

Disclosure Report
For the Three Months ended September 30, 2021

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Disclosure Report for September 30, 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**

Disclosure Report for September 30, 2021

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

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Disclosure Report for September 30, 2021

ATTENTION

This document is marked with a dated date of September 30, 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 Hospital (“VUH”), 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”). VUH, MCJCHV, VPH, VWCH, VBCH, and VTHH are licensed for 1,664 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 VUH, MCJCHV, VPH, VWCH, VBCH, and VTHH. The Clinical Enterprise also includes VHS.

- VUH is a quaternary care teaching hospital licensed for 726 acute care and specialty beds. VUH, 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. VUH includes a comprehensive burn center, the Vanderbilt Transplant Center, the Vanderbilt Heart and Vascular Institute, and the Vanderbilt Ingram Cancer Center. As of September 30, 2021, VUMC held a temporary license provided under the Board for Licensing Health Care Facilities (“BLHCF”) Policy 82 to license 49 additional beds in response to COVID-19. This licensure increase is comprised of 34 observation beds and 15 double occupancy beds. The beds associated with this temporary license are not included in the above VUH 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 inpatient care to pediatric, adolescent, adult, and geriatric patients. Also, VPH provides partial hospitalization programs to both adult and adolescent patients, psychiatric assessment services, adult intensive outpatient programs, pediatric and adult ambulatory outpatient treatment, 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, Vanderbilt Ingram Cancer Center extended services to this campus in 2020, and it includes a state-of-the-art linear accelerator.
- VBCH is a 60 licensed bed, Joint Commission-accredited hospital, which offers a range of inpatient and outpatient medical and surgical services, along with urgent care services.
- VTHH is a 135 licensed bed Joint Commission-accredited hospital, which 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 first tier 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.
- Nashville Biosciences, LLC (NashBio) operates exclusively in support of VUMC's non-academic medical research activities. NashBio deploys the biospecimens and genomic data and de-identified medical records of VUMC known as "BioVU", along with other

information, to provide commercial services and products to life science industry customers in connection with pharmaceutical, biotechnology, and medical research and development activities.

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 Department of Defense, the Department of Education, the National Science Foundation, 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 three months ended September 30, 2021.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of September 30, 2021, VUMC's facilities have 1,664 beds approved for operation, of which 1,508 were fully staffed, with 109 operating rooms. As of September 30, 2020, VUMC's facilities had 1,472 beds approved for operation, of which 1,338 were fully staffed, with 94 operating rooms. These beds are primarily located at VUH, 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 September 30, 2021 and 2020, equates to 1,863 and 1,680, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

<u>Licensed Beds</u>	<u>FY 2022</u>	<u>FY 2021</u>
Licensed-Bed Category Type		
Adult Medical Surgical	1,003	827
COVID-19 ⁽¹⁾	49	52
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 September 30, 2021 and 2020	<u>1,664</u>	<u>1,472</u>
<u>Observation, JV, and Managed Beds and Bassinets⁽⁴⁾</u>		
Current Observation/Extended Recovery Beds	41	63
Current Bassinets	62	49
Stallworth Rehabilitation Hospital Beds (JV) ⁽²⁾	80	80
Vanderbilt Children's at Williamson Inpatient and Observation Unit (Managed) ⁽³⁾	16	16
Total Observation, JV, and Managed Beds and Bassinets as of September 30, 2021 and 2020	<u>199</u>	<u>208</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of September 30, 2021 and 2020	<u><u>1,863</u></u>	<u><u>1,680</u></u>

(1) Represents a temporary license to utilize 34 observation beds and 15 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 (primarily through the National Institutes of Health), the Department of Defense, the National Science Foundation, and other federal agencies supported over 70% of the research expenditures conducted by VUMC as of September 30, 2021 and 2020, respectively. The breakdown of direct research revenues is as follows for the three months ended September 30, 2021 and 2020 (*\$ in thousands*):

Source	FY 2022	FY 2021
Federal	\$ 91,893	\$ 71,369
Non-Federal	23,971	22,173
Total	<u>\$ 115,864</u>	<u>\$ 93,542</u>

Capital Cash Flows

Capital expenditures for the three months ended September 30, 2021 and 2020, were \$58 million and \$50 million, respectively. These capital expenditures primarily relate to the construction of tangible assets and technology deployment associated with operating room expansions within the adult enterprise, implementation of the electronic medical record at VBCH and VTHH, and an enterprise resource planning system to support administrative efficiency.

