

**Disclosure Report**  
**For the Twelve Months Ended June 30, 2019**

Contacts:	<b>Cecelia B. Moore, MHA, CPA, CHFP</b> Chief Financial Officer & Treasurer Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 322-0084 <a href="mailto:cecelia.b.moore@vumc.org">cecelia.b.moore@vumc.org</a>	<b>Scott T. Phillips, CPA</b> Vice President & Controller Vanderbilt University Medical Center 3319 West End Avenue Nashville, TN 37203 (Phone) (615) 875-9078 <a href="mailto:scott.t.phillips@vumc.org">scott.t.phillips@vumc.org</a>
-----------	---	---

**Disclosure Report for June 30, 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 June 30, 2019**

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

**THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK**

## Disclosure Report for June 30, 2019

### Table of Contents

	<u>Page</u>
Organization	3-4
Summary of Operating and Utilization Data	5-8
Summary of Financial Data	9-14
Management Discussion and Analysis	15
Consolidated Balance Sheet at June 30, 2019 (Unaudited) and June 30, 2018	17
Consolidated Statement of Operations - For the Twelve Months ended June 30, 2019 and 2018 (Unaudited)	18
Consolidated Statement of Changes in Net Assets - For the Twelve Months ended June 30, 2019 and 2018 (Unaudited)	19
Consolidated Statement of Cash Flows - For the Twelve Months ended June 30, 2019 and 2018 (Unaudited)	20

## **Disclosure Report for June 30, 2019**

### **ATTENTION**

This document is marked with a dated date of June 30, 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 1,072 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 142 acute and specialty beds, 50 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 twelve months ended June 30, 2019.

## SUMMARY OF OPERATING AND UTILIZATION DATA

### Licensed Beds

As of June 30, 2019, VUMC's facilities have 1,072 beds approved for operation, of which 1,058 were fully staffed, with 82 operating rooms. As of June 30, 2018, VUMC's facilities had 1,051 beds approved for operation and 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 June 30, 2019 and 2018, equates to 1,296 and 1,275, respectively.

<b>VUMC Beds (Licensed, Observation, JV, Managed)</b>			
<u>Licensed Beds</u>		<u>FY 2019</u>	<u>FY 2018</u>
Licensed-Bed Category Type			
Adult Medical Surgical		637	636
Adult Obstetric		50	50
Adult Clinical Research Center		5	6
Pediatric Medical/Surgical		142	129
Pediatric Neonatal Intensive Care		96	96
Pediatric Intensive Care		50	42
Psychiatric Care		92	92
Total Licensed Beds as of June 30, 2019 and 2018		<u>1,072</u>	<u>1,051</u>
 <u>Observation, JV, and Managed Beds and Bassinets</u>			
Current Observation/Extended Recovery Beds		93	93
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 June 30, 2019 and 2018		<u>224</u>	<u>224</u>
 Total Licensed, Observation, JV, and Managed Beds and Bassinets as of June 30, 2019 and 2018		<u><u>1,296</u></u>	<u><u>1,275</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 June 30, 2019 and 2018. The breakdown of direct research revenues is as follows for the twelve months ended June 30, 2019 and 2018 (\$ in thousands):

<b>Source</b>	<b>FY 2019</b>	<b>FY 2018</b>
Federal	\$ 297,758	\$ 288,535
Non-Federal	99,776	102,239
Total	<u>\$ 397,534</u>	<u>\$ 390,774</u>



## Capital Cash Flows

Capital expenditures for the twelve months ended June 30, 2019 and 2018, were \$215 million and \$199 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 93.8% and 94.2% during the twelve months ended June 30, 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, and double rooms used as singles). The average number of inpatients in the hospital at midnight census was 969 and 911 at June 30, 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 twelve months ended June 30, 2019 and 2018, are as follows:

	<b>FY 2019</b>	<b>FY 2018</b>
Licensed beds <sup>(1)</sup>	1,072	1,051
Hospital inpatient days <sup>(2)</sup>	353,554	332,665
Hospital discharges	64,559	61,381
Average length of stay in days <sup>(2)</sup>	5.5	5.4
Average occupancy level (licensed beds) <sup>(2)(3)</sup>	90.4%	86.7%
Surgical operations <sup>(4)</sup>	58,398	56,860
Ambulatory visits <sup>(5)</sup>	2,436,098	2,303,072
Emergency visits	114,661	116,652

(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 twelve months ended June 30, 2019 and 2018, are presented below:

	<b>FY 2019</b>	<b>FY 2018</b>
Total CMI <sup>(1)</sup>	2.14	2.16
Medicare CMI <sup>(1)</sup>	2.34	2.37

(1) Excludes normal newborns.

