

Disclosure Report
For the Three Months Ended September 30, 2019

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Disclosure Report for September 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 September 30, 2019

**CUSIP Nos: 592041WC7, 592041WD5, 592041WE3, 592041WF0, 592041WG8, 592041WH6,
592041WJ2, 592041XC6, 592041YB7, 592041YC5, 921814A 0**

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Disclosure Report for September 30, 2019

ATTENTION

This document is marked with a dated date of September 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. in which VUMC holds a 50% interest, which includes a 1% interest held by Vanderbilt Health Services, LLC, (“VHS”), a VUMC wholly owned subsidiary. Effective August 1, 2019, VUMC acquired a fourth hospital from Community Health Systems, Inc.: Tennova Healthcare – Lebanon, now known as Vanderbilt Wilson County Hospital (“VWCH”). VUAH, MCJCHV, VPH, and VWCH are licensed for 1,336 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, VPH, and VWCH. The Clinical Enterprise also includes VHS.

- VUAH is a quaternary care teaching hospital licensed for 680 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 305 beds (144 acute and specialty, 65 pediatric intensive care, and 96 neonatal intensive care). 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 106 beds and provides both inpatient and outpatient partial hospitalization psychiatric services to both adult and adolescent patients. Also, VPH provides psychiatric assessment services, adult intensive outpatient programs, and neuromodulation procedures through electroconvulsive therapy and transcranial magnetic stimulation.
- VWCH is a two-campus facility licensed for 245 beds and is a substantial provider of both inpatient and outpatient medical services in Lebanon, Tennessee. VWCH also includes an accredited chest pain center, a stroke center, and a comprehensive weight loss center.

- 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.
- Health Professional Solutions, LLC ("HPS") is a holding company that holds interest in five VUMC subsidiaries that engage in or support various health care activities in order to improve the quality and availability of health care services in the community. These subsidiaries include businesses focused on pharmacy, supply chain, and clinically integrated support 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 2019 financial statements and certain financial ratios have been reclassified to conform to their Fiscal 2020 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 three months ended September 30, 2019.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of September 30, 2019, VUMC's facilities have 1,336 beds approved for operation, of which 1,226 were fully staffed, with 91 operating rooms. As of September 30, 2018, VUMC's facilities had 1,051 beds approved for operation, of which 1,049 were fully staffed, with 82 operating rooms. These beds are primarily located at VUAH, MCJCHV, VPH, and VWCH. 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, operated observation beds, and bassinet beds, total beds as of September 30, 2019 and 2018, equates to 1,574 and 1,275, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

<u>Licensed Beds</u>	<u>FY 2020</u>	<u>FY 2019</u>
Licensed-Bed Category Type		
Adult Medical Surgical	781	636
Adult Obstetric	64	50
Adult Clinical Research Center	5	6
Pediatric Medical/Surgical	144	129
Pediatric Neonatal Intensive Care	96	96
Pediatric Intensive Care	65	42
Psychiatric Care	155	92
Rehabilitation	26	-
Total Licensed Beds as of September 30, 2019 and 2018	<u>1,336</u>	<u>1,051</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds	93	93
Current Bassinets	49	35
Stallworth Rehabilitation Hospital Beds (JV) ⁽¹⁾	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) ⁽²⁾	<u>16</u>	<u>16</u>
Total Observation, JV, and Managed Beds and Bassinets as of September 30, 2019 and 2018	<u>238</u>	<u>224</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of September 30, 2019 and 2018	<u><u>1,574</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 70% of the research expenditures conducted by VUMC as of September 30, 2019 and 2018. The breakdown of direct research revenues is as follows for the three months ended September 30, 2019 and 2018 (\$ in thousands):

Source	FY 2020	FY 2019
Federal	\$ 71,562	\$ 63,571
Non-Federal	25,534	21,696
Total	<u>\$ 97,096</u>	<u>\$ 85,267</u>

Capital Cash Flows

Capital expenditures for the three months ended September 30, 2019 and 2018, were \$80 million and \$50 million, respectively. The FY 2020 period primarily includes the VWCH acquisition as well as construction of tangible assets associated with hospital and clinic expansions within the adult and pediatric enterprises. The FY 2019 expenditures primarily relate to construction of tangible assets associated with the adult and children's hospital expansions.

