

Disclosure Report
For the Six Months ended December 31, 2020

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Disclosure Report for December 31, 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 December 31, 2020

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

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Disclosure Report for December 31, 2020

ATTENTION

This document is marked with a dated date of December 31, 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 1,599 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. As of December 31, 2020, VUMC held a temporary waiver to license 179 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 19 observation beds and 160 double occupancy beds. The beds associated with this temporary waiver 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. Services offered include an accredited chest pain center, a stroke center, and a comprehensive total joint program for orthopedics. In addition, we have opened a new on-site location of the Vanderbilt Ingram Cancer Center in 2020, including a state-of-the-art linear accelerator in our pursuit of bringing the highest levels of clinical care to the citizens of Wilson County.
- 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 previously 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 six months ended December 31, 2020.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of December 31, 2020, VUMC's facilities have 1,599 beds approved for operation, of which 1,387 were fully staffed, with 94 operating rooms. As of December 31, 2019, VUMC's facilities had 1,336 beds approved for operation, of which 1,226 were fully staffed, with 94 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 December 31, 2020 and 2019, equates to 1,800 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⁾	179	-
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 December 31, 2020 and 2019	<u>1,599</u>	<u>1,336</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds	56	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 December 31, 2020 and 2019	<u>201</u>	<u>238</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of December 31, 2020 and 2019	<u><u>1,800</u></u>	<u><u>1,574</u></u>

(1) Represents a temporary license to utilize 19 observation beds and 160 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 December 31, 2020 and 2019. The breakdown of direct research revenues is as follows for the six months ended December 31, 2020 and 2019 (*\$ in thousands*):

Source	FY 2021	FY 2020
Federal	\$ 156,896	\$ 149,308
Non-Federal	49,604	55,651
Total	<u>\$ 206,500</u>	<u>\$ 204,959</u>

Capital Cash Flows

Capital expenditures for the six months ended December 31, 2020 and 2019, were \$104 million and \$146 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 87.9% and 98.5% during the six months ended December 31, 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, and double rooms used as singles). As of December 31, 2020, 118 unstaffed temporarily licensed COVID-19 beds were also excluded from the licensed beds counts for purposes of the functional occupancy calculation. The average number of inpatients in the hospital for the MCMC at midnight census was 1,003 and 993 at December 31, 2020 and 2019, respectively. Utilization statistics of the hospitals and clinics for the six months ended December 31, 2020 and 2019, are as follows:

	<u>FY 2021</u>	<u>FY 2020</u>
Licensed beds ⁽¹⁾	1,599	1,336
Hospital inpatient days ⁽²⁾	202,501	191,620
Hospital discharges	34,666	35,127
Average length of stay in days ⁽²⁾	5.8	5.5
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	83.7%	91.9%
Average occupancy level (Community Hospital) ⁽²⁾⁽⁴⁾	49.7%	43.3%
Surgical operations ⁽⁵⁾	32,854	32,618
Ambulatory visits ⁽⁶⁾	1,343,839	1,288,517
Emergency visits	59,351	69,993

- (1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital. As of December 31, 2020, includes 19 observation beds and 160 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 average daily census divided by total staffed beds. Average daily census is calculated as inpatient days, excluding observation patients, divided by the number of days in the period. As of December 31, 2020, total staffed beds include 61 staffed beds temporarily licensed in response to COVID-19. The lower average occupancy for Q2 FY21 compared to Q2 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 average daily census, excluding observation patients, divided by total staffed beds.
- (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 six months ended December 31, 2020 and 2019, are presented below:

	FY 2021	FY 2020
Total CMI ⁽¹⁾	2.28	2.15
Medicare CMI ⁽¹⁾	2.36	2.32

(1) Excludes normal newborns.

During the six months ended December 31, 2020 and 2019, ambulatory visits at the Medical Center totaled 1,171,109 and 1,124,307, 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 51% of outpatient visits at off-campus locations during the six months ended December 31, 2020 and 2019.

