

Disclosure Report
For the Three Months ended September 30, 2020

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

Disclosure Report for September 30, 2020

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, 2020

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

Disclosure Report for September 30, 2020

Table of Contents

	<u>Page</u>
Organization	3
Summary of Operating and Utilization Data	5
Summary of Financial Data	10
Management Discussion and Analysis	16
Consolidated Balance Sheet at September 30, 2020 (Unaudited) and June 30, 2020	18
Consolidated Statement of Operations - For the Three Months ended September 30, 2020 and 2019 (Unaudited)	19
Consolidated Statement of Changes in Net Assets - For the Three Months ended September 30, 2020 and 2019 (Unaudited)	20
Consolidated Statement of Cash Flows - For the Three Months ended September 30, 2020 and 2019 (Unaudited)	21

Disclosure Report for September 30, 2020

ATTENTION

This document is marked with a dated date of September 30, 2020, 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 (“Medical Center Main Campus” or “MCMC”) 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 1,472 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 the 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 726 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. On July 15, 2020, VUMC obtained a temporary waiver to license 52 additional beds as medical/surgical with the ability to flex to intensive care as needed in response to COVID-19. This licensure increase is comprised of 12 observation beds and 40 double occupancy beds, and these beds are not included in the above VUAH bed count.
- MCJCHV is a pediatric quaternary care teaching hospital licensed for 343 beds (159 acute and specialty, 65 pediatric intensive care, and 119 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 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 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.

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, 2020.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of September 30, 2020, VUMC's facilities have 1,472 beds approved for operation, of which 1,338 were fully staffed, with 94 operating rooms. As of September 30, 2019, VUMC's facilities had 1,336 beds approved for operation, of which 1,226 were fully staffed, with 91 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, 2020 and 2019, equates to 1,680 and 1,574, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

<u>Licensed Beds</u>	<u>FY 2021</u>	<u>FY 2020</u>
Licensed-Bed Category Type		
Adult Medical Surgical	827	781
COVID-19 ⁽¹⁾	52	-
Adult Obstetric	64	64
Adult Clinical Research Center	5	5
Pediatric Medical/Surgical	159	144
Pediatric Neonatal Intensive Care	119	96
Pediatric Intensive Care	65	65
Psychiatric Care	155	155
Rehabilitation	26	26
Total Licensed Beds as of September 30, 2020 and 2019	<u>1,472</u>	<u>1,336</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds	63	93
Current Bassinets	49	49
Stallworth Rehabilitation Hospital Beds (JV) ⁽²⁾	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) ⁽³⁾	16	16
Total Observation, JV, and Managed Beds and Bassinets as of September 30, 2020 and 2019	<u>208</u>	<u>238</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of September 30, 2020 and 2019	<u><u>1,680</u></u>	<u><u>1,574</u></u>

(1) Represents a temporary license to utilize 12 observation beds and 40 double occupancy beds as licensed medical/surgical beds in response to COVID-19.

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

(3) 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, 2020 and 2019. The breakdown of direct research revenues is as follows for the three months ended September 30, 2020 and 2019 (*\$ in thousands*):

Source	FY 2021	FY 2020
Federal	\$ 71,369	\$ 71,562
Non-Federal	22,173	25,534
Total	<u>\$ 93,542</u>	<u>\$ 97,096</u>

Capital Cash Flows

Capital expenditures for the three months ended September 30, 2020 and 2019, were \$50 million and \$80 million, respectively. The FY 2021 period primarily relates to construction of tangible assets associated with hospital and clinic expansions within the adult enterprise. 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.

Utilization

VUMC’s overall functional occupancy rate for the Medical Center Main Campus (“MCMC”), was 88.1% and 96.6% during the three months ended September 30, 2020 and 2019, respectively, (functional occupancy rate calculated as inpatient days plus observation days in inpatient units divided by total licensed beds, less research, labor & delivery, 40 unstaffed temporarily licensed COVID-19 beds, and double rooms used as singles). The average number of inpatients in the hospital for the MCMC at midnight census was 992 and 988 at September 30, 2020 and 2019, respectively. Utilization statistics of the hospitals and clinics for the three months ended September 30, 2020 and 2019, are as follows:

	<u>FY 2021</u>	<u>FY 2020</u>
Licensed beds ⁽¹⁾	1,472	1,336
Hospital inpatient days ⁽²⁾	99,466	94,453
Hospital discharges	17,236	17,098
Average length of stay in days ⁽²⁾	5.8	5.5
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	86.3%	91.4%
Average occupancy level (Community Hospitals) ⁽²⁾⁽⁴⁾	43.9%	43.1%
Surgical operations ⁽⁵⁾	16,310	15,827
Ambulatory visits ⁽⁶⁾	672,478	632,973
Emergency visits	29,690	32,984

