operating activities		
Change in total net assets	\$ 49,422	\$ 42,658
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	25,376	23,655
Amortization of debt issuance costs, and original issue premium and discount	3	350
Loss on disposal of assets	13	251
Undistributed equity in earnings of equity method affiliates	(1,158)	(219)
Net realized and unrealized gain on investments	(5,897)	(7,390)
Purchases of trading securities	(79,894)	(143,637)
Sales of trading securities	73,982	54,427
Unrealized (gain) loss on interest rate exchange agreements	(4,898)	621
Restricted contributions for endowments and property, plant, and equipment	(3,173)	(3,790)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(12,586)	(14,948)
Accounts payable and other accrued expenses	(30,179)	(30,558)
Other assets and other liabilities, net	7,311	43,312
Net cash provided by (used in) operating activities	18,322	(35,268)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(49,827)	(46,143)
Purchases of long-term securities	(46,234)	(43,026)
Sales and maturities of long-term securities	28,213	16,269
Proceeds on sale of property, plant, and equipment	119	-
Change in restricted cash for property, plant, and equipment	18,482	(94,174)
Net cash used in investing activities	(49,247)	(167,074)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	276,334
Debt issuance costs	-	(2,749)
Repayment of long-term debt	(1,250)	(51,250)
Principal payments under capital lease obligations	(243)	(227)
Restricted contributions for endowments and property, plant, and equipment	3,173	3,790
Proceeds from (distributions to) noncontrolling interests	1,149	(1,161)
Net cash provided by financing activities	2,829	224,737
Net change in cash and cash equivalents	(28,096)	22,395
Cash and cash equivalents		
Beginning of the period	500,908	520,857
End of the period	\$ 472,812	\$ 543,252