VUMC Payor Mix

The Medical Center receives payment on behalf of most of its patients from several 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 most 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 17% and 20% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the six months ended December 31, 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 six months ended December 31, 2020 and 2019, respectively:

	12/31/20 Gross	12/31/20 Net
<i>Payor Mix</i>		
Other Third-Party Payors, Primarily Commercial Carriers ⁽¹⁾	46.0%	63.6%
Medicare/Managed Medicare	32.0%	22.8%
TennCare/Medicaid	17.5%	12.6%
Uninsured (self-pay)	4.5%	1.0%
Total	100.0%	100.0%

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

<i>Payor Mix</i>	12/31/19 Gross	12/31/19 Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽¹⁾	46.8%	64.2%
Medicare/Managed Medicare	31.6%	23.1%
TennCare/Medicaid	17.1%	12.1%
Uninsured (self-pay)	4.5%	0.6%
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 82% 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 six months ended December 31, 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 12/31/20⁽¹⁾	Total Payments as of 12/31/19⁽¹⁾	Termination Dates
Aetna	8.2%	7.2%	12/31/2021
BlueCross ⁽²⁾	29.8%	30.8%	12/31/2023
CIGNA ⁽²⁾	9.0%	8.4%	12/31/2023
Humana ⁽²⁾	1.1%	1.2%	9/30/2021
United	8.2%	8.5%	7/31/2021
Total as a % of total net patient revenue	<u>56.3%</u>	<u>56.1%</u>	

(1) Represents cash payments received for discharges that occurred during the six months ended December 31, 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 \$132.2 million and \$113.6 million or 7.4% and 6.7% of Hospital and Clinic net revenue for the six months ended December 31, 2020 and 2019, respectively, and have renewal dates ranging from July 31, 2021 through December 31, 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 December 31, 2020, including working capital.

Summary of Cash and Investments Asset Allocation As of December 31, 2020

	<u>Working Capital</u>	<u>Unrestricted and Restricted Investments ⁽¹⁾</u>	<u>Self- Insurance Trust</u>	<u>Total</u>
Cash & Cash Equivalents	68%	2%	0%	46%
Short-Term Investments	19%	0%	0%	13%
Equity Investments	0%	21%	37%	8%
Hedged Equity Investments	0%	12%	15%	4%
Fixed Income Investments	12%	49%	36%	24%
Hedged Debt Investments	0%	11%	7%	3%
Other Marketable Alternatives ⁽²⁾	0%	2%	5%	1%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	1%	1%	0%	1%
SERP	0%	1%	0%	0%
Split Interest Trusts	0%	1%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes permanent endowment funds of \$60.8 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of December 31, 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⁾	\$ 910,006	\$ 546,294
Less: restricted cash and cash equivalents included above	(44,500)	(38,248)
Less: restricted pending donor gifts included above	(6,969)	(2,934)
Total unrestricted cash and cash equivalents	<u>\$ 858,537</u>	<u>\$ 505,112</u>
Unrestricted investments ⁽²⁾	935,583	622,837
Total unrestricted cash and investments	<u>\$ 1,794,120</u>	<u>\$ 1,127,949</u>
Average daily operating expenses ⁽³⁾	<u>\$ 13,644</u>	<u>\$ 12,432</u>
Days cash on hand ⁽⁴⁾	<u>131.5</u>	<u>90.7</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 six months then ended.

