

**Disclosure Report**  
**For the Twelve Months ended June 30, 2020**

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**Disclosure Report for June 30, 2020**

**VANDERBILT UNIVERSITY MEDICAL CENTER**

**NOTICE  
relating to:**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016A**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE TAXABLE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016B**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE TAXABLE REVENUE NOTE  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2016D**

**THE HEALTH AND EDUCATIONAL  
FACILITIES BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY,  
TENNESSEE REVENUE BONDS  
(VANDERBILT UNIVERSITY MEDICAL  
CENTER) SERIES 2017A**

**Disclosure Report for June 30, 2020**

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

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## Disclosure Report for June 30, 2020

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## **Disclosure Report for June 30, 2020**

### **ATTENTION**

This document is marked with a dated date of June 30, 2020, and reflects information only as of that date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

The information contained in this document may include “forward looking statements” by using forward looking words such as “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or others. You are cautioned that forward looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control.

Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward looking statements.

## ORGANIZATION

Vanderbilt University Medical Center (“VUMC”) is a Tennessee not-for-profit corporation incorporated in March of 2015 to operate an academic medical center including a comprehensive research, teaching, and patient care health system (the “Medical Center”). Until April 29, 2016, the Medical Center operated as a unit within Vanderbilt University (“the University” or “VU”), as a part of the University’s administrative structure, with the same governing board, legal, financial, and other shared services. VUMC began operations effective April 30, 2016, following the closing of the sale of the Medical Center by the University (the “Acquisition”).

VUMC owns and operates three hospitals located on the main campus 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 1,420 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.
- MCJCHV is a pediatric quaternary care teaching hospital licensed for 343 beds (159 acute and specialty, 65 pediatric intensive care, and 119 neonatal intensive care). MCJCHV is the region’s only full-service pediatric hospital, with over 30 pediatric specialties. MCJCHV serves as a site for medical education and clinical research conducted by pediatric physician faculty, houses the only Level IV neonatal intensive care center and the only Level I pediatric trauma center within the region, and is a regional referral center for extracorporeal membrane oxygenation (heart and lung failure).
- VPH is a psychiatric hospital licensed for 106 beds and provides both inpatient and outpatient partial hospitalization psychiatric services to both adult and adolescent patients. Also, VPH provides psychiatric assessment services, adult intensive outpatient programs, and neuromodulation procedures through electroconvulsive therapy and transcranial magnetic stimulation.
- VWCH is a two-campus facility licensed for 245 beds and is a substantial provider of both inpatient and outpatient medical services in Lebanon, Tennessee. VWCH also includes an accredited chest pain center, a stroke center, and a comprehensive weight loss center.

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

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

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

The VUMC fiscal year end is June 30. The information contained in this document represents the unaudited consolidated results of operations of VUMC as of and for the twelve months ended June 30, 2020.

## SUMMARY OF OPERATING AND UTILIZATION DATA

### Licensed Beds

As of June 30, 2020, VUMC's facilities have 1,420 beds approved for operation, of which 1,311 were fully staffed, with 94 operating rooms. As of June 30, 2019, VUMC's facilities had 1,072 beds approved for operation, of which 1,058 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 bassinets beds, total beds as of June 30, 2020 and 2019, equates to 1,650 and 1,296, 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
Adult Obstetric	64	50
Adult Clinical Research Center	5	5
Pediatric Medical/Surgical	159	142
Pediatric Neonatal Intensive Care	119	96
Pediatric Intensive Care	65	50
Psychiatric Care	155	92
Rehabilitation	26	-
Total Licensed Beds as of June 30, 2020 and 2019	<u>1,420</u>	<u>1,072</u>
<u>Observation, JV, and Managed Beds and Bassinets</u>		
Current Observation/Extended Recovery Beds	85	93
Current Bassinets	49	35
Stallworth Rehabilitation Hospital Beds (JV) <sup>(1)</sup>	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed) <sup>(2)</sup>	16	16
Total Observation, JV, and Managed Beds and Bassinets as of June 30, 2020 and 2019	<u>230</u>	<u>224</u>
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of June 30, 2020 and 2019	<u><u>1,650</u></u>	<u><u>1,296</u></u>

