

Disclosure Report
For the Nine Months ended March 31, 2020

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Disclosure Report for March 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 March 31, 2020

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

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Disclosure Report for March 31, 2020

ATTENTION

This document is marked with a dated date of March 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 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 1,489 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. VUMC obtained a temporary license to utilize 69 of its 120 observation beds as licensed medical/surgical beds in response to COVID-19. These are not included in the above VUAH bed count.
- MCJCHV is a pediatric quaternary care teaching hospital licensed for 343 beds (159 acute and specialty, 65 pediatric intensive care, and 119 neonatal intensive care). MCJCHV is the region’s only full-service pediatric hospital, with over 30 pediatric specialties. MCJCHV serves as a site for medical education and clinical research conducted by pediatric physician faculty, houses the only Level IV neonatal intensive care center and the only Level 1 pediatric trauma center within the region, and is a regional referral center for extracorporeal membrane oxygenation (heart and lung failure).
- VPH is a psychiatric hospital licensed for 106 beds and provides both inpatient and outpatient partial hospitalization psychiatric services to both adult and adolescent patients. Also, VPH provides psychiatric assessment services, adult intensive outpatient programs, and neuromodulation procedures through electroconvulsive therapy and transcranial magnetic stimulation.

- VWCH is a two-campus facility licensed for 245 beds and is a substantial provider of both inpatient and outpatient medical services in Lebanon, Tennessee. VWCH also includes an accredited chest pain center, a stroke center, and a comprehensive weight loss center.
- VMG is the practice group of physicians and advanced practice nurses employed by VUMC, most of whom have faculty appointments from the University, who perform billable professional medical services. VMG is not a separate legal entity. VMG has a board which consists of the VUMC clinical service chiefs, who also serve as clinical department chairs. Under the oversight of VUMC executive leadership, VMG sets professional practice standards, bylaws, policies, and procedures. VUMC bills for services rendered by VMG clinicians in both inpatient and outpatient locations. Collected fees derive a component of each VMG clinician's compensation. VMG includes nationally recognized physicians whose expertise spans the spectrum from primary care to the most specialized quaternary discipline. The entire clinical faculty is "board certified" or eligible for board certification. All staff members are re-credentialed every two years by the National Committee for Quality Assurance standards. All specialties and subspecialties currently recognized by the various national specialty boards are represented on the clinical faculty.
- VHS serves as a holding company for 16 health care related subsidiaries and joint ventures owned with various entities, including, but not limited to, VSRH and the Vanderbilt Health Affiliated Network ("VHAN"). VHS operations primarily consist of community physician practices, walk-in and retail health clinics, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, accountable care organizations, and a rehabilitation hospital. These subsidiaries include clinics managed in multiple outpatient locations throughout middle Tennessee and southwestern Kentucky.
- Health Professional Solutions, LLC ("HPS") is a holding company that holds interest in five VUMC subsidiaries that engage in or support various health care activities in order to improve the quality and availability of health care services in the community. These subsidiaries include businesses focused on pharmacy, supply chain, and clinically integrated support services.

The Academic Enterprise division includes all clinically-related research, research-support activities, and faculty endeavors supporting post-graduate training programs. A significant funding source for VUMC's research has historically been the federal government. Federal funding is received from the Department of Health and Human Services, the National Institutes of Health, the Department of Defense, NASA, and other federal agencies. Sponsored research awards, including multiple-year grants and contracts from government sources, foundations, associations, and corporations signify future research commitments. Also, core activities supporting research, including advanced computing and grant administration, are included in this division.

As mentioned above and throughout this document, VUMC acquired the Medical Center and its operations from the University in the Acquisition. For the purpose of funding the Acquisition and other capital projects, VUMC entered into certain debt agreements. Certain of these debt agreements contain required disclosures which outline annual and quarterly reporting requirements. In addition, certain of these debt agreements require notices of the occurrence of significant events which include but are not limited to delinquencies, bond calls, rating changes, bankruptcies, and mergers or acquisitions.

Certain amounts in the Fiscal 2019 financial statements have been reclassified to conform to their Fiscal 2020 presentation.

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, 2020.