Debt Service Coverage

The following tables set forth, for the six months ended December 31, 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 December 31, 2020		
	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 153,901	\$ 307,802
Unrealized gain on investments	(43,621)	(87,242)
Unrealized gain on interest rate swap, net of cash settlements	(8,736)	(17,472)
Depreciation and amortization	71,861	143,722
Interest	31,110	62,220
Income available to pay debt service	\$ 204,515	\$ 409,030
 Maximum annual debt service		 \$ 105,713
Maximum annual debt service coverage ⁽²⁾		3.9x
 Annual debt service (Scheduled) ⁽³⁾		 \$ 77,016
Annual debt service coverage (Scheduled) ⁽⁴⁾		5.3x

- (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 December 31, 2019

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 127,155	\$ 254,310
Unrealized gains on investments	(8,191)	(16,382)
Unrealized loss on interest rate swap, net of cash settlements	5,823	11,646
Depreciation and amortization	59,111	118,222
Interest	28,970	57,940
Income available to pay debt service	\$ 212,868	\$ 425,736
Maximum annual debt service		\$ 96,077
Maximum annual debt service coverage ⁽²⁾		4.4x
Annual debt service (Scheduled) ⁽³⁾		\$ 66,966
Annual debt service coverage (Scheduled) ⁽⁴⁾		6.4x

- (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 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 six months ended December 31, 2020 and 2019, (*\$ in thousands*):

	<u>FY 2021</u>	<u>FY 2020</u>
Long-term debt ⁽¹⁾	\$ 1,771,705	\$ 1,464,751
Net assets without donor restrictions	1,373,512	1,189,882
Total capitalization	<u>\$ 3,145,217</u>	<u>\$ 2,654,633</u>
Ratio of long-term debt to capitalization (%)	56.3%	55.2%
EBIDA	\$ 513,744	\$ 430,472
Ratio debt to total EBIDA ⁽²⁾	3.4x	3.4x
Total unrestricted cash and investments	\$ 1,794,120	\$ 1,127,949
Ratio cash to debt (%) ⁽³⁾	101.3%	77.0%

- (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*):

<u>Description</u>	<u>Notional Amount</u>	<u>Rate Paid</u>	<u>Rate Received</u>	<u>Maturity</u>	<u>Fair Value</u>
Fixed-payer interest rate agreement	\$ 75,000	4.18%	68% of one-month LIBOR	4/29/2023	\$ 44,091
Fixed-payer interest rate agreement ⁽¹⁾	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2026	44,434
					<u>\$ 88,525</u>

- (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*):

	Equipment	Property	Ground Lease	Total
2021	\$ 26,716	\$ 56,193	\$ 19,440	\$ 102,349
2022	15,325	50,603	19,440	85,368
2023	8,176	46,804	19,440	74,420
2024	3,170	44,618	19,440	67,228
2025	879	42,224	19,440	62,543
Thereafter	65	164,894	1,730,160	1,895,119
Total	\$ 54,331	\$ 405,336	\$ 1,827,360	\$ 2,287,027

MANAGEMENT DISCUSSION AND ANALYSIS

FY21 YTD operating earnings before interest, depreciation, and amortization (operating EBIDA) of \$193 million was \$5 million greater than FY20 YTD operating EBIDA of \$188 million. The increase in operating EBIDA was driven by a \$224 million increase in operating revenue, offset by a \$219 million increase in operating expenses, excluding interest, depreciation, and amortization. FY21 YTD operating results of \$90 million was \$10 million less than FY20 YTD operating results of \$100 million, driven by increased operating EBIDA of \$5 million offset by increased depreciation and amortization and interest expense of \$13 million and \$2 million, respectively. FY21 YTD excess of revenues over expenses was \$154 million which is \$27 million greater than FY20 YTD excess of revenues over expenses of \$127 million. The increase is due to a \$22 million increase in investment income, a \$15 million favorable interest rate swap valuation, partially offset by a \$10 million decrease in operating income.

Revenues

FY21 YTD operating revenue increased approximately \$224 million, or 9%, to \$2,652 million from \$2,428 million a year earlier. The primary driver of the increase in operating revenue was a 10% increase in patient service revenue to \$2,289 million from \$2,076 million a year earlier. Academic and research revenue increased \$11 million to \$281 million from \$270 million a year earlier. Other operating revenue remained consistent with the prior year.