- (1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital. Includes 12 observation beds and 40 double occupancy beds temporarily licensed as medical/surgical in response to COVID-19.
- (2) Includes nursery and psychiatric care; does not include the observation patients.
- (3) Includes MCMC and is calculated as inpatient days, excluding observation patients, divided by total staffed beds, multiplied by the number of days in the period. As of September 30, 2020, total staffed beds include 12 staffed beds temporarily licensed in response to COVID-19. The lower average occupancy for Q1 FY21 compared to Q1 FY20 is driven by a decreased census due to dedicated COVID-19 units that are not always at capacity and an inability to use double occupancy rooms at VPH.
- (4) Includes VWCH and is calculated as inpatient days, excluding observation patients, divided by total staffed beds, multiplied by the number of days in the period.
- (5) Excludes surgical operations performed by VUMC-employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.
- (6) 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, 2020 and 2019, are presented below:

	FY 2021	FY 2020
Total CMI ⁽¹⁾	2.27	2.15
Medicare CMI ⁽¹⁾	2.32	2.30

(1) Excludes normal newborns.

During the three months ended September 30, 2020 and 2019, ambulatory visits at the Medical Center totaled 591,026 and 560,928, respectively (excluding ambulatory visits from VHS joint ventures). While a substantial portion of the VMG adult and children’s ambulatory practice is located on the main campus, VUMC health care services are offered outside the main campus, with approximately 53% and 50% of outpatient visits at off-campus locations during the three months ended September 30, 2020 and 2019.

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 18% and 20% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the three months ended September 30, 2020 and 2019, 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 net patient service revenue for the three months ended September 30, 2020 and 2019, respectively:

	9/30/20 Gross	9/30/20 Net
<i>Payor Mix</i>		
Other Third-Party Payors, Primarily Commercial Carriers ⁽¹⁾	46.1%	63.7%
Medicare/Managed Medicare	31.5%	22.3%
TennCare/Medicaid	17.7%	12.8%
Uninsured (self-pay)	4.7%	1.2%
Total	100.0%	100.0%

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

<i>Payor Mix</i>	9/30/19 Gross	9/30/19 Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽¹⁾	46.6%	64.2%
Medicare/Managed Medicare	31.9%	23.0%
TennCare/Medicaid	16.8%	12.1%
Uninsured (self-pay)	4.7%	0.7%
Total	<u>100.0%</u>	<u>100.0%</u>

(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, 2020 and 2019, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total Payments as of 9/30/20⁽¹⁾	Total Payments as of 9/30/19⁽¹⁾	Termination Dates
Aetna	7.7%	7.5%	12/31/2021
BlueCross ⁽²⁾	31.0%	30.8%	12/31/2023
CIGNA ⁽²⁾	8.3%	8.8%	12/31/2023
Humana ⁽²⁾	1.2%	1.2%	9/30/2021
United	8.5%	8.4%	7/31/2021
Total as a % of total net patient revenue	<u>56.7%</u>	<u>56.7%</u>	

(1) Represents cash payments received for discharges that occurred during the three months ended September 30, 2020 and 2019, 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 \$60.8 million and \$55.9 million in net revenue or 6.8% and 6.7% of Hospital and Clinic net revenue for the three months ended September 30, 2020 and 2019, respectively, and have renewal dates ranging from July 31, 2021 through June 30, 2023.

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, 2020, including working capital.

Summary of Cash and Investments Asset Allocation As of September 30, 2020

	Working Capital	Unrestricted and Restricted Investments ⁽¹⁾	Self- Insurance Trust	Total
Cash & Cash Equivalents	73%	0%	0%	51%
Short-Term Investments	17%	0%	0%	12%
Equity Investments	0%	20%	33%	6%
Hedged Equity Investments	0%	11%	15%	3%
Fixed Income Investments	9%	52%	39%	22%
Hedged Debt Investments	0%	12%	6%	4%
Other Marketable Alternatives ⁽²⁾	0%	3%	5%	1%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	1%	0%	2%	1%
SERP	0%	1%	0%	0%
Split Interest Trusts	0%	1%	0%	0%
	100%	100%	100%	100%