SUMMARY OF OPERATING AND UTILIZATION DATA

Licensed Beds

As of March 31, 2020, VUMC's facilities have 1,489 beds approved for operation, of which 1,310 were fully staffed, with 94 operating rooms. As of March 31, 2019, VUMC's facilities had 1,051 beds approved for operation, of which 1,037 were fully staffed, with 82 operating rooms. These beds are primarily located at VUAH, MCJCHV, VPH, and VWCH. VSRH is operated within a separate joint venture entity, which is currently owned 50% by VUMC. Counting VSRH beds, managed beds at Williamson Medical Center Inpatient Children's Unit, operated observation beds, and bassinet beds, total beds as of March 31, 2020 and 2019, equates to 1,685 and 1,275, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

<u>Licensed Beds</u>	<u>FY 2020</u>	<u>FY 2019</u>
Licensed-Bed Category Type		
Adult Medical Surgical	827	637
COVID-19 ⁽¹⁾	69	-
Adult Obstetric	64	50
Adult Clinical Research Center	5	5
Pediatric Medical/Surgical	159	129
Pediatric Neonatal Intensive Care	119	96
Pediatric Intensive Care	65	42
Psychiatric Care	155	92
Rehabilitation	26	-
Total Licensed Beds as of March 31, 2020 and 2019	<u>1,489</u>	<u>1,051</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds ⁽¹⁾	51	93
Current Bassinets	49	35
Stallworth Rehabilitation Hospital Beds (JV) ⁽²⁾	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) ⁽³⁾	<u>16</u>	<u>16</u>
Total Observation, JV, and Managed Beds and Bassinets as of March 31, 2020 and 2019	<u>196</u>	<u>224</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of March 31, 2020 and 2019	<u><u>1,685</u></u>	<u><u>1,275</u></u>

(1) Represents a temporary license to utilize 69 observation 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 March 31, 2020 and 2019. The breakdown of direct research revenues is as follows for the nine months ended March 31, 2020 and 2019 (\$ in thousands):

Source	FY 2020	FY 2019
Federal	\$ 223,342	\$ 213,251
Non-Federal	85,148	70,430
Total	<u>\$ 308,490</u>	<u>\$ 283,681</u>

Capital Cash Flows

Capital expenditures for the nine months ended March 31, 2020 and 2019, were \$191 million and \$149 million, respectively. The FY 2020 period primarily includes the VWCH acquisition as well as construction of tangible assets associated with hospital and clinic expansions within the adult and pediatric enterprises. The FY 2019 expenditures primarily relate to construction of tangible assets associated with the adult and children's hospital expansions.

Utilization

VUMC's overall functional occupancy rate, excluding VWCH and temporarily licensed beds related to COVID-19, was 97.9% and 93.5% during the nine months ended March 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). The average number of inpatients in the hospital at midnight census, excluding VWCH, was 986 and 966 at March 31, 2020 and 2019, respectively. Thus, VUMC has continued to operate at or above the theoretical optimal occupancy of 85% when total utilization of capacity is measured. Utilization statistics of the hospitals and clinics for the nine months ended March 31, 2020 and 2019, are as follows:

	FY 2020	FY 2019
Licensed beds ⁽¹⁾	1,489	1,051
Hospital inpatient days ⁽²⁾	285,915	264,659
Hospital discharges	52,307	48,211
Average length of stay in days ⁽²⁾	5.5	5.5
Average occupancy level (licensed beds) ⁽²⁾⁽³⁾	84.3%	91.9%
Surgical operations ⁽⁴⁾	47,634	43,452
Ambulatory visits ⁽⁵⁾	1,908,464	1,821,627
Emergency visits	104,115	86,239

(1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital. Includes 69 observation beds temporarily licensed as medical/surgical in response to COVID-19.

(2) Includes nursery and psychiatric hospital; does not include the observation patients.

(3) Average occupancy level, excluding VWCH and temporarily licensed beds related to COVID-19, calculated as inpatient days and observation patients, divided by total licensed beds multiplied by the number of days in the period. Average occupancy level including VWCH staffed beds and temporarily licensed COVID-19 beds of 137 and 69, respectively, is 76.1%.

(4) Excludes surgical operations performed by VUMC-employed physicians at separate surgery centers that are partially owned by a VUMC subsidiary.

(5) Includes visits related to VHS joint ventures.

VUMC Inpatient Acuity

Across all inpatients, VUMC's inpatient acuity is measured by case mix index ("CMI"). VUMC's total CMI and CMI for Medicare patients for the nine months ended March 31, 2020 and 2019, are presented below:

	FY 2020	FY 2019
Total CMI ⁽¹⁾	2.20	2.15
Medicare CMI ⁽¹⁾	2.38	2.36

(1) Excludes normal newborns and VWCH.

During the nine months ended March 31, 2020 and 2019, ambulatory visits at the Medical Center totaled 1,663,501 and 1,573,808, 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 51% and 49% of outpatient visits at off-campus locations during the nine months ended March 31, 2020 and 2019, respectively.

VUMC Payor Mix

The Medical Center receives payment on behalf of most of its patients from a number of third parties, including Blue Cross and other private insurers, the federal government through Medicare, and the federal and state governments through Medicaid. TennCare, the State's managed care plan operating under a Section 1115 Medicaid demonstration waiver from the federal government, provides the majority of Medicaid revenues. The remaining Medicaid revenues are from Medicaid patients who live outside of the State. Blue Cross, one of VUMC's largest payors represented 19.9% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the nine months ended March 31, 2020 and 2019.

