

Disclosure Report for March 31, 2021

Disclosure Report
For the Nine Months ended March 31, 2021

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Disclosure Report for March 31, 2021

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**

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

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ATTENTION

This document is marked with a dated date of March 31, 2021 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 from Community Health Systems, Inc. (“CHS”): Tennova Healthcare – Lebanon, now known as Vanderbilt Wilson County Hospital (“VWCH”). Effective January 1, 2021, VUMC acquired from CHS: Tennova Healthcare – Shelbyville and Tennova Healthcare – Harton, now known as Vanderbilt Bedford Hospital (“VBCH”) and Vanderbilt Tullahoma-Harton Hospital (“VTHH”). At the same time as the acquisition of VBCH and VTHH, VUMC acquired a minority ownership interest in CHS’s affiliated Tennova Healthcare – Clarksville (“VMH”). VUAH, MCJCHV, VPH, VWCH, VBCH, and VTHH are licensed for 1,794 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, VWCH, VBCH, and VTHH. 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 March 31, 2021, 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 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. 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.
- VBCH is a 60-bed, Joint Commission-accredited hospital that employs approximately 275 physicians, nurses and staff and offers a range of inpatient and outpatient medical and surgical services, along with urgent care services.
- VTHH is a 135-bed Joint Commission-accredited hospital employing approximately 350 physicians, nurses and staff and offers a full range of inpatient and outpatient surgical and specialty services including a sleep center, cardiac rehabilitation, and physical rehabilitation. The hospital is accredited by the Joint Commission and features an accredited Chest Pain 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 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.

For the purposes of this document, the Obligated Group includes the wholly-owned hospitals located on the MCMC along with all associated on-campus and off-campus ambulatory clinics, the Academic Enterprise, MCA, VWCH, and VMG.

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 nine months ended March 31, 2021.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of March 31, 2021, VUMC's facilities have 1,794 beds approved for operation, of which 1,503 were fully staffed, with 104 operating rooms. As of March 31, 2020, VUMC's facilities had 1,489 beds approved for operation, of which 1,310 were fully staffed, with 94 operating rooms. These beds are primarily located at VUAH, MCJCHV, VPH, VWCH, VBCH, and VTHH. 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 March 31, 2021 and 2020, equates to 2,008 and 1,685, 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	1,003	827
COVID-19 ⁽¹⁾	179	69
Adult Obstetric	74	64
Adult Clinical Research Center	5	5
Pediatric Medical/Surgical	163	159
Pediatric Neonatal Intensive Care	124	119
Pediatric Intensive Care	65	65
Psychiatric Care	155	155
Rehabilitation	26	26
Total Licensed Beds as of March 31, 2021 and 2020	<u>1,794</u>	<u>1,489</u>
<u>Observation, JV, and Managed Beds and Bassinets⁽⁴⁾</u>		
Current Observation/Extended Recovery Beds	56	51
Current Bassinets	62	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 March 31, 2021 and 2020	<u>214</u>	<u>196</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of March 31, 2021 and 2020	<u><u>2,008</u></u>	<u><u>1,685</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.

(4) Excludes beds in joint venture with VMH.

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 March 31, 2021 and 2020. The breakdown of direct research revenues is as follows for the nine months ended March 31, 2021 and 2020 (*\$ in thousands*):

Source	FY 2021	FY 2020
Federal	\$ 250,201	\$ 223,342
Non-Federal	77,257	85,148
Total	<u>\$ 327,458</u>	<u>\$ 308,490</u>

Capital Cash Flows

Capital expenditures for the nine months ended March 31, 2021 and 2020, were \$206 million and \$194 million, respectively. The FY 2021 period primarily relates to construction of tangible assets associated with hospital and clinic expansions within the adult enterprise and the acquisition of VBCH and VTHH. 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 87.6% and 97.9% during the nine months ended March 31, 2021 and 2020, respectively. Functional occupancy rate is calculated as average daily census divided by total staffed beds, less research, labor & delivery, and double occupancy rooms. Average daily census is calculated as inpatient days plus observation days in inpatient units divided by number of days in the period. The average number of inpatients in the hospital for the MCMC at midnight census was 1,010 and 986 at March 31, 2021 and 2020, respectively. Utilization statistics of the hospitals and clinics for the nine months ended March 31, 2021 and 2020, which exclude the impact of VHS joint ventures except where noted, are as follows:

	Consolidated FY 2021	Consolidated FY 2020
Licensed beds ⁽¹⁾	1,794	1,489
Hospital inpatient days ⁽²⁾	307,408	285,915
Hospital discharges	52,284	52,307
Average length of stay in days ⁽²⁾	5.9	5.5
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	89.2%	88.8%
Average occupancy level (Community) ⁽²⁾⁽³⁾	43.5%	44.1%
Surgical operations ⁽⁴⁾	49,678	47,634
Ambulatory visits ⁽⁵⁾⁽⁶⁾	2,007,066	1,908,464
Emergency visits	97,701	104,115
	Obligated Group FY 2021	Obligated Group FY 2020
Licensed beds ⁽¹⁾	1,599	1,489
Hospital inpatient days ⁽²⁾	303,885	285,915
Hospital discharges	51,384	52,307
Average length of stay in days ⁽²⁾	5.9	5.5
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	89.2%	88.8%
Average occupancy level (VWCH) ⁽²⁾⁽³⁾	46.9%	44.1%
Surgical operations ⁽⁴⁾	48,763	47,634
Ambulatory visits	1,745,362	1,663,501
Emergency visits	88,892	104,115

- (1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital. As of March 31, 2021, 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) Average occupancy is calculated as average daily census divided by staffed beds. Average daily census is calculated as inpatient days, excluding observation patients, divided by the number of days in the period. As of March 31, 2021, total staffed beds include 38 staffed beds and exclude 141 unstaffed beds temporarily licensed in response to COVID-19.
- (4) Excludes surgical operations performed by VUMC-employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.
- (5) Approximately 53% of all ambulatory visits were provided at off-campus locations as of March 31, 2021.
- (6) Includes the impact of 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 nine months ended March 31, 2021 and 2020, are presented below:

	FY 2021	FY 2020
Total CMI ⁽¹⁾⁽²⁾	2.30	2.16
Medicare CMI ⁽¹⁾⁽²⁾	2.40	2.34

(1) For Obligated Group.

(2) Excludes normal newborns.

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 nine months ended March 31, 2021 and 2020, 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 nine months ended March 31, 2021 and 2020, respectively:

	3/31/21 Gross	3/31/21 Net
<i>Payor Mix</i> ⁽¹⁾		
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	46.4%	63.4%
Medicare/Managed Medicare	32.3%	23.0%
TennCare/Medicaid	17.2%	12.8%
Uninsured (self-pay)	4.1%	0.8%
Total	100.0%	100.0%

(1) For Obligated Group.

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

<i>Payor Mix</i> ⁽¹⁾	3/31/20	3/31/20
	Gross	Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	47.7%	63.6%
Medicare/Managed Medicare	30.7%	23.5%
TennCare/Medicaid	17.2%	12.6%
Uninsured (self-pay)	4.4%	0.3%
Total	<u>100.0%</u>	<u>100.0%</u>

(1) For Obligated Group

(2) 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 83% 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 nine months ended March 31, 2021 and 2020, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Net Patient Revenue

	Total	Total	Termination
	Payments as	Payments as	Dates
	of 3/31/21⁽¹⁾	of 3/31/20⁽¹⁾	
Aetna	8.4%	7.1%	12/31/2021
BlueCross ⁽²⁾	28.9%	30.8%	12/31/2023
CIGNA ⁽²⁾	8.7%	8.6%	12/31/2023
Humana ⁽²⁾	1.0%	1.1%	9/30/2021
United	8.2%	8.4%	7/31/2022
Total as a % of total net patient revenue	<u>55.2%</u>	<u>56.0%</u>	

(1) Represents cash payments received for discharges that occurred during the nine months ended March 31, 2021 and 2020, 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 \$205.7 million and \$180.2 million or 7.7% and 7.2% of Hospital and Clinic net revenue for the nine months ended March 31, 2021 and 2020, 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 March 31, 2021, including working capital.

Summary of Cash and Investments Asset Allocation As of March 31, 2021

	Working Capital	Unrestricted and Restricted Investments⁽¹⁾	Self- Insurance Trust	Total
Cash & Cash Equivalents	64%	0%	0%	40%
Short-Term Investments	22%	0%	0%	14%
Equity Investments	0%	21%	36%	8%
Hedged Equity Investments	0%	13%	16%	5%
Fixed Income Investments	13%	43%	32%	24%
Hedged Debt Investments	0%	16%	9%	5%
Other Marketable Alternatives ⁽²⁾	0%	3%	5%	1%
Non-Marketable Investments ⁽³⁾	0%	2%	0%	1%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	1%	0%	2%	1%
SERP	0%	1%	0%	1%
Split Interest Trusts	0%	1%	0%	0%
	100%	100%	100%	100%

(1) Includes permanent endowment funds of \$70.0 million.