Utilization

Utilization statistics of the hospitals and clinics for the three months ended September 30, 2021 and 2020, which exclude the impact of VHS joint ventures except where noted, are as follows:

	Consolidated FY 2022	Consolidated FY 2021
Licensed beds ⁽¹⁾	1,664	1,472
Hospital inpatient days ⁽²⁾	114,340	99,466
Hospital discharges	18,966	17,236
Average length of stay in days ⁽²⁾	6.0	5.8
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	92.0%	86.8%
Average occupancy level (Community) ⁽²⁾⁽³⁾	47.1%	43.9%
Surgical operations ⁽⁴⁾	17,578	16,310
Ambulatory visits ⁽⁵⁾⁽⁶⁾	781,137	672,478
Emergency visits	49,513	29,690
	Obligated Group FY 2022	Obligated Group FY 2021
Licensed beds ⁽¹⁾	1,469	1,472
Hospital inpatient days ⁽²⁾	109,887	99,466
Hospital discharges	17,846	17,236
Average length of stay in days ⁽²⁾	6.2	5.8
Average occupancy level (MCMC) ⁽²⁾⁽³⁾	92.0%	86.8%
Average occupancy level (VWCH) ⁽²⁾⁽³⁾	56.1%	43.9%
Surgical operations ⁽⁴⁾	16,730	16,310
Ambulatory visits	656,048	591,026
Emergency visits	38,545	29,690

- (1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital. As of September 30, 2021, includes 34 observation beds and 15 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 September 30, 2021, total staffed beds include 35 staffed beds and exclude 14 unstaffed beds temporarily licensed in response to COVID-19. As of September 30, 2020, total staffed beds include 12 staffed beds and exclude 40 unstaffed beds temporarily licensed in response to COVID-19. VWCH is the only community hospital included in the obligated group.
- (4) Excludes surgical operations performed by VUMC-employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.
- (5) Approximately 56% of all ambulatory visits were provided at off-campus locations as of September 30, 2021.
- (6) Includes the impact of VHS joint ventures.

VUMC's overall functional occupancy rate for the Medical Center Main Campus ("MCMC"), was 89.2% and 88.1% during the three months ended September 30, 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 1,045 and 992 at September 30, 2021 and

2020, respectively.

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, 2021 and 2020, are presented below:

	<u>FY 2022</u>	<u>FY 2021</u>
Total CMI ⁽¹⁾⁽²⁾	2.24	2.27
Medicare CMI ⁽¹⁾⁽²⁾	2.38	2.32

(1) Facilities owned by members of the Obligated Group only.

(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 18% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the three months ended September 30, 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 three months ended September 30, 2021 and 2020, respectively:

<i>Payor Mix</i> ⁽¹⁾	<u>9/30/21</u> Gross	<u>9/30/21</u> Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	45.7%	62.6%
Medicare/Managed Medicare	31.6%	23.2%
TennCare/Medicaid	17.9%	12.6%
Uninsured (self-pay)	4.8%	1.6%
Total	<u>100.0%</u>	<u>100.0%</u>

(1) Facilities owned by the Obligated Group only.

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

<i>Payor Mix</i> ⁽¹⁾	9/30/20 Gross	9/30/20 Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	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	<u>100.0%</u>	<u>100.0%</u>

(1) Facilities owned by the Obligated Group only.

(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 84% 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 technical and professional patient service revenue for the three months ended September 30, 2021 and 2020, as well as the respective contract renewal date.

Commercial Contract Payments as a Percentage of Total Patient Service Revenue

	Total Payments as of 9/30/21⁽¹⁾	Total Payments as of 9/30/20⁽¹⁾	Termination Dates
Aetna	7.9%	7.7%	12/31/2021
BlueCross ⁽²⁾	28.6%	31.0%	12/31/2023
CIGNA ⁽²⁾	10.3%	8.3%	12/31/2023
Humana ⁽²⁾	0.8%	1.2%	9/30/2022
United	8.5%	8.5%	7/31/2022
Total as a % of total net patient revenue	<u>56.1%</u>	<u>56.7%</u>	

(1) Represents cash payments received for discharges that occurred during the three months ended September 30, 2021 and 2020, respectively.