The revenues attributable to Blue Cross are presented in the other third-party payors category in the following table, which sets forth the sources of gross amounts of patient service revenue as well as gross amounts of patient service revenue net of explicit and implicit price concessions for the nine months ended March 31, 2020 and 2019, respectively:

<i>Payor Mix</i> ⁽¹⁾	3/31/20	3/31/20
	Gross	Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽²⁾	47.7%	63.7%
Medicare/Managed Medicare	30.7%	23.5%
TennCare/Medicaid	17.2%	12.6%
Uninsured (self-pay)	4.4%	0.5%
Total	<u>100.0%</u>	<u>100.0%</u>

(1) Includes VWCH.

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

<i>Payor Mix</i>	3/31/19	3/31/19
	Gross	Net
Other Third-Party Payors, Primarily Commercial Carriers ⁽¹⁾	45.5%	62.0%
Medicare/Managed Medicare	32.3%	23.5%
TennCare/Medicaid	18.0%	13.5%
Uninsured (self-pay)	4.2%	1.0%
Total	<u>100.0%</u>	<u>100.0%</u>

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

VUMC's major commercial managed care contracts are multi-year agreements, typically three to four years with automatic annual escalators. Commercial contracts reimburse the facility on case rates with stop loss provisions for inpatient medical/surgical services and fee schedules for outpatient services. VPH is reimbursed on per diems. VUMC has no agreements based on full risk or capitation reimbursement. Three major commercial contracts utilize performance on quality metrics as a basis for a portion of the annual escalators. Over 78% of VUMC's payments for healthcare services are covered under contracted rates. Termination dates for the most material contracts are presented in the below table.

The following table details payments received from VUMC's largest commercial contracts as a percentage of total net patient revenue for the nine months ended March 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 3/31/20⁽¹⁾	Total Payments as of 3/31/19⁽¹⁾	Termination Dates
Aetna	7.1%	7.8%	12/31/2021
BlueCross ⁽²⁾	30.8%	29.9%	12/31/2023
CIGNA ⁽²⁾	8.6%	8.4%	9/30/2020
Humana ⁽²⁾	1.1%	0.8%	9/30/2021
United	8.4%	7.9%	7/31/2021
Total as a % of total net patient revenue	<u>56.0%</u>	<u>54.8%</u>	

(1) Represents cash payments received for discharges that occurred during the nine months ended March 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 \$180.2 million and \$164.0 million in net revenue or 7.2% of Hospital and Clinic net revenue for the nine months ended March 31, 2020 and 2019, respectively, and have renewal dates ranging from July 31, 2021 through June 30, 2023.

SUMMARY OF FINANCIAL DATA

Cash and Investments

The VUMC Board of Directors (the “Board”) approves the investment policy, while VUMC management is responsible for appointing and removing investment managers, monitoring asset allocation within the policy guidelines, and other ongoing oversight of the investment portfolio. VUMC utilizes external investment advisors to provide professional investment analysis and guidance to assist in evaluating the performance of the funds. As the risk profile of VUMC matures, VUMC management anticipates undertaking modest additional risk, through asset allocation adjustments, in order to improve long-term investment returns. The table below summarizes VUMC’s investment allocation as of March 31, 2020, including working capital.

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

	Working Capital	Unrestricted and Restricted Investments⁽¹⁾	Self- Insurance Trust	Total
Cash & Cash Equivalents	74%	0%	0%	50%
Short-Term Investments	10%	0%	0%	7%
Equity Investments	0%	22%	33%	8%
Hedged Equity Investments	0%	13%	14%	4%
Fixed Income Investments	14%	40%	37%	23%
Hedged Debt Investments	0%	15%	7%	5%
Other Marketable Alternatives ⁽²⁾	0%	7%	9%	2%
Non-Marketable Investments	0%	0%	0%	0%
Project Funds at Bond Trustee	0%	0%	0%	0%
Restricted Cash & Cash Equivalents	1%	0%	1%	1%
SERP	0%	1%	0%	0%
Split Interest Trusts	0%	2%	0%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes permanent endowment funds of \$47.3 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of March 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 2020	FY 2019
Cash and cash equivalents ⁽¹⁾	\$ 695,149	\$ 524,930
Less: restricted cash and cash equivalents included above	(30,837)	(30,860)
Less: restricted pending donor gifts included above	(121)	(483)
Total unrestricted cash and cash equivalents	<u>\$ 664,191</u>	<u>\$ 493,587</u>
Unrestricted investments ⁽²⁾	590,911	519,762
Total unrestricted cash and investments	<u>\$ 1,255,102</u>	<u>\$ 1,013,349</u>
Average daily operating expenses ⁽³⁾	<u>\$ 12,538</u>	<u>\$ 11,351</u>
Days cash on hand ⁽⁴⁾	<u>100.1</u>	<u>89.3</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, 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 March 31, 2020		
	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses ⁽¹⁾	\$ 66,740	\$ 88,987
Unrealized losses (gains) on investments ⁽²⁾	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	<u>\$ 278,963</u>	<u>\$ 371,951</u>
Maximum annual debt service		\$ 95,957
Maximum annual debt service coverage ⁽³⁾		3.9x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 67,005
Annual debt service coverage (Scheduled) ⁽⁵⁾		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) Unrealized (gains)/losses on endowed assets are excluded due to restrictions on uses which are inconsistent with their use for the payment of debt service.