(2) Includes REITs and commodities.

(3) Includes private equity investments.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of March 31, 2021 and 2020. This financial information is provided for informational purposes only and is not necessarily, and should not be assumed to be, an indication of the results that will be achieved in the future (*\$ in thousands*):

Summary of Unrestricted Cash and Cash Equivalents

	<u>FY 2021</u>	<u>FY 2020</u>
Cash and cash equivalents ⁽¹⁾	\$ 742,871	\$ 695,149
Less: restricted cash and cash equivalents included above	(34,095)	(30,837)
Less: restricted pending donor gifts included above	(2,043)	(121)
Total unrestricted cash and cash equivalents	<u>\$ 706,733</u>	<u>\$ 664,191</u>
Unrestricted investments ⁽²⁾	962,180	590,911
Total unrestricted cash and investments	<u>\$ 1,668,913</u>	<u>\$ 1,255,102</u>
Average daily operating expenses ⁽³⁾	<u>\$ 13,891</u>	<u>\$ 12,538</u>
Days cash on hand ⁽⁴⁾	<u>120.1</u>	<u>100.1</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 nine months then ended.

Debt Service Coverage

The following tables set forth, for the nine months ended March 31, 2021 and 2020, 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 March 31, 2021		
	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 198,264	\$ 264,352
Unrealized gain on investments	(35,842)	(47,789)
Unrealized gain on interest rate swap, net of cash settlements	(27,072)	(36,096)
Depreciation and amortization	110,772	147,696
Interest	46,124	61,499
Income available to pay debt service	\$ 292,246	\$ 389,662
Maximum annual debt service		\$ 105,629
Maximum annual debt service coverage ⁽²⁾		3.7x
Annual debt service (Scheduled) ⁽³⁾		\$ 77,226
Annual debt service coverage (Scheduled) ⁽⁴⁾		5.0x

- (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 March 31, 2020

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 66,740	\$ 88,987
Unrealized gains on investments	40,509	54,012
Unrealized loss on interest rate swap, net of cash settlements	37,085	49,447
Depreciation and amortization	90,702	120,936
Interest	43,927	58,569
Income available to pay debt service	\$ 278,963	\$ 371,951
Maximum annual debt service		\$ 95,957
Maximum annual debt service coverage ⁽²⁾		3.9x
Annual debt service (Scheduled) ⁽³⁾		\$ 67,005
Annual debt service coverage (Scheduled) ⁽⁴⁾		5.6x

- (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.

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the nine months ended March 31, 2021 and 2020, (\$ in thousands):

	<u>FY 2021</u>	<u>FY 2020</u>
Long-term debt ⁽¹⁾	\$ 1,670,271	\$ 1,463,611
Net assets without donor restrictions	1,417,827	1,128,780
Total capitalization	<u>\$ 3,088,098</u>	<u>\$ 2,592,391</u>
Ratio of long-term debt to capitalization (%)	54.1%	56.5%
EBIDA	\$ 473,547	\$ 268,492
Ratio debt to total EBIDA ⁽²⁾	3.5x	5.5x
Total unrestricted cash and investments	\$ 1,668,913	\$ 1,255,102
Ratio cash to debt (%) ⁽³⁾	99.9%	85.8%

(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	\$ 33,966
Fixed-payer interest rate agreement ⁽¹⁾	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2026	34,748
					<u>\$ 68,714</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*):

	<u>Equipment</u>	<u>Property</u>	<u>Ground Lease</u>	<u>Total</u>
2021	\$ 28,276	\$ 56,751	\$ 19,440	\$ 104,467
2022	16,881	53,626	19,440	89,947
2023	8,573	49,324	19,440	77,337
2024	3,545	46,443	19,440	69,428
2025	1,181	43,886	19,440	64,507
Thereafter	196	170,258	1,730,160	1,900,614
Total	<u>\$ 58,652</u>	<u>\$ 420,288</u>	<u>\$ 1,827,360</u>	<u>\$ 2,306,300</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY21 YTD operating earnings before interest, depreciation, and amortization (operating EBIDA) of \$265 million was \$24 million greater than FY20 YTD operating EBIDA of \$242 million. The increase in operating EBIDA was driven by a \$392 million increase in operating revenue, offset by a \$368 million increase in operating expenses, excluding interest, depreciation, and amortization. FY21 YTD operating results of \$108 million was \$1 million greater than FY20 YTD operating results of \$107 million, driven by increased operating EBIDA of \$24 million offset by increased depreciation and amortization and interest expense of \$20 million and \$2 million, respectively. FY21 YTD excess of revenues over expenses was \$198 million which is \$132 million greater than FY20 YTD excess of revenues over expenses of \$67 million. The increase is primarily due to a \$66 million increase in investment income and a \$64 million favorable interest rate swap valuation.