(2) If not renegotiated by either party, contract renews indefinitely.

Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represented approximately \$110.0 million and \$60.8 million or 8.7% and 6.8% of Hospital and Clinic net patient service revenue for the three months ended September 30, 2021 and 2020, respectively, and have renewal dates ranging from December 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, to improve long-term investment returns. The table below summarizes VUMC’s investment allocation as of September 30, 2021, including working capital.

Summary of Cash and Investments Asset Allocation As of September 30, 2021

	Working Capital	Unrestricted and Restricted Investments⁽¹⁾	Self- Insurance Trust	Total
Cash & Cash Equivalents	62%	9%	0%	40%
Short-Term Investments	18%	0%	0%	11%
Equity Investments	0%	18%	29%	8%
Hedged Equity Investments	0%	13%	21%	6%
Fixed Income Investments	18%	38%	32%	26%
Hedged Debt Investments	0%	15%	9%	6%
Other Marketable Alternatives ⁽²⁾	0%	2%	5%	1%
Non-Marketable Investments ⁽³⁾	0%	2%	0%	1%
Restricted Cash & Cash Equivalents	2%	1%	4%	1%
SERP	0%	1%	0%	0%
Split Interest Trusts	0%	1%	0%	0%
	100%	100%	100%	100%

(1) Includes permanent endowment funds of \$78.7 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 September 30, 2021 and 2020. The reduction in unrestricted cash between September 30, 2020 and September 30, 2021 is primarily attributable to purchases of PPE and acquisitions of \$297.2 million during the period; debt repayments, net of borrowings (inclusive of repayments of our Series D 2016 taxable variable-rate revenue notes and a line of credit) of \$211.6 million; reduction in Medicare accelerated payments of approximately \$68 million; investment purchases, net of sales, of \$59.6 million; as well as other working capital changes, partially offset by EBIDA over the trailing twelve month period. As of September 30, 2021 and September 30, 2020, we have \$154.8 million and \$222.4 million of Medicare accelerated payments included in current liabilities on our consolidated balance sheets, with a corresponding amount included in cash and cash equivalents. In addition, \$64.3 million and \$51.3 million as of September 30, 2021 and September 30, 2020, respectively, related to certain payroll tax deferrals allowed for under the CARES Act, are included in Cash and cash equivalents and related liabilities on the consolidated balance sheets. 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 2022	FY 2021
Cash and cash equivalents ⁽¹⁾	\$ 762,926	\$ 1,077,823
Less: restricted cash and cash equivalents included above	(37,307)	(38,222)
Less: restricted pending donor gifts included above	-	(248)
Total unrestricted cash and cash equivalents	\$ 725,619	\$ 1,039,353
Unrestricted investments ⁽²⁾	990,786	900,665
Total unrestricted cash and investments	\$ 1,716,405	\$ 1,940,018
Average daily operating expenses ⁽³⁾	\$ 15,549	\$ 13,420
Days cash on hand ⁽⁴⁾	110.4	144.6

- (1) Cash and cash equivalents, as reported on the unaudited consolidated 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, 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 September 30, 2021

	Actual	Annualized
Excess of revenues over expenses ⁽¹⁾	\$ 51,822	\$ 207,288
Unrealized gains on investments ⁽²⁾	9,648	38,592
Unrealized loss on interest rate swap, net of cash settlements	(32)	(128)
Gain on acquisition of equity method investment	(14,669)	(58,676)
Depreciation and amortization	40,338	161,352
Interest	13,593	54,372
Income available to pay debt service	\$ 100,700	\$ 402,800
Maximum annual debt service		\$ 90,739
Maximum annual debt service coverage ⁽³⁾		4.4x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 69,428
Annual debt service coverage (Scheduled) ⁽⁵⁾		5.8x

(1) Excludes gifts, grants, bequests, donations, or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service and includes all VUMC financial flows to the University as presented in the most recent offering statement, excluding the principal payments on the Subordinated Promissory Note.

(2) 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, 2020

	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses ⁽¹⁾	\$ 67,646	\$ 270,584
Unrealized gains on investments ⁽²⁾	(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	<u>\$ 105,382</u>	<u>\$ 421,528</u>
Maximum annual debt service		\$ 108,721
Maximum annual debt service coverage ⁽³⁾		3.9x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 77,967
Annual debt service coverage (Scheduled) ⁽⁵⁾		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.