During the twelve months ended June 30, 2019 and 2018, ambulatory visits at the Medical Center totaled 2,117,101 and 2,021,617, respectively (excluding ambulatory visits from VHS joint ventures). While the majority of the VMG adult and children's ambulatory practice is located in VUAH on the main campus, VUMC health care services are offered outside the main campus, with approximately 49% and 48% of outpatient visits at off-campus locations during the twelve months ended June 30, 2019 and 2018, 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% and 19% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the twelve months ended June 30, 2019 and 2018, 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 twelve months ended June 30, 2019 and 2018:

<i>Payor Mix</i> <sup>(2)</sup>	<b>06/30/19 Gross</b>	<b>06/30/19 Net</b>
Commercial/Managed Care <sup>(1)</sup>	45.9%	61.7%
Medicare/Managed Medicare	32.6%	23.5%
TennCare/Medicaid	17.9%	13.9%
Uninsured (self-pay)	3.6%	0.9%
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.

<i>Payor Mix</i> <sup>(2)</sup>	<b>06/30/18 Gross</b>	<b>06/30/18 Net</b>
Commercial/Managed Care <sup>(1)</sup>	46.7%	63.4%
Medicare/Managed Medicare	32.2%	23.0%
TennCare/Medicaid	16.8%	12.4%
Uninsured (self-pay)	4.3%	1.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(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 74% 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 twelve months ended June 30, 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 06/30/19<sup>(1)</sup></b>	<b>Total Payments as of 06/30/18<sup>(1)</sup></b>	<b>Termination Dates</b>
Aetna	7.7%	7.7%	12/31/2021
BlueCross <sup>(2)</sup>	29.8%	29.8%	12/31/2023
CIGNA <sup>(2)</sup>	8.5%	8.2%	9/30/2019
Humana <sup>(2)</sup>	1.0%	0.7%	10/31/2019
United	7.8%	8.8%	7/31/2021
<b>Total as a % of total net patient revenue</b>	<b>54.8%</b>	<b>55.2%</b>	

(1) Represents cash payments received for discharges that occurred during the twelve months ended June 30, 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 \$221 million and \$150 million in net revenue or 7.2% and 7.0% of Hospital and Clinic net revenue for the twelve months ended June 30, 2019 and 2018, respectively, and have renewal 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 June 30, 2019, including working capital.

#### Summary of Cash and Investments Asset Allocation As of June 30, 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	71%	0%	0%	44%
Short-Term Investments	14%	0%	0%	9%
Equity Investments	0%	26%	36%	9%
Hedged Equity Investments	0%	12%	15%	5%
Fixed Income Investments	14%	35%	32%	22%
Hedged Debt Investments	0%	19%	10%	7%
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	1%	0%	1%	1%
SERP	0%	1%	0%	0%
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 \$38.4 million and quasi endowment funds of \$88.9 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of June 30, 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>	\$ 574,748	\$ 500,908
Less: restricted cash and cash equivalents included above	(29,827)	(24,987)
Less: restricted pending donor gifts included above	(3,179)	(1,531)
Total unrestricted cash and cash equivalents	<u>\$ 541,742</u>	<u>\$ 474,390</u>
Unrestricted investments <sup>(2)</sup>	<u>606,988</u>	<u>485,217</u>
Total unrestricted cash and investments	<u><u>\$ 1,148,730</u></u>	<u><u>\$ 959,607</u></u>
Average daily operating expenses <sup>(3)</sup>	<u><u>\$ 11,533</u></u>	<u><u>\$ 10,752</u></u>
Days cash on hand <sup>(4)</sup>	<u><u>99.6</u></u>	<u><u>89.2</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 June 30, 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 twelve months then ended.