(3) Maximum annual debt service coverage consists of estimated annual income available to pay debt service divided by maximum annual debt service, excluding debt service related to operating leases.

(4) Represents 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.

(5) Annual debt service coverage consists of estimated annual income available to pay debt service divided by annual debt service, excluding debt service related to operating leases.

As of March 31, 2019

	<u>Actual</u>	<u>Annualized</u>
Excess of revenues over expenses ⁽¹⁾	\$ 123,340	\$ 164,453
Unrealized losses on investments ⁽²⁾	7,122	9,496
Unrealized loss on interest rate swaps, net of cash settlements	9,931	13,241
Depreciation and amortization	78,790	105,053
Interest	42,411	56,548
Income available to pay debt service	<u>\$ 261,594</u>	<u>\$ 348,791</u>
Maximum annual debt service		\$ 98,957
Maximum annual debt service coverage ⁽³⁾		3.5x
Annual debt service (Scheduled) ⁽⁴⁾		\$ 64,626
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) Unrealized (gains)/losses on endowed assets are excluded due to restrictions on uses which are inconsistent with their use for the payment of debt service.
- (3) Maximum annual debt service coverage consists of estimated annual income available to pay debt service divided by maximum annual debt service, excluding debt service related to operating leases.
- (4) Represents smoothed debt service scheduled for the fiscal year, excluding debt service related to operating leases. Actual payments during the fiscal year are equal to smoothed debt service.
- (5) Annual debt service coverage consists of estimated annual income available to pay debt service divided by annual debt service, excluding debt service related to operating leases.

Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the nine months ended March 31, 2020 and 2019, (\$ in thousands):

	FY 2020	FY 2019
Long-term debt ⁽¹⁾	\$ 1,463,611	\$ 1,429,337
Net assets without donor restrictions	1,128,780	938,798
Total capitalization	<u>\$ 2,592,391</u>	<u>\$ 2,368,135</u>
Ratio of long-term debt to capitalization (%)	56.5%	60.4%
EBIDA	\$ 268,492	\$ 326,055
Ratio debt to total EBIDA ⁽²⁾	5.5x	4.4x
Total unrestricted cash and investments	\$ 1,255,102	\$ 1,013,349
Ratio cash to debt (%) ⁽³⁾	85.8%	70.9%

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

(2) Total outstanding long-term debt divided by total annualized EBIDA, which includes realized gains from sale of assets incurred in the normal course of operations, investment income (all gains), unrestricted gifts or restricted gifts released from restrictions (spent on the purpose), unrealized gain or loss on interest rate swap, and equity earnings in unconsolidated organizations.

(3) Unrestricted cash and investments divided by long-term debt, which includes unrestricted cash and cash equivalents and unrestricted investments.

Interest Rate Exchange Agreements

VUMC uses interest rate exchange agreements as part of its debt portfolio management strategy. These agreements do not include collateral pledging requirements. Information regarding the current interest rate exchange agreements, including mandatory termination provisions, is as follows (\$ in thousands):

Description	Notional Amount	Rate Paid	Rate Received	Maturity	Fair Value
Fixed-payer interest rate agreement	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2021	\$ 50,750
Fixed-payer interest rate agreement	\$ 75,000	4.18%	68% of one-month LIBOR	4/29/2023	50,979
					<u>\$ 101,729</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>
2020	\$ 34,637	\$ 51,429	\$ 19,440	\$ 105,506
2021	28,078	51,928	19,440	99,446
2022	16,401	44,848	19,440	80,689
2023	8,824	41,215	19,440	69,479
2024	3,681	39,065	19,440	62,186
Thereafter	1,400	185,451	1,749,600	1,936,451
Total	<u>\$ 93,021</u>	<u>\$ 413,936</u>	<u>\$ 1,846,800</u>	<u>\$ 2,353,757</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FY20 YTD operating earnings before interest, depreciation and amortization (operating EBIDA) of \$242 million was \$14 million greater than FY19 YTD operating EBIDA of \$228 million. The increase in operating EBIDA was driven by a \$337 million increase in operating revenue, partially offset by a \$323 million increase in operating expenses, excluding interest, depreciation and amortization. FY20 YTD operating results for FY20 and FY19 were both \$107 million. Beginning mid-March, VUMC experienced the impact of the pandemic, which reduced elective and other volumes that could be delayed in the near term. The negative impact of COVID-19 on FY20 YTD operating results are discussed further in Subsequent Events. On a stand-alone basis, March FY20 operating results reflected an \$11 million operating loss. YTD excess of revenues over expenses was \$67 million which is \$57 million less than FY19 YTD excess of revenues over expenses of \$123 million, due to market volatility as a result of pandemic-related market disruption and the related impact to our investments and interest rate swap instruments.