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the three months ended September 30, 2021 and 2020, (*\$ in thousands*):

	<u>FY 2022</u>	<u>FY 2021</u>
Debt ⁽¹⁾	\$ 1,610,241	\$ 1,773,426
Net assets without donor restrictions	1,575,593	1,286,172
Total capitalization	<u>\$ 3,185,834</u>	<u>\$ 3,059,598</u>
Ratio of debt to capitalization (%)	50.5%	58.0%
EBIDA	\$ 423,012	\$ 473,384
Ratio debt to total EBIDA ⁽²⁾	3.8x	3.7x
Total unrestricted cash and investments	\$ 1,716,405	\$ 1,940,018
Ratio cash to debt (%) ⁽³⁾	106.6%	109.4%

- (1) Total outstanding debt, including current maturities and finance lease liabilities, excluding the Subordinate Promissory Note, draws under the original line of credit with U.S. Bank National Association, 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. A \$14.7 million gain on the acquisition of Cool Springs Surgery Center is included in EBIDA for the three month period ended September 30, 2021.
- (3) Unrestricted cash and investments divided by 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	\$ 37,228
Fixed-payer interest rate agreement	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2026	38,041
					<u>\$ 75,269</u>

Existing Lease Agreements

VUMC leases certain property and equipment under leases with terms ranging from two to twenty years. In addition, VUMC is the lessee in a 99-year ground lease with Vanderbilt University. VUMC classifies these leases as operating leases. The following schedule represents our annual commitments of minimum rentals on non-cancelable operating leases by fiscal year (*\$ in thousands*):

	<u>Equipment</u>	<u>Property</u>	<u>Ground Lease</u>	<u>Total</u>
2022	\$ 18,937	\$ 62,333	\$ 19,440	\$ 100,710
2023	10,146	57,836	19,440	87,422
2024	4,949	55,501	19,440	79,890
2025	1,773	51,589	19,440	72,802
2026	657	41,570	19,440	61,667
Thereafter	17	143,664	1,710,720	1,854,401
Total	<u>\$ 36,479</u>	<u>\$ 412,493</u>	<u>\$ 1,807,920</u>	<u>\$ 2,256,892</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY22 YTD operating earnings before interest, depreciation, and amortization (operating EBIDA) of \$91 million was \$9 million less than FY21 YTD operating EBIDA of \$100 million. The decrease in operating EBIDA was driven by a \$196 million increase in operating expense, excluding interest, depreciation, and amortization, offset by a \$187 million increase in operating revenue. FY22 YTD operating results of \$37 million was \$12 million less than FY21 YTD operating results of \$49 million, driven by decreased operating EBIDA of \$9 million and increased depreciation and amortization of \$5 million. FY22 YTD excess of revenues over expenses was \$52 million which is \$16 million less than FY21 YTD excess of revenues over expenses of \$68 million. The decrease is driven by a \$12 million decrease in operating income, a \$23 million decrease in investment income, partially offset by a \$15 million gain on consolidation of an equity investment, \$4 million favorable interest rate swap valuation and increased earnings of unconsolidated organizations of \$2 million. The decrease in investment income is due to the market recovery we experience in the first quarter of FY21. Market growth has slowed in FY22 and we continued to have hedged strategies in our equity portfolio. The \$15 million gain on consolidation of equity investment was driven by the consolidation of the Cool Springs Surgery Center or "CSSC", previously a minority interest accounted for under the equity method, discussed further below.

Revenues

FY22 YTD operating revenue increased approximately \$187 million, or 14%, to \$1,496 million from \$1,309 million a year earlier. The primary driver of the increase in operating revenue was a 14% increase in patient service revenue to \$1,296 million from \$1,140 million a year earlier. Academic and research revenue increased \$27 million to \$155 million from \$128 million a year earlier, driven by increased grant and contract revenue. Other operating revenue increased \$3 million to \$44 million from \$41 million a year earlier.

Expenses

FY22 YTD expense increased approximately \$199 million, or 16%, to \$1,459 million from \$1,260 million a year earlier. The primary drivers were increases in salaries, wages, and benefits of \$96 million and supplies and drugs of \$58 million. The increase in these expenses is primarily due to increased cost of staffing. The shortage of available nurses and other clinical personnel, including particularly respiratory therapists, is driving an increase in the cost of traveling staff. In addition, premium pay including overtime along with increases in base pay resulted in increases in our labor rate. This impact is compounded by the demand associated with the most recent COVID-19 surge. The increase in drug costs is driven by growth in our retail and specialty pharmacy and utilization of certain high costs drugs in the clinical setting.