Revenues

FY21 YTD operating revenue increased approximately \$392 million, or 11%, to \$4,022 million from \$3,630 million a year earlier. The primary driver of the increase in operating revenue was an 11% increase in patient service revenue to \$3,441 million from \$3,103 million a year earlier. Academic and research revenue increased \$35 million to \$443 million from \$409 million a year earlier. Other operating revenue increased \$19 million to \$137 million from \$119 million a year earlier and includes \$17.1M of CARES funding.

Expenses

FY21 YTD expense increased approximately \$391 million, or 11%, to \$3,913 million from \$3,523 million a year earlier. The primary drivers were increases in salaries, wages, and benefits of \$231 million and supplies and drugs of \$105 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.

Balance Sheet / Cash Flow

FY21 YTD net assets increased by approximately \$228 million mostly due to excess of revenues over expenses and an increase in net assets with donor restrictions of approximately \$198 million and \$26 million, respectively. Unrestricted cash decreased by approximately \$428 million which was primarily due to repayment of long-term debt of \$208 million (which includes a \$100 million line of credit repayment borrowed in FY20), \$243 million for the construction of certain long-lived assets, and acquisition of VBCH, VTHH, and an equity method investment in CHS's affiliated Tennova Healthcare – Clarksville, and long-term securities purchases, net of sales, of \$136 million, partially offset by operating EBIDA of \$265 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 6.6% and 2.7%, respectively. Both EBIDA and operating margin percentages are relatively consistent with FY20 YTD EBIDA margin and operating margin of 6.7% and 3.0%, respectively.

Subsequent Events

On April 5th, VUMC received \$44.6M in Provider Relief Fund (PRF) 3 distributions which VUMC applied for late calendar year 2020. VUMC intends to continue to evaluate funding which may become available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2021 AND JUNE 30, 2020
(\$ in thousands)

	March 31, 2021	June 30, 2020
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 742,871	\$ 1,170,526
Current investments	254,386	232,178
Patient accounts receivable	550,741	470,550
Grants and contracts receivable	69,064	60,031
Inventories	142,372	104,603
Other current assets	114,255	118,439
Total current assets	1,873,689	2,156,327
Restricted cash	15,380	11,806
Noncurrent investments	707,794	539,173
Noncurrent investments limited as to use	134,040	113,526
Property, plant, and equipment, net	1,610,655	1,525,103
Operating lease assets	832,935	846,695
Other noncurrent assets	91,828	53,347
Total assets	\$ 5,266,321	\$ 5,245,977
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 13,811	\$ 14,321
Line of credit	-	100,000
Accounts payable and other accrued expenses	284,666	309,162
Medicare accelerated payments	222,446	222,445
Estimated payables under third-party programs	31,025	45,957
Accrued compensation and benefits	311,065	238,039
Current portion of operating lease liabilities	66,192	70,062
Current portion of deferred revenue	5,616	4,827
Current portion of medical malpractice self-insurance reserves	12,577	12,577
Total current liabilities	947,398	1,017,390
Long-term debt, net of current installments	1,732,293	1,841,290
Noncurrent portion of operating lease liabilities	788,735	797,811
Fair value of interest rate exchange agreements	68,714	100,342
Noncurrent portion of medical malpractice self-insurance reserves	50,864	47,682
Noncurrent portion of deferred revenue	2,702	4,027
Other noncurrent liabilities	45,715	35,449
Total liabilities	3,636,421	3,843,991
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,409,686	1,208,796
Net assets without donor restrictions related to noncontrolling interests	8,141	6,635
Total net assets without donor restrictions	1,417,827	1,215,431
Net assets with donor restrictions	212,073	186,555
Total net assets	1,629,900	1,401,986
Total liabilities and net assets	\$ 5,266,321	\$ 5,245,977

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020
(\$ in thousands)