Utilization

VUMC's overall functional occupancy rate, excluding VWCH, was 96.6% and 92.6% during the three months ended September 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, excluding VWCH, was 988 and 956 at September 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 three months ended September 30, 2019 and 2018, are as follows:

	<u>FY 2020</u>	<u>FY 2019</u>
Licensed beds ⁽¹⁾	1,336	1,051
Hospital inpatient days ⁽²⁾	94,453	87,961
Hospital discharges	17,098	16,098
Average length of stay in days ⁽²⁾	5.5	5.5
Average occupancy level (licensed beds) ⁽²⁾⁽³⁾	91.3%	91.7%
Surgical operations ⁽⁴⁾	15,827	14,419
Ambulatory visits ⁽⁵⁾	632,973	556,461
Emergency visits	32,984	27,525

(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 VWCH, and observation patients, divided by total licensed beds excluding VWCH multiplied by the number of days in the period. Average occupancy level including VWCH staffed beds of 137 is 85.9%.

(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, 2019 and 2018, are presented below:

	FY 2020	FY 2019
Total CMI ⁽¹⁾	2.19	2.15
Medicare CMI ⁽¹⁾	2.34	2.34

(1) Excludes normal newborns and VWCH.

During the three months ended September 30, 2019 and 2018, ambulatory visits at the Medical Center totaled 560,928 and 515,531, 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 50% and 47% of outpatient visits at off-campus locations during the three months ended September 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 three months ended September 30, 2019 and 2018, respectively.

The revenues attributable to Blue Cross are presented in the other third-party payors 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 explicit and implicit price concessions for the three months ended September 30, 2019 and 2018, respectively:

<i>Payor Mix</i> ⁽¹⁾	09/30/19 Gross	09/30/19 Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	46.6%	64.2%
Medicare/Managed Medicare	31.9%	23.0%
TennCare/Medicaid	16.8%	12.1%
Uninsured (self-pay)	4.7%	0.6%
Total	100.0%	100.0%

(1) Includes VWCH.

(2) Includes commercial indemnity and other patient service programs provided under contractual arrangements.

<i>Payor Mix</i>	09/30/18 Gross	09/30/18 Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽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) Includes commercial indemnity and other patient service programs provided under contractual arrangements.

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 78% 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, 2019 and 2018, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total Payments as of 09/30/19⁽¹⁾	Total Payments as of 09/30/18⁽¹⁾	Termination Dates
Aetna	7.5%	7.7%	12/31/2021
BlueCross ⁽²⁾	30.8%	29.7%	12/31/2023
CIGNA ⁽²⁾	8.8%	8.9%	9/30/2020
Humana ⁽²⁾	1.2%	0.6%	10/31/2020
United	8.4%	8.3%	7/31/2021
Total as a % of total net patient revenue	56.7%	55.2%	

(1) Represents cash payments received for discharges that occurred during the three months ended September 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 \$55.9 million and \$54.1 million in net revenue or 6.7% and 7.2% of Hospital and Clinic net revenue for the three months ended September 30, 2019 and 2018, respectively, and have renewal dates ranging from October 31, 2020 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, 2019, including working capital.

Summary of Cash and Investments Asset Allocation As of September 30, 2019

	<u>Working Capital</u>	<u>Unrestricted and Restricted Investments⁽¹⁾</u>	<u>Self- Insurance Trust</u>	<u>Total</u>
Cash & Cash Equivalents	68%	0%	0%	42%
Short-Term Investments	14%	0%	0%	8%
Equity Investments	0%	25%	36%	10%
Hedged Equity Investments	0%	12%	13%	5%
Fixed Income Investments	16%	35%	34%	23%
Hedged Debt Investments	0%	19%	10%	7%
Other Marketable Alternatives ⁽²⁾	0%	6%	6%	2%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	2%	0%	1%	1%
SERP	0%	1%	0%	1%
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 \$43.0 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, 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

	FY 2020	FY 2019
Cash and cash equivalents ⁽¹⁾	\$ 530,311	\$ 472,812
Less: restricted cash and cash equivalents included above	(32,200)	(25,308)
Less: restricted pending donor gifts included above	(401)	(187)
Total unrestricted cash and cash equivalents	<u>\$ 497,710</u>	<u>\$ 447,317</u>
Unrestricted investments ⁽²⁾	614,197	510,726
Total unrestricted cash and investments	<u>\$ 1,111,907</u>	<u>\$ 958,043</u>
Average daily operating expenses ⁽³⁾	<u>\$ 12,160</u>	<u>\$ 11,093</u>
Days cash on hand ⁽⁴⁾	<u>91.4</u>	<u>86.4</u>