Balance Sheet / Cash Flow

FY22 YTD net assets increased by approximately \$82 million primarily due to excess of revenues over expenses, an increase in net assets with donor restrictions, and an increase in noncontrolling interest's net assets of approximately \$52 million, \$12 million, and \$18 million, respectively.

Cash decreased by approximately \$74 million which was primarily due to changes in working capital of \$117 million, primarily growth in accounts receivable, a reduction in accounts payable and the continued repayment of the Medicare accelerated payments. Also contributing to the decrease in cash is the purchase of capital assets of \$58 million, partially offset by operating EBIDA of \$91 million.

Financial Position Conclusion

FY22 YTD operating EBIDA margin and operating margin were 6.1% and 2.5%, respectively, both of which have declined when compared to FY21 YTD operating EBIDA margin and operating margin of 7.6% and 3.8%, respectively.

Other Events

In July of FY22 we amended the operating agreement related to minority interest held in the CSSC. The amendment resulted in VUMC holding a majority interest in the CSSC and constitutes a change in control event for CSSC resulting in consolidation. In accordance with applicable accounting guidance, we applied the acquisition method to account for this consolidation and recorded CSSC at its fair market value. This resulted in an increase to operating income (~\$2 million), an increase to the elimination of minority interest (~\$1 million), which is a component of Excess of revenues over expenses, and a decrease in unconsolidated organization income (~\$1 million) in Nonoperating revenues and expenses on our Consolidated Statement of Operations. We have consolidated CSSC's net assets on our Consolidated Balance Sheet, which increased our net assets by ~\$33 million. We recorded the fair value adjustment of \$14.7 million through the financial statement line, Other nonoperating gain, included in Nonoperating revenues and expenses on our Consolidated Statement of Operations and \$27.0 million of goodwill (recorded in Other noncurrent assets on our Consolidated Balance Sheet).

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

	September 30, 2021	June 30, 2021
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 762,926	\$ 837,312
Current investments	203,589	215,484
Patient accounts receivable	604,511	553,874
Grants and contracts receivable	68,761	77,365
Inventories	146,799	140,281
Other current assets	112,486	118,259
Total current assets	1,899,072	1,942,575
Restricted cash	30,961	27,404
Noncurrent investments	787,197	779,389
Noncurrent investments limited as to use	126,763	127,414
Property, plant, and equipment, net	1,644,019	1,630,325
Operating lease assets	845,550	839,850
Other noncurrent assets	120,605	96,351
Total assets	\$ 5,454,167	\$ 5,443,308
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 14,700	\$ 14,704
Short-term borrowings	300,000	300,000
Accounts payable and other accrued expenses	311,798	356,171
Medicare accelerated payments	154,823	189,427
Estimated payables under third-party programs	37,619	37,669
Accrued compensation and benefits	324,411	316,531
Current portion of operating lease liabilities	69,009	67,343
Current portion of deferred revenue	6,740	4,240
Current portion of medical malpractice self-insurance reserves	15,820	15,820
Total current liabilities	1,234,920	1,301,905
Long-term debt, net of current installments	1,428,374	1,432,150
Noncurrent portion of operating lease liabilities	799,601	795,330
Fair value of interest rate exchange agreements	75,269	76,864
Noncurrent portion of medical malpractice self-insurance reserves	59,413	56,770
Noncurrent portion of deferred revenue	2,842	2,923
Other noncurrent liabilities	41,490	46,986
Total liabilities	3,641,909	3,712,928
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,549,470	1,497,483
Net assets without donor restrictions related to noncontrolling interests	26,123	8,339
Total net assets without donor restrictions	1,575,593	1,505,822
Net assets with donor restrictions	236,665	224,558
Total net assets	1,812,258	1,730,380
Total liabilities and net assets	\$ 5,454,167	\$ 5,443,308

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(\$ in thousands)