The decrease in excess of revenues over expenses is due to a decrease of \$56 million in non-operating performance. The primary drivers of the \$56 million decrease in non-operating income were unfavorable investment income of \$33 million due to extreme market drops combined with unfavorable mark to market adjustments of the interest rate exchange agreements' obligations, net of settlements, of \$27 million. The decrease in the unfavorable mark to market adjustments of the interest rate exchange agreements obligation is due to unfavorable interest rate changes compared to the prior year. The interest rate exchange agreements do not require collateral posting. These decreases were partially offset by a \$2 million increase in both gift income and earnings of unconsolidated organizations.

Revenues

FY20 YTD operating revenue increased approximately \$337 million, or 10%, to \$3,630 million from \$3,293 million a year earlier. The primary driver of the increase in revenues was a \$292 million, or 10%, increase in patient service revenue to \$3,103 million from \$2,811 million a year earlier. The remaining increase is driven by increases in academic and research revenue, driven by increased grant and contract income and other operating revenue of \$36 million and \$9 million, respectively. March stand-alone revenue performance was below the planned budget by \$19 million due to volume decreases as noted above.

Expenses

FY20 YTD expense increased approximately \$337 million, or 11%, to \$3,523 million from \$3,186 million a year earlier. The primary drivers were increases in salaries, wages and benefits of \$161 million and supplies and drugs of \$120 million. The increase in these expenses is primarily due to increased staffing, drug, and supply needs to meet additional demand associated with higher patient service revenue and margin. Drug expense has increased primarily due to the ongoing introduction of sophisticated new pharmaceutical compounds, which VUMC, as a leading academic medical center, provides to our quaternary patients. During March, despite preparation for COVID-19, expenses continued at run rate as steps were undertaken to support testing and potential surge demand.

Balance Sheet / Cash Flow

FY20 YTD net assets increased by approximately \$88 million primarily due to excess of revenues over expenses and donor-restricted contributions, net of those released from restrictions of approximately \$67 million and \$23 million, respectively. Cash increased by approximately \$120 million which was primarily due to EBIDA of \$242 million, a line of credit draw of \$100 million executed in an abundance of caution as capital markets briefly showed signs of illiquidity prior to the Federal Reserve intervention, and net proceeds from the issuance of long-term debt of \$32 million. These increases were partially offset by \$191 million for the construction of certain long-lived assets and investment purchases, net of sales, of \$19 million. The remaining change in cash was largely due to changes in working capital with a \$36 million decrease in accounts payable and a \$19 million increase in accounts receivable.

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

Conclusion

Through February FYTD 20, EBIDA margin was 7.3% and operating margin was 3.6% deteriorating to 6.7% and 3.0%, respectively, by the end of March. We expect continued deterioration throughout Q4, particularly acute in the April period; however, there are indications that a muted recovery will begin during May. Please refer to Subsequent Events for more information.

SUBSEQUENT EVENTS

On March 13, 2020, President Trump declared a national emergency, and a variety of federal, state and local government efforts have been initiated in response to the recent COVID-19 outbreak. The discussion below addresses certain events at, or the experience of, VUMC since March 13, 2020, as a result of the COVID-19 outbreak specifically. It is not intended to address general operating and financial information relating to VUMC subsequent to March 2020.

VUMC began to experience the impact of the pandemic beginning mid-March following the declaration of a national emergency and a state emergency for the State of Tennessee and the issuance of stay-at-home orders in response to the COVID-19 outbreak. As part of the stay-at-home order effective March 24, 2020, Governor Bill Lee ordered that all hospitals and outpatient surgical facilities should not perform non-essential procedures. The order substantially reduced certain surgical procedures and other volumes that could be delayed in the near term. From mid-March through the end of April, outpatient visits and procedures decreased approximately 51%. Inpatient surgical discharges dropped by approximately 42% while medically related discharges dropped 30%. VUMC also incurred additional expense for the purchase of personal protective equipment (“PPE”), the rental of additional beds and ventilators, the development of COVID-19 testing capabilities, and the establishment of testing and alternative treatment sites. In addition, existing infrastructure was enhanced, and temporary staffing contracts were executed to prepare for a potential surge in cases.