	Nine Months Ended March 31,	
	2021	2020
Operating revenues		
Patient service revenue	\$ 3,441,201	\$ 3,102,836
Academic and research revenue	443,488	408,605
Other operating revenue	137,205	118,505
Total operating revenues	4,021,894	3,629,946
Operating expenses		
Salaries, wages, and benefits	2,092,909	1,861,919
Supplies and drugs	881,348	776,029
Facilities and equipment	219,927	206,142
Services and other	562,378	544,140
Depreciation and amortization	110,772	90,702
Interest	46,124	43,927
Total operating expenses	3,913,458	3,522,859
Income from operations	108,436	107,087
Nonoperating revenues and expenses		
Income from investments	49,472	(16,215)
Gift income	13,009	12,476
Earnings of unconsolidated organizations	4,869	4,287
Unrealized gain/(loss) on interest rate exchange agreements, net of cash settlements	27,072	(37,085)
Total nonoperating revenues and expenses	94,422	(36,537)
Excess of revenues over expenses	202,858	70,550
Excess of revenues over expenses attributable to noncontrolling interests	(4,594)	(3,810)
Excess of revenues over expenses attributable to VUMC	198,264	66,740
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	1,506	(1,492)
Net assets released from restriction for capital	222	3,830
Other changes	2,404	1,417
Total changes in net assets without donor restrictions	\$ 202,396	\$ 70,495

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020
(\$ in thousands)**

	Nine Months Ended March 31,	
	2021	2020
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	198,264	66,740
Change in noncontrolling interest's net assets	1,506	(1,492)
Net assets released from restriction for capital	222	3,830
Other changes	2,404	1,417
Change in net assets without donor restrictions	<u>202,396</u>	<u>70,495</u>
Net assets without donor restrictions at the end of the period	<u>\$ 1,417,827</u>	<u>\$ 1,128,780</u>
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 186,555	\$ 155,897
Contributions	30,163	33,305
Restricted investment income	8,155	(3,816)
Net assets released from restrictions for operations	(10,174)	(6,952)
Net assets released from restriction for capital	(222)	(3,830)
Other changes	(2,404)	(814)
Change in net assets with donor restrictions	<u>25,518</u>	<u>17,893</u>
Net assets with donor restrictions at the end of the period	<u>\$ 212,073</u>	<u>\$ 173,790</u>
Total net assets		
Beginning of the period	\$ 1,401,986	\$ 1,214,182
Change in total net assets	<u>227,914</u>	<u>88,388</u>
End of the period	<u>\$ 1,629,900</u>	<u>\$ 1,302,570</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020
(\$ in thousands)

	Nine Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Change in total net assets	\$ 227,914	\$ 88,388
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	110,772	90,702
Amortization of debt issuance costs, and original issue premium and discount	659	578
Loss on disposal of assets	332	1,003
Undistributed equity in earnings of equity method affiliates	(1,508)	(3,338)
Investment gains and losses	(45,885)	37,349
Purchases of trading securities	(301,041)	(195,095)
Sales of trading securities	271,480	188,540
Unrealized (gain)/loss on interest rate exchange agreements	(31,629)	33,828
Restricted contributions for endowments and property, plant, and equipment	(14,080)	(11,586)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(80,191)	(19,271)
Accounts payable and other accrued expenses	(17,207)	(36,072)
Other assets and other liabilities, net	36,015	15,894
Net cash provided by operating activities	<u>155,631</u>	<u>190,920</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(190,282)	(175,088)
Acquisition of hospitals	(15,600)	(19,252)
Acquisition of equity method investment	(36,927)	-
Purchases of long-term securities	(387,233)	(180,280)
Sales and maturities of long-term securities	251,336	168,166
Proceeds on sale of property, plant, and equipment	4	5
Net cash used in investing activities	<u>(378,702)</u>	<u>(206,449)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	163,600
Draws on line of credit	-	100,000
Debt issuance costs	-	(737)
Repayment of long-term debt and line of credit	(207,700)	(131,820)
Principal payments under finance lease obligations	(4,302)	(1,866)
Restricted contributions for endowments and property, plant, and equipment	14,080	11,586
Distributions to noncontrolling interests	(3,088)	(5,302)
Net cash (used in) provided by financing activities	<u>(201,010)</u>	<u>135,461</u>
Net change in cash, cash equivalents, and restricted cash	(424,081)	119,932
Cash, cash equivalents, and restricted cash		
Beginning of the period	1,182,332	586,686
End of the period	<u>\$ 758,251</u>	<u>\$ 706,618</u>