## Debt Service Coverage

The following tables set forth, for the twelve months ended June 30, 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):

### As of June 30, 2019

	<u>Actual</u>
Excess of revenues over expenses <sup>(1)</sup>	\$ 208,100
Unrealized losses on investments <sup>(2)</sup>	126
Unrealized loss on interest rate swaps, net of cash settlements	17,480
Depreciation and amortization	106,524
Interest	56,528
Income available to pay debt service	<u>\$ 388,758</u>
Maximum annual debt service	\$ 94,201
Maximum annual debt service coverage <sup>(3)</sup>	4.1x
Annual debt service (Scheduled) <sup>(4)</sup>	\$ 65,430
Annual debt service coverage (Scheduled) <sup>(5)</sup>	5.9x

(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 June 30, 2018**

	<b>Actual</b>
Excess of revenues over expenses <sup>(1)</sup>	\$ 98,141
Unrealized gains on investments <sup>(2)</sup>	3,759
Unrealized gain on interest rate swaps, net of cash settlements	(6,379)
Depreciation and amortization	105,654
Interest	58,078
Income available to pay debt service	<u>\$ 259,253</u>
 Maximum annual debt service	 \$ 97,532
 Maximum annual debt service coverage <sup>(3)</sup>	 2.7x
 Annual debt service (Scheduled) <sup>(4)</sup>	 \$ 62,957
 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 twelve months ended June 30, 2019 and 2018, (\$ in thousands):

	<b>FY 2019</b>	<b>FY 2018</b>
Long-term debt <sup>(1)</sup>	\$ 1,430,861	\$ 1,428,888
Net assets without donor restrictions	1,058,285	813,205
Total capitalization	<u>\$ 2,489,146</u>	<u>\$ 2,242,093</u>
Ratio of long-term debt to capitalization (%)	57.5%	63.7%
EBIDA	\$ 371,153	\$ 261,873
Ratio debt to total EBIDA <sup>(2)</sup>	3.9x	5.5x
Total unrestricted cash and investments	\$ 1,148,730	\$ 959,557
Ratio cash to debt (%) <sup>(3)</sup>	80.3%	67.2%

(1) Total outstanding long-term debt, including current maturities, excluding the Subordinate Promissory Note, which as of the first quarter of FY19 is 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	\$ 34,153
Fixed-payer interest rate agreement	\$ 75,000	4.179%	68% LIBOR	4/29/2023	33,748
					<u>\$ 67,901</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>
2020	\$ 35,874	\$ 55,894	\$ 19,020	\$ 110,788
2021	25,758	51,785	19,020	96,563
2022	18,255	45,200	19,020	82,475
2023	11,213	42,764	19,020	72,997
2024	8,031	41,306	19,020	68,357
Thereafter	-	185,204	1,730,820	1,916,024
Total	<u>\$ 99,131</u>	<u>\$ 422,153</u>	<u>\$ 1,825,920</u>	<u>\$ 2,347,204</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Our FY19 results were significantly better than FY18, driven by increased operating revenue, primarily due to increased net patient service revenue. The increase in net patient service revenue was due to improved clinical volume and significant improvement in cash collections. In addition to growth in our top line, we have continued to focus on expense control improving our expenses as a percentage of revenue on a year over year basis. Our balance sheet metrics have improved on a year over year basis due to our improvement in excess of revenues over expenses and the continued focus on cash collections in the wake of our electronic medical record implementation. Due to the improvements in cash collections, our days cash on hand at year end was 99.6.

FY19 operating earnings before interest, depreciation and amortization (operating EBIDA) of \$344 million was \$124 million greater than FY18 operating EBIDA of \$220 million. The increase in operating EBIDA was driven by a \$411 million increase in operating revenue, partially offset by a \$287 million increase in operating expenses, excluding interest, depreciation and amortization. FY19 operating results of \$181 million was \$125 million greater than FY18 operating results of \$56 million. Excess of revenues over expenses was \$208 million which is \$110 million greater than FY18 excess of revenues over expenses of \$98 million. The increase is due to the increase in operating income mentioned above offset by a decrease of \$15 million in non-operating income.

The primary drivers of the \$15 million decrease in non-operating income was unfavorable mark to market adjustments of the interest rate exchange agreements' obligations, net of settlements, of \$24 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. This is partially offset by an increase in investment income of \$6 million from \$30 million in FY19 compared to \$24 million in FY18.

### **Revenues**

FY19 operating revenue increased approximately \$411 million, or 10%, to \$4,497 million, from \$4,086 million a year earlier. The primary driver of the increase in revenues was a \$378 million, or 11%, increase in net patient service revenue to \$3,821 million from \$3,443 million a year earlier. The remaining increase is driven by increases in academic and research revenue and other operating revenue of \$11 million and \$22 million, respectively.