(1) Includes permanent endowment funds of \$55.8 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, 2020 and 2019. 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 2021	FY 2020
Cash and cash equivalents ⁽¹⁾	\$ 1,077,823	\$ 530,311
Less: restricted cash and cash equivalents included above	(38,222)	(32,200)
Less: restricted pending donor gifts included above	(248)	(401)
Total unrestricted cash and cash equivalents	<u>\$ 1,039,353</u>	<u>\$ 497,710</u>
Unrestricted investments ⁽²⁾	900,665	614,197
Total unrestricted cash and investments	<u>\$ 1,940,018</u>	<u>\$ 1,111,907</u>
Average daily operating expenses ⁽³⁾	<u>\$ 13,420</u>	<u>\$ 12,160</u>
Days cash on hand ⁽⁴⁾	<u>144.6</u>	<u>91.4</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, 2020 and 2019, 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, 2020		
	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 67,646	\$ 270,584
Unrealized gains on investments	(17,015)	(68,060)
Unrealized loss on interest rate swap, net of cash settlements	4,051	16,204
Depreciation and amortization	35,426	141,704
Interest	15,274	61,096
Income available to pay debt service	\$ 105,382	\$ 421,528
Maximum annual debt service		\$ 108,721
Maximum annual debt service coverage ⁽²⁾		3.9x
Annual debt service (Scheduled) ⁽³⁾		\$ 77,967
Annual debt service coverage (Scheduled) ⁽⁴⁾		5.4x

- (1) Excludes gifts, grants, bequests, donations, or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service and includes all VUMC financial flows to the University as presented in the most recent offering statement, excluding the principal payments on the Subordinated Promissory Note.
- (2) 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.
- (3) Represents actual debt service scheduled for the fiscal year, excluding debt service related to operating leases. Actual payments during the fiscal year approximate smoothed debt service.
- (4) 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, 2019

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 42,239	\$ 168,956
Unrealized gains on investments	(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	\$ 98,417	\$ 393,668
Maximum annual debt service		\$ 94,568
Maximum annual debt service coverage ⁽²⁾		4.2x
Annual debt service (Scheduled) ⁽³⁾		\$ 67,733
Annual debt service coverage (Scheduled) ⁽⁴⁾		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) 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.
- (3) 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.
- (4) 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, 2020 and 2019, (*\$ in thousands*):

	FY 2021	FY 2020
Long-term debt ⁽¹⁾	\$ 1,773,426	\$ 1,465,457
Net assets without donor restrictions	1,286,172	1,101,873
Total capitalization	\$ 3,059,598	\$ 2,567,330
Ratio of long-term debt to capitalization (%)	58.0%	57.1%
EBIDA	\$ 473,384	\$ 338,672
Ratio debt to total EBIDA ⁽²⁾	3.7x	4.3x
Total unrestricted cash and investments	\$ 1,940,018	\$ 1,111,907
Ratio cash to debt (%) ⁽³⁾	109.4%	75.9%

- (1) Total outstanding long-term debt, including current maturities, excluding the Subordinate Promissory Note, drawn line of credit, and operating lease liabilities.
- (2) Total outstanding long-term debt divided by total annualized 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	4.18%	68% of one-month LIBOR	4/29/2023	\$ 51,298
Fixed-payer interest rate agreement ⁽¹⁾	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2026	51,582
					\$ 102,880

- (1) Under new terms executed on September 2, 2020, the fixed rate will increase to 4.28% starting May 3, 2021.

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*):

	<u>Equipment</u>	<u>Property</u>	<u>Ground Lease</u>	<u>Total</u>
2021	\$ 25,520	\$ 55,269	\$ 19,440	\$ 100,229
2022	13,675	48,372	19,440	81,487
2023	6,713	44,625	19,440	70,778
2024	1,863	42,577	19,440	63,880
2025	314	40,084	19,440	59,838
Thereafter	10	161,221	1,730,160	1,891,391
Total	<u>\$ 48,095</u>	<u>\$ 392,148</u>	<u>\$ 1,827,360</u>	<u>\$ 2,267,603</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY21 YTD operating earnings before interest, depreciation, and amortization (operating EBIDA) of \$100 million was \$11 million greater than FY20 YTD operating EBIDA of \$89 million. The increase in operating EBIDA was driven by a \$124 million increase in operating revenue, partially offset by a \$113 million increase in operating expenses, excluding interest, depreciation, and amortization. FY21 YTD operating results of \$49 million was \$3 million greater than FY20 YTD operating results of \$46 million. FY21 YTD excess of revenues over expenses was \$68 million which is \$26 million greater than FY20 YTD excess of revenues over expenses of \$42 million. The increase is due to a \$13 million increase in investment income, a \$10 million favorable variance in interest rate swap valuation, and the increase in operating EBIDA mentioned above.