On April 30, 2020, the State of Tennessee issued new stay-at-home orders that allowed certain businesses to reopen in most Tennessee counties other than those in some key metropolitan areas which had previously issued more restrictive stay-at-home orders, including Nashville (where the majority of VUMC’s campus and service offerings are located). This same week, the Metropolitan Government of Nashville allowed certain surgical and other procedures to resume beginning May 1, 2020. On May 4, 2020, VUMC began to perform certain surgical and other procedures that were deferred during the initial stay-at-home orders, and increased scheduling and performance of all other outpatient services as Nashville’s stay-at-home order ended and a phase one reopening plan began on May 11, 2020.

Through May 21, 2020, volumes have rebounded from the mid-March through April periods. Outpatient visits and procedure volumes have grown weekly, reaching approximately 70% of pre-COVID-19 volumes. Inpatient surgical volumes have rebounded to approximately 85% of prior levels, while inpatient medical discharges are trending toward 90% of prior periods.

Through May 21, 2020, in the State of Tennessee 360,583 patients have been tested for COVID-19, of which 18,961 tested positive; there have been 1,539 admissions and 313 deaths due to COVID-19.

VUMC Response to COVID-19 and Patient Care

On March 6, 2020, VUMC established a Command Center comprised of a team of senior clinical, administrative and operational leaders, to prepare for and respond to the rapidly evolving situation. This team, which met daily during the initial crisis period and is currently meeting three times per week, implemented a comprehensive response to address matters arising from the COVID-19 outbreak pertaining to VUMC patients and its workforce and health care operations. Among other things, VUMC has developed an effective process to secure and distribute PPE to its personnel who provide patient care. VUMC has also established plans to expand service capacity in the event of a surge in demand for hospital beds. VUMC has implemented the screening procedures for infection prevention and control and the use of PPE recommended by the CDC and other public health authorities for its healthcare providers in an effort to mitigate the spread of COVID-19 to its patients and employees. This includes using ultraviolet light to sterilize certain N95 masks for reuse, among other things. In addition, VUMC made significant efforts to expand the availability of telemedicine in all its markets. Telemedicine trended toward 50% of total visits during the stay-at-home period, but now are stabilizing at approximately 20 – 25% of total ambulatory clinician encounters. VUMC has laboratories capable of processing patient tests for COVID-19 and relies

on other third-party laboratories for the balance of required testing. Due to the continued restrictions on the availability of testing supplies, VUMC currently has the capacity to perform approximately 750 COVID-19 tests per day within its own laboratory facilities and an additional 500 COVID-19 tests per day through external laboratories. VUMC faculty and staff have taken on leadership roles to support local and state officials in the pandemic response, including service as chair of the Metro Nashville Board of Health coordinating the city's COVID-19 response, working with the Tennessee Emergency Management Agency on development of additional emergency hospital capacity in the region, working closely with nursing home medical leadership across the state, and providing statistical models to inform state and local planning efforts.

Supply Chain

VUMC's supply chain team continues to work diligently to secure additional supplies from reliable sources and is tracking supplies at each site and routing equipment and PPE where it is needed. There is currently enough supply of PPE to meet demand, but VUMC expects continued high demand over the course of the next 9-12 months. VUMC continues to establish contractual arrangements to secure ongoing access to PPE. In addition, VUMC believes its existing relationship with its primary distributor Medline, along with other key vendors, will help mitigate supply chain disruptions as a result of business closures, inventory depletion, and/or production delays caused by the outbreak.

Operational and Financial Impact

On a stand-alone basis, March FY20 and April FY20 results reflect an \$11 million operating loss and a \$76 million operating loss, respectively, to budget. April YTD operating results reflect \$32 million of operating income which trailed our planned budget and prior year by \$77 million and \$99 million, respectively. April YTD excess of revenues over expenses was \$10 million which is \$136 million and \$147 million less than FY20 planned budget and FY19 YTD excess of revenues over expenses, respectively. March and April stand-alone patient revenue performance was below the planned budget by \$19 million and \$94 million, respectively, due to volume decreases resulting from the stay-at-home orders and the related negative impact on volumes. Certain variable operating expenses have flexed down, including supplies and drugs, related to inpatient and procedural care volume reductions. We have incurred approximately \$15 million in cost related to the purchase of appropriate testing supplies, PPE, equipment, and set up costs for test sites, which offset the variable operating expense reductions.

CARES Funding and Liquidity

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law to provide approximately \$2 trillion in economic stimulus payments to individuals and businesses impacted by the COVID-19 outbreak. The CARES Act includes a number of provisions important to health care providers, including provisions for certain emergency funds, making available \$100 billion under the Public Health and Social Services Emergency Fund ("Provider Relief Fund") to reimburse eligible health care providers for health care-related expenses or lost revenues not otherwise reimbursed that are directly attributable to COVID-19. Eligible providers include Medicare or Medicaid enrolled suppliers and providers, for-profit entities and nonprofit entities in the United States that provide diagnoses, testing or care for individuals with possible or actual cases of COVID-19.