### **Expenses**

FY19 expense increased approximately \$286 million, or 7%, to \$4,316 million from \$4,030 million a year earlier. The primary drivers of this increase were increases in salaries, wages and benefits (\$111 million), drug costs (\$70 million), and medical supplies (\$37 million). The increase in these expenses is primarily due to increased staffing, drug and supply needs to meet additional demand associated with higher net patient service revenue and margin. Drug expense has increased primarily due to additional infusion volume, mostly in the outpatient setting, also driving net patient service revenue and margin. A primary driver of the unfavorable medical supply variance is an increase in lung, heart and kidney transplants when compared to prior year, also associated with higher net patient services revenue and margin.

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

FY19 net assets increased by approximately \$245 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 \$208 million, \$15 million, \$20 million and \$2 million, respectively. Cash and cash equivalents increased by approximately \$74 million. The increase in cash and cash equivalents of \$74 million was driven by EBIDA of \$344 million, partially offset by \$53 million of unrestricted investment purchases, net of sales and \$215 million for the construction of certain long-lived assets.

**Conclusion**

Our FY19 operating results reflect a return to strong operating performance as we completed our recovery after our electronic medical record implementation which occurred in FY18. We saw improved outpatient and surgical volumes as we refined our new system and improved throughput in our clinic operations. These increased clinical volumes drove improved net patient service revenue as we continued to tightly manage our variable and fixed costs, evidenced by the fact that expenses grew at a rate of 7% while revenue and net patient revenue grew at 10% and 11%, 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 lower our days sales outstanding while growing our net revenue per day, resulting in growth in cash and cash equivalents.

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

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 574,748	\$ 500,908
Current investments	115,941	134,467
Patient accounts receivable	482,485	474,385
Grants and contracts receivable	58,750	57,748
Inventories	75,407	72,636
Other current assets	89,311	85,843
Total current assets	1,396,642	1,325,987
Restricted cash	11,938	77,257
Noncurrent investments	491,047	350,750
Noncurrent investments limited as to use	103,609	95,681
Property, plant, and equipment, net	1,395,095	1,306,639
Other noncurrent assets	48,067	35,877
Total assets	\$ 3,446,398	\$ 3,192,191
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current installments of long-term debt	\$ 8,568	\$ 5,774
Accounts payable and other accrued expenses	304,188	268,087
Estimated payables under third-party programs	24,877	72,947
Accrued compensation and benefits	214,382	197,945
Current portion of deferred revenue	42,386	37,303
Current portion of medical malpractice self-insurance reserves	12,012	16,558
Total current liabilities	606,413	598,614
Long-term debt, net of current installments	1,506,877	1,512,698
Fair value of interest rate exchange agreements	67,901	54,206
Noncurrent portion of medical malpractice self-insurance reserves	44,328	57,520
Noncurrent portion of deferred revenue	22,381	18,719
Other noncurrent liabilities	26,344	22,804
Total liabilities	2,274,244	2,264,561
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,050,509	807,481
Net assets without donor restrictions related to noncontrolling interests	7,776	5,724
Total net assets without donor restrictions	1,058,285	813,205
Net assets with donor restrictions	113,869	114,425
Total net assets	1,172,154	927,630
Total liabilities and net assets	\$ 3,446,398	\$ 3,192,191

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE TWELVE MONTHS ENDED JUNE 30, 2019 AND 2018**  
(\$ in thousands)

	Twelve Months Ended June 30,	
	2019 (Unaudited)	2018
<b>Operating revenues</b>		
Patient service revenue	\$ 3,820,871	\$ 3,442,777
Academic and research revenue	505,800	495,306
Other operating revenue	170,658	148,316
Total operating revenues	<u>4,497,329</u>	<u>4,086,399</u>
<b>Operating expenses</b>		
Salaries, wages, and benefits	2,290,910	2,179,647
Supplies and drugs	892,211	770,459
Facilities and equipment	268,974	256,938
Services and other	701,079	659,455
Depreciation and amortization	106,524	105,654
Interest	56,529	58,078
Total operating expenses	<u>4,316,227</u>	<u>4,030,231</u>
Income from operations	<u>181,102</u>	<u>56,168</u>
<b>Nonoperating revenues and expenses</b>		
Income from investments	30,106	24,021
Gift income	14,416	11,945
Earnings of unconsolidated organizations	4,031	3,696
Unrealized loss on interest rate exchange agreements, net of cash settlements	<u>(17,480)</u>	<u>6,379</u>
Total nonoperating revenues and expenses	<u>31,073</u>	<u>46,041</u>
Excess of revenues over expenses	212,175	102,209
Excess of revenues over expenses attributable to noncontrolling interests	<u>(4,075)</u>	<u>(4,068)</u>
Excess of revenues over expenses attributable to VUMC	208,100	98,141
<b>Other changes in net assets without donor restrictions</b>		
Change in noncontrolling interest's net assets	2,052	(167)
Net asset reclassification	(182)	(89)
Plant contributions placed into service	35,110	1,292
Other changes	<u>-</u>	<u>49</u>
Total changes in net assets without donor restrictions	<u>\$ 245,080</u>	<u>\$ 99,226</u>