- (1) Cash and cash equivalents, as reported on the unaudited balance sheet, are composed of assets that are or may be readily converted to cash.
- (2) Unrestricted investments may be comprised of U.S. small, mid and larger capitalization stocks, international stocks, intermediate term fixed income securities, mutual funds, exchange traded funds, hedge funds, real estate and private equity and generally may be liquidated within four business days or less.
- (3) Average daily operating expenses include all VUMC financial flows to the University. This excludes the principal payments on the Subordinated Promissory Note, which is now held by a 3rd party.
- (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, 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 September 30, 2019

	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses ⁽¹⁾	\$ 42,239	\$ 168,956
Unrealized gains on investments ⁽²⁾	(352)	(1,408)
Unrealized loss on interest rate swap, net of cash settlements	14,101	56,404
Depreciation and amortization	28,937	115,748
Interest	13,492	53,968
Income available to pay debt service	<u>\$ 98,417</u>	<u>\$ 393,668</u>
Maximum annual debt service		\$ 94,568
Maximum annual debt service coverage ⁽³⁾		4.2x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 67,733
Annual debt service coverage (Scheduled) ⁽⁵⁾		5.8x

(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.

(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, excluding debt service related to operating leases.

(4) Represents smoothed debt service scheduled for the fiscal year, excluding debt service related to operating leases. 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, excluding debt service related to operating leases.

As of September 30, 2018

	<u>Actual</u>	<u>Annualized</u>
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	15,406	61,624
Income available to pay debt service	<u>\$ 75,744</u>	<u>\$ 302,976</u>
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.
- (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, excluding debt service related to operating leases.
- (4) Represents smoothed debt service scheduled for the fiscal year, excluding debt service related to operating leases. 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, excluding debt service related to operating leases.

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the three months ended September 30, 2019 and 2018, (*\$ in thousands*):

	FY 2020	FY 2019
Long-term debt ⁽¹⁾	\$ 1,465,457	\$ 1,428,524
Net assets without donor restrictions	1,101,873	859,133
Total capitalization	<u>\$ 2,567,330</u>	<u>\$ 2,287,657</u>
Ratio of long-term debt to capitalization (%)	57.1%	62.4%
EBIDA	\$ 338,672	\$ 337,644
Ratio debt to total EBIDA ⁽²⁾	4.3x	4.2x
Total unrestricted cash and investments	\$ 1,111,907	\$ 958,043
Ratio cash to debt (%) ⁽³⁾	75.9%	67.1%

(1) Total outstanding long-term debt, including current maturities, excluding the Subordinate Promissory Note and operating lease liabilities.

(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*):

Description	Notional Amount	Rate Paid	Rate Received	Maturity	Fair Value
Fixed-payer interest rate agreement	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2021	\$ 40,330
Fixed-payer interest rate agreement	\$ 75,000	4.18%	68% of one-month LIBOR	4/29/2023	40,688
					<u>\$ 81,018</u>

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 following schedule represents our annual commitments of minimum rentals on non-cancelable operating leases by fiscal year (*\$ in thousands*):

	Equipment	Property	Ground Lease	Total
2020	\$ 38,198	\$ 48,497	\$ 19,440	\$ 106,135
2021	27,338	46,620	19,440	93,398
2022	14,571	39,923	19,440	73,934
2023	7,306	36,799	19,440	63,545
2024	2,708	35,115	19,440	57,263
Thereafter	39	180,053	1,749,600	1,929,692
Total	<u>\$ 90,160</u>	<u>\$ 387,007</u>	<u>\$ 1,846,800</u>	<u>\$ 2,323,967</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY20 YTD operating earnings before interest, depreciation and amortization (operating EBIDA) of \$89 million was \$21 million greater than FY19 YTD operating EBIDA of \$68 million. The increase in operating EBIDA was driven by a \$120 million increase in operating revenue, partially offset by a \$99 million increase in operating expenses, excluding interest, depreciation and amortization. FY20 YTD operating results of \$46 million was \$19 million greater than FY19 operating results of \$27 million. YTD excess of revenues over expenses was \$42 million which is \$1 million less than FY19 YTD excess of revenues over expenses of \$43 million. The slight decline is due to a decrease of \$20 million in non-operating income offset by the increase in operating income mentioned above.