As of May 21, 2020, VUMC has received approximately \$110 million from the Provider Relief Fund. VUMC intends to evaluate and, as appropriate, avail itself of the benefits of the CARES Act programs, grants and other potential payment acceleration programs to which it may be entitled, but cannot currently estimate what, if any, such benefits may be or the related timing or receipt of any such benefits. The CARES Act also provides for other provisions designed to boost Medicare and Medicaid reimbursement for COVID-19 related services including, among other items, added payments for inpatient hospital discharges relating to COVID-19, accelerated payment to providers, and the suspension of certain policies that reduced

payments to providers, including a temporary elimination of the Medicare sequester. Additionally, the CARES Act expands the use of telehealth by providers by changing certain restrictions on reimbursement for those services. As of May 21, 2020, VUMC has received approximately \$224 million in advanced/accelerated Medicare reimbursements, pursuant to the CMS Accelerated and Advance Payment Program.

VUMC has recorded the relief benefits received thus far as an obligation on our balance sheet while we evaluate appropriate revenue recognition and understand the terms and conditions to which attestation is required. There is a high degree of uncertainty surrounding the implementation of the CARES Act, and the federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact on VUMC at this time.

Unrestricted Cash and Cash Equivalents increased in April by approximately \$642 million to \$1,897 million (151.5 days cash on hand; an increase from 100.1 days as of March 31, 2020) driven by \$314 million in CARES funding as discussed above along with net proceeds from the issuance of \$300 million long-term debt drawn at close in April 2020. The long-term debt is structured as a two-year taxable loan, callable at one year with a fixed interest rate of 2.11% per annum. VUMC also closed two \$50 million lines of credit in April with one lender (364 days and two year terms) and a third \$50 million line of credit in May (364 days). We have not drawn on any of the \$150 million new line of credit facilities.

Investment Performance

The COVID-19 outbreak drove substantial volatility in global investment markets, U.S. domestic debt and equity capital markets, travel and commerce. Subsequent to December 31, 2019, there has been instability in the global financial markets. During our third quarter of FY20, U.S. stocks dropped sharply as worries about the global COVID-19 pandemic and its impact on businesses and the economy grew. VUMC holds a substantial portion of its funds in cash and short-term investments. In addition, the longer-term portfolios (including the medical malpractice trust) are highly diversified and include strategies such as long/short – hedged equity investments, which help to protect the portfolio in down equity markets. Prior to the substantial market decline in March, VUMC’s longer-term portfolios were positioned conservatively at the lower end of the risk ranges provided for under the VUMC investment policy. VUMC’s total Unrestricted Cash and Investments experienced an estimated loss of approximately \$27 million in March and recovered approximately \$19 million in April, bringing the estimated fiscal year-to-date total return through the end of April on Unrestricted Cash and Investments to a positive \$8 million.

CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2020 AND JUNE 30, 2019
(\$ in thousands)

	March 31, 2020 (Unaudited)	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 695,149	\$ 574,748
Current investments	98,296	115,941
Patient accounts receivable	501,756	482,485
Grants and contracts receivable	56,493	58,750
Inventories	89,565	75,407
Other current assets	87,514	89,311
Total current assets	1,528,773	1,396,642
Restricted cash	11,469	11,938
Noncurrent investments	492,615	491,047
Noncurrent investments limited as to use	101,006	103,609
Property, plant, and equipment, net	1,474,480	1,395,095
Operating lease assets	732,197	-
Other noncurrent assets	52,310	48,067
Total assets	\$ 4,392,850	\$ 3,446,398
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 10,065	\$ 8,568
Line of credit	100,000	-
Accounts payable and other accrued expenses	247,053	304,188
Estimated payables under third-party programs	28,043	24,877
Accrued compensation and benefits	236,125	214,382
Current portion of operating lease liabilities	68,705	-
Current portion of deferred revenue	12,218	14,965
Current portion of medical malpractice self-insurance reserves	12,012	12,012
Total current liabilities	714,221	578,992
Long-term debt, net of current installments	1,534,379	1,506,877
Noncurrent portion of operating lease liabilities	680,251	-
Fair value of interest rate exchange agreements	101,729	67,901
Noncurrent portion of medical malpractice self-insurance reserves	47,317	44,328
Noncurrent portion of deferred revenue	4,746	7,773
Other noncurrent liabilities	7,637	26,345
Total liabilities	3,090,280	2,232,216
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,122,495	1,050,509
Net assets without donor restrictions related to noncontrolling interests	6,285	7,776
Total net assets without donor restrictions	1,128,780	1,058,285
Net assets with donor restrictions	173,790	155,897
Total net assets	1,302,570	1,214,182
Total liabilities and net assets	\$ 4,392,850	\$ 3,446,398