Expenses

FY21 YTD expense increased approximately \$234 million, or 10%, to \$2,562 million from \$2,328 million a year earlier. The primary drivers were increases in salaries, wages, and benefits of \$148 million and supplies and drugs of \$75 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 \$178 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 \$154 million, \$7 million, and \$15 million, respectively. Cash decreased by approximately \$261 million which was primarily due to investment purchases, net of sales, of \$128 million, a \$100 million repayment of our original line of credit (which we borrowed on during FY20), and \$104 million for the construction of certain long-lived assets, partially offset by operating EBIDA of \$193 million. The remaining change in cash was largely due to changes in working capital.

Financial Position Conclusion

FY21 YTD EBIDA margin and operating margin were 7.3% and 3.4%, respectively. Both EBIDA and operating margin percentages have declined when compared to FY20 YTD EBIDA margin and operating margin of 7.7% and 4.1%, respectively.

Other Events

On January 1, 2021, we acquired the Tennova Healthcare-Shelbyville and Tennova Healthcare-Harton hospitals and their related businesses, including physician clinic operations and outpatient services, from subsidiaries of Community Health Systems Inc. (CHS), and a minority ownership interest in CHS's affiliated Tennova Healthcare-Clarksville hospital and related physician practices through an agreement with Tennova's existing minority interest partner. The funds wired prior to close on December 31, 2020 are reflected as an increase in prepaid/other assets in our Consolidated Balance Sheet as of Q2 FY21.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2020 AND JUNE 30, 2020
(\$ in thousands)

	December 31, 2020	June 30, 2020
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 910,006	\$ 1,170,526
Current investments	249,228	232,178
Patient accounts receivable	530,765	470,550
Grants and contracts receivable	63,416	60,031
Inventories	122,380	104,603
Other current assets	164,488	118,439
Total current assets	2,040,283	2,156,327
Restricted cash	16,294	11,806
Noncurrent investments	686,355	539,173
Noncurrent investments limited as to use	122,426	113,526
Property, plant, and equipment, net	1,557,817	1,525,103
Operating lease assets	834,640	846,695
Other noncurrent assets	52,989	53,347
Total assets	\$ 5,310,804	\$ 5,245,977
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 13,709	\$ 14,321
Line of credit	-	100,000
Accounts payable and other accrued expenses	277,278	309,162
Medicare accelerated payments	222,445	222,445
Estimated payables under third-party programs	43,934	45,957
Accrued compensation and benefits	270,336	238,039
Current portion of operating lease liabilities	65,277	70,062
Current portion of deferred revenue	12,813	4,827
Current portion of medical malpractice self-insurance reserves	12,577	12,577
Total current liabilities	918,369	1,017,390
Long-term debt, net of current installments	1,835,079	1,841,290
Noncurrent portion of operating lease liabilities	790,218	797,811
Fair value of interest rate exchange agreements	88,525	100,342
Noncurrent portion of medical malpractice self-insurance reserves	50,512	47,682
Noncurrent portion of deferred revenue	2,784	4,027
Other noncurrent liabilities	45,680	35,449
Total liabilities	3,731,167	3,843,991
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,365,488	1,208,796
Net assets without donor restrictions related to noncontrolling interests	8,024	6,635
Total net assets without donor restrictions	1,373,512	1,215,431
Net assets with donor restrictions	206,125	186,555
Total net assets	1,579,637	1,401,986
Total liabilities and net assets	\$ 5,310,804	\$ 5,245,977

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2020 AND 2019
(\$ in thousands)