Revenues

FY21 YTD operating revenue increased approximately \$124 million, or 11%, to \$1,309 million from \$1,185 million a year earlier. The primary driver of the increase in operating revenue was a 12% increase in patient service revenue to \$1,140 million from \$1,017 million a year earlier. Academic and research revenue and other operating revenue remained consistent with the prior year.

Expenses

FY21 YTD expense increased approximately \$121 million, or 11%, to \$1,260 million from \$1,139 million a year earlier. The primary drivers were increases in salaries, wages, and benefits of \$76 million and supplies and drugs of \$41 million. The increase in these expenses is primarily due to increased staffing and supply needs to meet additional demand associated with higher patient service revenue and COVID-19 preparedness. 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, in addition to increased volumes and margin compression.

Balance Sheet / Cash Flow

FY21 YTD net assets increased by approximately \$68 million due to excess of revenues over expenses, net assets released from restrictions, net of contributions, and additional endowments, including appreciation and distributions of approximately \$68 million, (\$3 million), and \$3 million, respectively. Cash decreased by approximately \$93 million which was primarily due to investment purchases, net of sales, of \$113 million and \$50 million for the construction of certain long-lived assets, partially offset by operating EBIDA of \$100 million. The remaining change in cash was largely due to changes in working capital.

Financial Position Conclusion

FY21 YTD EBIDA margin and operating margin are 7.6% and 3.8%, respectively. Both EBIDA and operating margin percentages have stabilized after the initial effects of COVID-19 and are consistent with FY20 YTD EBIDA margin and operating margin of 7.5% and 3.9%, respectively.

Other Events

On September 30, 2020, VUMC announced plans to purchase two hospitals from subsidiaries of Community Health Systems (“CHS”). The two hospitals (Tennova Healthcare-Shelbyville and Tennova Healthcare-Harton) have a total of 195 beds. A definitive agreement has been executed for the sale of the facilities and related businesses, including physician clinic operations and other outpatient services.

In addition, VUMC will at the same time acquire minority ownership in CHS's Tennova Healthcare-Clarksville hospital, a 270-bed facility, from CHS's existing minority partner (GHS Holdings, LLC, a wholly-owned subsidiary of Clarksville Volunteer Health, Inc., a non-profit corporation based in Clarksville, TN). The definitive agreement provides for VUMC to acquire GHS Holdings' 20% ownership interest in Tennova Healthcare-Clarksville and related physician practices.

The transactions are subject to regulatory approvals and are expected to close in the fourth quarter of calendar 2020.

CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND JUNE 30, 2020
(\$ in thousands)

	September 30, 2020	June 30, 2020
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,077,823	\$ 1,170,526
Current investments	251,665	232,178
Patient accounts receivable	508,189	470,550
Grants and contracts receivable	55,553	60,031
Inventories	108,625	104,603
Other current assets	117,798	118,439
Total current assets	2,119,653	2,156,327
Restricted cash	11,726	11,806
Noncurrent investments	649,000	539,173
Noncurrent investments limited as to use	116,601	113,526
Property, plant, and equipment, net	1,533,426	1,525,103
Operating lease assets	835,965	846,695
Other noncurrent assets	52,447	53,347
Total assets	\$ 5,318,818	\$ 5,245,977
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 13,981	\$ 14,321
Line of credit	100,000	100,000
Accounts payable and other accrued expenses	268,122	309,162
Medicare accelerated payments	222,445	222,445
Estimated payables under third-party programs	50,516	45,957
Accrued compensation and benefits	259,095	238,039
Current portion of operating lease liabilities	66,447	70,062
Current portion of deferred revenue	13,967	4,827
Current portion of medical malpractice self-insurance reserves	12,577	12,577
Total current liabilities	1,007,150	1,017,390
Long-term debt, net of current installments	1,837,778	1,841,290
Noncurrent portion of operating lease liabilities	789,702	797,811
Fair value of interest rate exchange agreements	102,880	100,342
Noncurrent portion of medical malpractice self-insurance reserves	48,719	47,682
Noncurrent portion of deferred revenue	3,336	4,027
Other noncurrent liabilities	59,217	35,449
Total liabilities	3,848,782	3,843,991
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,279,115	1,208,796
Net assets without donor restrictions related to noncontrolling interests	7,057	6,635
Total net assets without donor restrictions	1,286,172	1,215,431
Net assets with donor restrictions	183,864	186,555
Total net assets	1,470,036	1,401,986
Total liabilities and net assets	\$ 5,318,818	\$ 5,245,977