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2019 AND 2018**  
(\$ in thousands)

	Twelve Months Ended June 30,	
	2019 (Unaudited)	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 revenues over expenses	208,100	98,141
Change in noncontrolling interest's net assets	2,052	(167)
Net asset reclassification	(182)	(89)
Plant contributions placed into service	35,110	1,292
Other changes	-	49
Change in net assets without donor restrictions	<u>245,080</u>	<u>99,226</u>
Net assets without donor restrictions at the end of the period	<u>\$ 1,058,285</u>	<u>\$ 813,205</u>
<b>Net assets with donor restrictions</b>		
Net assets with donor restrictions at the beginning of the period	\$ 114,425	\$ 86,923
Contributions	43,303	34,988
Change in endowment appreciation	1,665	1,165
Net assets released from restrictions	(10,596)	(7,448)
Net asset reclassification	182	89
Plant contributions released	<u>(35,110)</u>	<u>(1,292)</u>
Change in net assets with donor restrictions	<u>(556)</u>	<u>27,502</u>
Net assets with donor restrictions at the end of the period	<u>\$ 113,869</u>	<u>\$ 114,425</u>
<b>Total net assets</b>		
Beginning of the period	\$ 927,630	\$ 800,902
Change in total net assets	<u>244,524</u>	<u>126,728</u>
End of the period	<u>\$ 1,172,154</u>	<u>\$ 927,630</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE TWELVE MONTHS ENDED JUNE 30, 2019 AND 2018**  
(\$ in thousands)

	Twelve Months Ended June 30,	
	2019	2018
	(Unaudited)	
<b>Cash flows from operating activities</b>		
Change in total net assets	\$ 244,524	\$ 126,728
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	106,524	105,654
Amortization of debt issuance costs, and original issue premium and discount	26	518
Loss (gain) on disposal of assets	485	(7,686)
Undistributed equity in earnings of equity method affiliates	343	(1,807)
Net realized and unrealized gain on investments	(10,721)	(10,954)
Purchases of trading securities	(231,753)	(348,124)
Sales of trading securities	220,535	332,330
Change in split-interest trusts	194	(230)
Unrealized loss (gain) on interest rate exchange agreements	13,694	(10,997)
Restricted contributions for endowments and property, plant, and equipment	(25,683)	(24,326)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(8,100)	(99,699)
Accounts payable and other accrued expenses	52,086	478
Other assets and other liabilities, net	(47,381)	58,536
Net cash provided by operating activities	<u>314,773</u>	<u>120,421</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(215,348)	(198,562)
Purchases of long-term securities	(340,184)	(291,235)
Sales and maturities of long-term securities	232,230	135,927
Proceeds on sale of property, plant, and equipment	220	20,394
Net cash used in investing activities	<u>(323,082)</u>	<u>(333,476)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	-	329,719
Debt issuance costs	-	(3,035)
Repayment of long-term debt	(5,000)	(108,100)
Principal payments under capital lease obligations	(1,831)	(1,191)
Restricted contributions for endowments and property, plant, and equipment	25,683	24,326
Distributions to noncontrolling interests	(2,022)	(4,234)
Net cash provided by financing activities	<u>16,830</u>	<u>237,485</u>
Net change in cash, cash equivalents, and restricted cash	<u>8,521</u>	<u>24,430</u>
<b>Cash, cash equivalents, and restricted cash</b>		
Beginning of the period	<u>578,165</u>	<u>553,735</u>
End of the period	<u>\$ 586,686</u>	<u>\$ 578,165</u>