The primary drivers of the \$20 million decrease in non-operating income was unfavorable mark to market adjustments of the interest rate exchange agreements' obligations, net of settlements, of \$14 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. In addition, investment income decreased \$3 million to \$7 million in FY20 compared to \$10 million in FY19 driven by ongoing market volatility.

Revenues

FY20 YTD operating revenue increased approximately \$120 million, or 11%, to \$1,185 million from \$1,064 million a year earlier. The primary driver of the increase in revenues was a \$102 million, or 11%, increase in patient service revenue to \$1,017 million from \$915 million a year earlier. The remaining increase is driven by increases in academic and research revenue and other operating revenue of \$16 million and \$3 million, respectively.

Expenses

FY20 YTD expense increased approximately \$101 million, or 10%, to \$1,139 million from \$1,038 million a year earlier. The primary drivers were increases in salaries, wages and benefits (\$43 million) and supplies and drugs (\$28 million). The increase in these expenses is primarily due to increased staffing, drug, and supply needs to meet additional demand associated with higher patient service revenue and margin. Drug expense has increased primarily due to the ongoing introduction of sophisticated new pharmaceutical compounds, which VUMC, as a leading academic medical center provides to our quaternary patients.

Balance Sheet / Cash Flow

FY20 YTD net assets increased by approximately \$50 million primarily due to excess of revenues over expenses and donor-restricted contributions including restricted investment income, net of those released from restrictions, and other unrestricted changes of approximately \$42 million, \$6 million and \$2 million, respectively. Cash and cash equivalents decreased by approximately \$44 million which was primarily due to \$80 million for the construction of certain long-lived assets and investment purchases, net of sales, of \$10 million, partially offset by EBIDA of \$89 million. The remaining change in cash was largely due to changes in working capital with a \$47 million decrease in accounts payable and a \$20 million increase in accounts receivable driving that change.

We adopted the new lease accounting guidance that resulted in an asset, net of straight-line impact, and obligation of \$742 million, net of \$18 million of straight-line contra asset, and \$760 million, respectively. The impact to the income statement was not material.

Conclusion

Our YTD FY20 operating results reflect our focus on increasing patient volumes while continuing to tightly manage our variable and fixed costs, evidenced by the fact that expenses grew at a rate of 10% while revenue and patient revenue grew at 11%, respectively. The balance sheet remained stable with moderate growth in accounts receivable due to volume as we continue to maintain our days sales outstanding while growing our net revenue per day.

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

	September 30, 2019 (Unaudited)	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 530,311	\$ 574,748
Current investments	105,968	115,941
Patient accounts receivable	502,030	482,485
Grants and contracts receivable	55,042	58,750
Inventories	80,968	75,407
Other current assets	86,903	89,311
Total current assets	1,361,222	1,396,642
Restricted cash	12,376	11,938
Noncurrent investments	508,229	491,047
Noncurrent investments limited as to use	108,092	103,609
Property, plant, and equipment, net	1,419,858	1,395,095
Operating lease assets	732,607	-
Other noncurrent assets	51,941	48,067
Total assets	\$ 4,194,325	\$ 3,446,398
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 9,866	\$ 8,568
Accounts payable and other accrued expenses	230,599	304,188
Estimated payables under third-party programs	9,780	24,877
Accrued compensation and benefits	224,537	214,382
Current portion of operating lease liabilities	67,692	-
Current portion of deferred revenue	16,386	14,965
Current portion of medical malpractice self-insurance reserves	12,012	12,012
Total current liabilities	570,872	578,992
Long-term debt, net of current installments	1,538,924	1,506,877
Noncurrent portion of operating lease liabilities	679,130	-
Fair value of interest rate exchange agreements	81,018	67,901
Noncurrent portion of medical malpractice self-insurance reserves	45,014	44,328
Noncurrent portion of deferred revenue	7,617	7,773
Other noncurrent liabilities	7,673	26,345
Total liabilities	2,930,248	2,232,216
Net assets		
Net assets without donor restrictions controlled by		
Vanderbilt University Medical Center	1,093,796	1,050,509
Net assets without donor restrictions related to		
noncontrolling interests	8,077	7,776
Total net assets without donor restrictions	1,101,873	1,058,285
Net assets with donor restrictions	162,204	155,897
Total net assets	1,264,077	1,214,182
Total liabilities and net assets	\$ 4,194,325	\$ 3,446,398

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(\$ in thousands)