	Three Months Ended September 30,	
	2021	2020
Operating revenues		
Patient service revenue	\$ 1,296,461	\$ 1,140,293
Academic and research revenue	155,240	127,885
Other operating revenue	44,367	41,149
Total operating revenues	1,496,068	1,309,327
Operating expenses		
Salaries, wages, and benefits	772,139	675,856
Supplies and drugs	344,544	286,105
Facilities and equipment	75,505	71,061
Services and other	213,090	176,260
Depreciation and amortization	40,338	35,426
Interest	13,593	15,274
Total operating expenses	1,459,209	1,259,982
Income from operations	36,859	49,345
Nonoperating revenues and expenses		
(Loss) income from investments	(3,053)	19,737
Gift income	3,415	2,755
Earnings of unconsolidated organizations	2,943	1,169
Unrealized gain/(loss) on interest rate exchange agreements, net of cash settlements	32	(4,051)
Other nonoperating gains	14,669	-
Total nonoperating revenues and expenses	18,006	19,610
Excess of revenues over expenses	54,865	68,955
Excess of revenues over expenses attributable to noncontrolling interests	(3,043)	(1,309)
Excess of revenues over expenses attributable to VUMC	51,822	67,646
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	17,783	422
Net assets released from restriction for capital	185	85
Other changes	(19)	2,588
Total changes in net assets without donor restrictions	\$ 69,771	\$ 70,741

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(\$ in thousands)**

	Three Months Ended September 30,	
	2021	2020
Net assets without donor restrictions		
Net assets without donor restrictions at the beginning of the period	\$ 1,505,822	\$ 1,215,431
Excess of revenues over expenses	51,822	67,646
Change in noncontrolling interest's net assets	17,783	422
Net assets released from restriction for capital	185	85
Other changes	(19)	2,588
Change in net assets without donor restrictions	<u>69,771</u>	<u>70,741</u>
Net assets without donor restrictions at the end of the period	<u>\$ 1,575,593</u>	<u>\$ 1,286,172</u>
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 224,558	\$ 186,555
Contributions	15,537	1,997
Restricted investment income	(561)	2,970
Net assets released from restrictions for operations	(2,703)	(4,984)
Net assets released from restriction for capital	(185)	(85)
Other changes	19	(2,589)
Change in net assets with donor restrictions	<u>12,107</u>	<u>(2,691)</u>
Net assets with donor restrictions at the end of the period	<u>\$ 236,665</u>	<u>\$ 183,864</u>
Total net assets		
Beginning of the period	\$ 1,730,380	\$ 1,401,986
Change in total net assets	<u>81,878</u>	<u>68,050</u>
End of the period	<u>\$ 1,812,258</u>	<u>\$ 1,470,036</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(\$ in thousands)

	Three Months Ended	
	September 30,	
	2021	2020
Cash flows from operating activities		
Change in total net assets	\$ 81,878	\$ 68,050
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	40,338	35,426
Gain on acquisition of equity method investment	(14,669)	-
Investment gains and losses	7,062	(19,564)
Purchases of trading securities	(75,138)	(87,228)
Sales of trading securities	73,769	75,007
Unrealized (gain)/loss on interest rate exchange agreements	(1,595)	2,536
Restricted contributions for endowments and property, plant, and equipment	(2,688)	(690)
Other noncash activities	(403)	1,158
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(48,672)	(37,639)
Accounts payable and other accrued expenses	(37,376)	(35,005)
Medicare accelerated payments	(35,560)	-
Other assets and other liabilities, net	4,675	58,519
Net cash (used in) provided by operating activities	<u>(8,379)</u>	<u>60,570</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(58,253)	(49,822)
Purchases of long-term securities	(13,421)	(252,481)
Sales and maturities of long-term securities	12,466	151,877
Net cash used in investing activities	<u>(59,208)</u>	<u>(150,426)</u>
Cash flows from financing activities		
Repayment of debt	(2,567)	(1,250)
Principal payments under finance lease obligations	(1,560)	(1,479)
Restricted contributions for endowments and property, plant, and equipment	2,688	690
Distributions to noncontrolling interests	(1,803)	(888)
Net cash used in financing activities	<u>(3,242)</u>	<u>(2,927)</u>
Net change in cash, cash equivalents, and restricted cash	(70,829)	(92,783)
Cash, cash equivalents, and restricted cash		
Beginning of the period	<u>864,716</u>	<u>1,182,332</u>
End of the period	<u>\$ 793,887</u>	<u>\$ 1,089,549</u>