	Six Months Ended December 31,	
	2020	2019
Operating revenues		
Patient service revenue	\$ 2,288,795	\$ 2,076,332
Academic and research revenue	281,342	270,149
Other operating revenue	81,790	81,148
Total operating revenues	2,651,927	2,427,629
Operating expenses		
Salaries, wages, and benefits	1,364,105	1,216,193
Supplies and drugs	588,660	513,966
Facilities and equipment	144,252	136,201
Services and other	361,933	373,457
Depreciation and amortization	71,861	59,111
Interest	31,110	28,970
Total operating expenses	2,561,921	2,327,898
Income from operations	90,006	99,731
Nonoperating revenues and expenses		
Income from investments	46,865	24,558
Gift income	9,086	8,272
Earnings of unconsolidated organizations	2,601	2,982
Unrealized gain/(loss) on interest rate exchange agreements, net of cash settlements	8,736	(5,823)
Total nonoperating revenues and expenses	67,288	29,989
Excess of revenues over expenses	157,294	129,720
Excess of revenues over expenses attributable to noncontrolling interests	(3,393)	(2,565)
Excess of revenues over expenses attributable to VUMC	153,901	127,155
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	1,388	693
Net assets released from restriction for capital	208	3,449
Other changes	2,584	300
Total changes in net assets without donor restrictions	\$ 158,081	\$ 131,597

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2020 AND 2019
(\$ in thousands)**

	Six Months Ended December 31,	
	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	153,901	127,155
Change in noncontrolling interest's net assets	1,388	693
Net assets released from restriction for capital	208	3,449
Other changes	2,584	300
Change in net assets without donor restrictions	158,081	131,597
Net assets without donor restrictions at the end of the period	\$ 1,373,512	\$ 1,189,882
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 186,555	\$ 155,897
Contributions	22,956	25,269
Restricted investment income	7,111	2,344
Net assets released from restrictions for operations	(7,705)	(4,611)
Net assets released from restriction for capital	(208)	(3,449)
Other changes	(2,584)	561
Change in net assets with donor restrictions	19,570	20,114
Net assets with donor restrictions at the end of the period	\$ 206,125	\$ 176,011
Total net assets		
Beginning of the period	\$ 1,401,986	\$ 1,214,182
Change in total net assets	177,651	151,711
End of the period	\$ 1,579,637	\$ 1,365,893

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2020 AND 2019
(\$ in thousands)

	Six Months Ended December 31,	
	2020	2019
Cash flows from operating activities		
Change in total net assets	\$ 177,651	\$ 151,711
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	71,861	59,111
Amortization of debt issuance costs, and original issue premium and discount	248	572
Loss on disposal of assets	222	907
Undistributed equity in earnings of equity method affiliates	374	(3,026)
Investment gains and losses	(45,384)	(13,980)
Purchases of trading securities	(180,082)	(127,329)
Sales of trading securities	158,914	121,786
Unrealized (gain)/loss on interest rate exchange agreements	(11,817)	3,740
Restricted contributions for endowments and property, plant, and equipment	(10,347)	(8,439)
Decrease in cash due to changes in:		
Patient accounts receivable	(60,215)	(36,535)
Accounts payable and other accrued expenses	(31,585)	(44,871)
Other assets and other liabilities, net	(18,129)	(19,238)
Net cash provided by operating activities	<u>51,711</u>	<u>84,409</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(104,034)	(129,894)
Purchases of long-term securities	(272,556)	(85,837)
Sales and maturities of long-term securities	165,976	85,141
Acquisition of hospital	-	(19,252)
Proceeds on sale of property, plant, and equipment	-	5
Net cash used in investing activities	<u>(210,614)</u>	<u>(149,837)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	163,600
Debt issuance costs	-	(737)
Repayment of long-term debt	(102,500)	(130,570)
Principal payments under finance lease obligations	(2,971)	(1,300)
Restricted contributions for endowments and property, plant, and equipment	10,347	8,439
Distributions to noncontrolling interests	(2,005)	(1,872)
Net cash (used in) provided by financing activities	<u>(97,129)</u>	<u>37,560</u>
Net change in cash, cash equivalents, and restricted cash	(256,032)	(27,868)
Cash, cash equivalents, and restricted cash		
Beginning of the period	<u>1,182,332</u>	<u>586,686</u>
End of the period	<u>\$ 926,300</u>	<u>\$ 558,818</u>