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(\$ in thousands)

	Three Months Ended	
	September 30,	
	2020	2019
Operating revenues		
Patient service revenue	\$ 1,140,293	\$ 1,016,663
Academic and research revenue	127,885	128,328
Other operating revenue	41,149	39,822
Total operating revenues	<u>1,309,327</u>	<u>1,184,813</u>
Operating expenses		
Salaries, wages, and benefits	675,856	600,188
Supplies and drugs	286,105	245,145
Facilities and equipment	71,061	67,737
Services and other	176,260	183,055
Depreciation and amortization	35,426	28,937
Interest	15,274	13,492
Total operating expenses	<u>1,259,982</u>	<u>1,138,554</u>
Income from operations	<u>49,345</u>	<u>46,259</u>
Nonoperating revenues and expenses		
Income from investments	19,737	7,034
Gift income	2,755	2,847
Earnings of unconsolidated organizations	1,169	1,279
Unrealized loss on interest rate exchange agreements, net of cash settlements	(4,051)	(14,101)
Total nonoperating revenues and expenses	<u>19,610</u>	<u>(2,941)</u>
Excess of revenues over expenses	68,955	43,318
Excess of revenues over expenses attributable to noncontrolling interests	<u>(1,309)</u>	<u>(1,079)</u>
Excess of revenues over expenses attributable to VUMC	67,646	42,239
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	422	301
Net assets released from restriction for capital	85	179
Other changes	2,588	869
Total changes in net assets without donor restrictions	<u>\$ 70,741</u>	<u>\$ 43,588</u>

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(\$ in thousands)**

	Three Months Ended September 30,	
	2020	2019
Net assets without donor restrictions		
Net assets without donor restrictions at the beginning of the period	\$ 1,215,431	\$ 1,058,285
Excess of revenues over expenses	67,646	42,239
Change in noncontrolling interest's net assets	422	301
Net assets released from restriction for capital	85	179
Other changes	2,588	869
Change in net assets without donor restrictions	70,741	43,588
Net assets without donor restrictions at the end of the period	\$ 1,286,172	\$ 1,101,873
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 186,555	\$ 155,897
Contributions	1,997	8,391
Restricted investment income	2,970	339
Net assets released from restrictions for operations	(4,984)	(2,238)
Net assets released from restriction for capital	(85)	(179)
Other changes	(2,589)	(6)
Change in net assets with donor restrictions	(2,691)	6,307
Net assets with donor restrictions at the end of the period	\$ 183,864	\$ 162,204
Total net assets		
Beginning of the period	\$ 1,401,986	\$ 1,214,182
Change in total net assets	68,050	49,895
End of the period	\$ 1,470,036	\$ 1,264,077

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(\$ in thousands)

	Three Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Change in total net assets	\$ 68,050	\$ 49,895
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	35,426	28,937
Amortization of debt issuance costs, and original issue premium and discount	126	14
Loss on disposal of assets	122	743
Undistributed equity in earnings of equity method affiliates	910	(1,845)
Net realized and unrealized gain on investments	(19,564)	(1,252)
Purchases of trading securities	(87,228)	(70,446)
Sales of trading securities	75,007	65,045
Unrealized loss on interest rate exchange agreements	2,536	13,117
Restricted contributions for endowments and property, plant, and equipment	(690)	(2,074)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(37,639)	(19,545)
Accounts payable and other accrued expenses	(35,005)	(47,797)
Other assets and other liabilities, net	58,519	(4,470)
Net cash provided by operating activities	<u>60,570</u>	<u>10,322</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(49,822)	(64,232)
Purchases of long-term securities	(252,481)	(36,820)
Sales and maturities of long-term securities	151,877	31,781
Acquisition of hospital	-	(19,252)
Net cash used in investing activities	<u>(150,426)</u>	<u>(88,523)</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 finance lease obligations	(1,479)	(653)
Restricted contributions for endowments and property, plant, and equipment	690	2,074
Distributions to noncontrolling interests	(888)	(778)
Net cash provided by financing activities	<u>(2,927)</u>	<u>34,201</u>
Net change in cash, cash equivalents, and restricted cash	(92,783)	(44,000)
Cash, cash equivalents, and restricted cash		
Beginning of the period	<u>1,182,332</u>	<u>586,686</u>
End of the period	<u>\$ 1,089,549</u>	<u>\$ 542,686</u>