	Three Months Ended September 30,	
	2019	2018
Operating revenues		
Patient service revenue	\$ 1,016,663	\$ 915,067
Academic and research revenue	128,328	112,666
Other operating revenue	39,822	36,627
Total operating revenues	<u>1,184,813</u>	<u>1,064,360</u>
Operating expenses		
Salaries, wages, and benefits	600,188	556,692
Supplies and drugs	245,145	217,566
Facilities and equipment	67,737	64,880
Services and other	183,055	157,672
Depreciation and amortization	28,937	25,376
Interest	13,492	15,406
Total operating expenses	<u>1,138,554</u>	<u>1,037,592</u>
Income from operations	<u>46,259</u>	<u>26,768</u>
Nonoperating revenues and expenses		
Income from investments	7,034	10,038
Gift income	2,847	2,947
Earnings of unconsolidated organizations	1,279	602
Unrealized (loss) gain on interest rate exchange agreements, net of cash settlements	<u>(14,101)</u>	<u>3,901</u>
Total nonoperating revenues and expenses	<u>(2,941)</u>	<u>17,488</u>
Excess of revenues over expenses	43,318	44,256
Excess of revenues over expenses attributable to noncontrolling interests	<u>(1,079)</u>	<u>(627)</u>
Excess of revenues over expenses attributable to VUMC	42,239	43,629
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	301	1,776
Net asset reclassification	6	523
Net assets released from restriction for capital	179	-
Other changes	<u>863</u>	<u>-</u>
Total changes in net assets without donor restrictions	<u>\$ 43,588</u>	<u>\$ 45,928</u>

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

	Three Months Ended	
	September 30,	
	2019	2018
Net assets without donor restrictions		
Net assets without donor restrictions at the beginning of the period	\$ 1,058,285	\$ 813,205
Excess of revenues over expenses	42,239	43,629
Change in noncontrolling interest's net assets	301	1,776
Net asset reclassification	6	523
Net assets released from restriction for capital	179	-
Other changes	863	-
Change in net assets without donor restrictions	43,588	45,928
Net assets without donor restrictions at the end of the period	\$ 1,101,873	\$ 859,133
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 155,897	\$ 114,425
Contributions	8,391	5,115
Restricted investment income	339	600
Net assets released from restrictions for operations	(2,238)	(1,698)
Net asset reclassification	(6)	(523)
Net assets released from restriction for capital	(179)	-
Change in net assets with donor restrictions	6,307	3,494
Net assets with donor restrictions at the end of the period	\$ 162,204	\$ 117,919
Total net assets		
Beginning of the period	\$ 1,214,182	\$ 927,630
Change in total net assets	49,895	49,422
End of the period	\$ 1,264,077	\$ 977,052

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

	Three Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Change in total net assets	\$ 49,895	\$ 49,422
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	28,937	25,376
Amortization of debt issuance costs, and original issue premium and discount	14	3
Loss on disposal of assets	743	13
Undistributed equity in earnings of equity method affiliates	(1,845)	(1,158)
Net realized and unrealized gain on investments	(1,252)	(5,897)
Purchases of trading securities	(70,446)	(79,894)
Sales of trading securities	65,045	73,982
Unrealized loss (gain) on interest rate exchange agreements	13,117	(4,898)
Restricted contributions for endowments and property, plant, and equipment	(2,074)	(3,173)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(19,545)	(12,586)
Accounts payable and other accrued expenses	(47,437)	(30,179)
Other assets and other liabilities, net	(8,300)	7,311
Net cash provided by operating activities	<u>6,852</u>	<u>18,322</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(80,013)	(49,827)
Purchases of long-term securities	(36,820)	(45,281)
Sales and maturities of long-term securities	31,781	23,861
Proceeds on sale of property, plant, and equipment	-	119
Net cash used in investing activities	<u>(85,052)</u>	<u>(71,128)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	35,000	-
Debt issuance costs	(192)	-
Repayment of long-term debt	(1,250)	(1,250)
Principal payments under capital lease obligations	(653)	(243)
Restricted contributions for endowments and property, plant, and equipment	2,074	3,173
(Distributions) proceeds to noncontrolling interests	(778)	1,149
Net cash provided by financing activities	<u>34,201</u>	<u>2,829</u>
Net change in cash, cash equivalents, and restricted cash	<u>(43,999)</u>	<u>(49,977)</u>
Cash, cash equivalents, and restricted cash		
Beginning of the period	<u>586,686</u>	<u>578,165</u>
End of the period	<u>\$ 542,687</u>	<u>\$ 528,188</u>