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

	Nine Months Ended March 31,	
	2020	2019
Operating revenues		
Patient service revenue	\$ 3,102,836	\$ 2,811,063
Academic and research revenue	408,605	372,378
Other operating revenue	118,505	109,533
Total operating revenues	<u>3,629,946</u>	<u>3,292,974</u>
Operating expenses		
Salaries, wages, and benefits	1,861,919	1,700,652
Supplies and drugs	776,029	656,474
Facilities and equipment	206,142	196,891
Services and other	544,140	510,926
Depreciation and amortization	90,702	78,790
Interest	43,927	42,411
Total operating expenses	<u>3,522,859</u>	<u>3,186,144</u>
Income from operations	<u>107,087</u>	<u>106,830</u>
Nonoperating revenues and expenses		
Income from investments	(16,215)	16,917
Gift income	12,476	10,064
Earnings of unconsolidated organizations	4,287	2,536
Unrealized (loss) gain on interest rate exchange agreements, net of cash settlements	<u>(37,085)</u>	<u>(9,931)</u>
Total nonoperating revenues and expenses	<u>(36,537)</u>	<u>19,586</u>
Excess of revenues over expenses	70,550	126,416
Excess of revenues over expenses attributable to noncontrolling interests	<u>(3,810)</u>	<u>(3,076)</u>
Excess of revenues over expenses attributable to VUMC	66,740	123,340
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	(1,492)	2,438
Net asset reclassification	817	(184)
Net assets released from restriction for capital	3,830	-
Other changes	<u>600</u>	<u>(1)</u>
Total changes in net assets without donor restrictions	<u>\$ 70,495</u>	<u>\$ 125,593</u>

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

	Nine Months Ended March 31,	
	2020	2019
Net assets without donor restrictions		
Net assets without donor restrictions at the beginning of the period	\$ 1,058,285	\$ 813,205
Excess of revenues over expenses	66,740	123,340
Change in noncontrolling interest's net assets	(1,492)	2,438
Net asset reclassification	817	(184)
Net assets released from restriction for capital	3,830	-
Other changes	600	(1)
Change in net assets without donor restrictions	70,495	125,593
Net assets without donor restrictions at the end of the period	\$ 1,128,780	\$ 938,798
Net assets with donor restrictions		
Net assets with donor restrictions at the beginning of the period	\$ 155,897	\$ 114,425
Contributions	33,305	24,662
Restricted investment (loss) income	(3,816)	645
Net assets released from restrictions for operations	(6,952)	(6,327)
Net asset reclassification	(817)	184
Net assets released from restriction for capital	(3,830)	-
Other changes	3	-
Change in net assets with donor restrictions	17,893	19,164
Net assets with donor restrictions at the end of the period	\$ 173,790	\$ 133,589
Total net assets		
Beginning of the period	\$ 1,214,182	\$ 927,630
Change in total net assets	88,388	144,757
End of the period	\$ 1,302,570	\$ 1,072,387

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

	Nine Months Ended March 31,	
	2020	2019
Cash flows from operating activities		
Change in total net assets	\$ 88,388	\$ 144,757
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	90,702	78,790
Amortization of debt issuance costs, and original issue premium and discount	578	5
Loss on disposal of assets	1,003	432
Undistributed equity in earnings of equity method affiliates	(3,338)	(935)
Net realized and unrealized loss (gain) on investments	37,349	(1,965)
Purchases of trading securities	(195,095)	(177,630)
Sales of trading securities	188,540	166,707
Unrealized loss on interest rate exchange agreements	33,828	7,069
Restricted contributions for endowments and property, plant, and equipment	(11,586)	(13,276)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	(19,271)	(4,987)
Accounts payable and other accrued expenses	(35,712)	(25,482)
Other assets and other liabilities, net	12,062	(9,720)
Net cash provided by operating activities	<u>187,448</u>	<u>163,765</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(190,868)	(148,912)
Purchases of long-term securities	(180,280)	(228,190)
Sales and maturities of long-term securities	168,166	196,913
Proceeds on sale of property, plant, and equipment	5	220
Net cash used in investing activities	<u>(202,977)</u>	<u>(179,969)</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	(131,820)	(3,750)
Principal payments under finance lease obligations	(1,866)	(1,235)
Restricted contributions for endowments and property, plant, and equipment	11,586	13,276
Distributions to noncontrolling interests	(5,302)	(638)
Net cash provided by financing activities	<u>135,461</u>	<u>7,653</u>
Net change in cash, cash equivalents, and restricted cash	119,932	(8,551)
Cash, cash equivalents, and restricted cash		
Beginning of the period	586,686	578,165
End of the period	<u>\$ 706,618</u>	<u>\$ 569,614</u>