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

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

Source	FY 2020	FY 2019
Federal	\$ 297,651	\$ 297,758
Non-Federal	119,170	99,776
Total	<u>\$ 416,821</u>	<u>\$ 397,534</u>

### Capital Cash Flows

Capital expenditures for the twelve months ended June 30, 2020 and 2019, were \$254 million and \$195 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, was 93.3% and 93.8% during the twelve months ended June 30, 2020 and 2019, respectively, (functional occupancy rate calculated as inpatient days plus observation days in inpatient units divided by total licensed beds, less research, labor & delivery, and double rooms used as singles). The average number of inpatients in the hospital at midnight census, excluding VWCH, was 962 and 969 at June 30, 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.

Our occupancy and volumes were significantly impacted mid-March through May as a result of COVID-19 and the stay-at-home orders. Volumes began to recover in June as stay-at-home orders were eased with most metrics approaching pre-pandemic levels. Prior to the impact of COVID-19, our February FYTD20 average occupancy, excluding VWCH, was 86.6%. Our average occupancy began to drop in March to 84.3% and then dropped sharply to 60.9% and 78.5% in the April and May periods, respectively, before rebounding to 83.8% in the month of June. All volumes were ahead of prior year levels prior to the pandemic with March FYTD20 inpatient days, discharges, surgical operations, ambulatory visits, and emergency visits exceeding March FYTD19 by 7.4%, 7.8%, 8.8%, 4.6%, and 17.2%, respectively. Volumes were substantially reduced in the April but began to rebound in the May MTD FY20 periods. April MTD FY20 inpatient days, discharges, surgical operations, ambulatory visits, and emergency visits trailed the prior year by 26.3%, 41.0%, 136.7%, 85.9%, and 46.7%, respectively. May MTD FY20 fell behind prior year as well in all volumes except for inpatient days which was favorable by 0.1%. Discharges, surgical operations, ambulatory visits, and emergency visits were unfavorable 9.7%, 22.8%, 39.1%, and 17.8%, respectively. As noted above, volumes began to stabilize in mid/late May with most June volumes exceeding prior year levels. June MTD FY20 inpatient days, discharges, surgical operations, ambulatory visits, and emergency visits surpassed June MTD FY19 by 8.4%, 7.3%, 13.6%, 10.9%, and 1.9%, respectively. Utilization statistics of the hospitals and clinics for the twelve months ended June 30, 2020 and 2019, are as follows:

	<b>FY 2020</b>	<b>FY 2019</b>
Licensed beds <sup>(1)</sup>	1,420	1,072
Hospital inpatient days <sup>(2)</sup>	371,335	353,554
Hospital discharges	66,971	64,559
Average length of stay in days <sup>(2)</sup>	5.5	5.5
Average occupancy level (licensed beds) <sup>(2)(3)</sup>	81.8%	90.4%
Surgical operations <sup>(4)</sup>	59,422	58,398
Ambulatory visits <sup>(5)</sup>	2,386,532	2,436,098
Emergency visits	128,130	114,661

(1) Excludes nursery bassinets and 80 joint venture beds at Vanderbilt-Stallworth Rehabilitation Hospital.

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

(3) Average occupancy level, excluding VWCH and observation patients, divided by total licensed beds excluding VWCH multiplied by the number of days in the period. Average occupancy level including VWCH staffed beds of 137 is 77.9%.

(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 twelve months ended June 30, 2020 and 2019, are presented below:

	<b>FY 2020</b>	<b>FY 2019</b>
Total CMI <sup>(1)</sup>	2.24	2.14
Medicare CMI <sup>(1)</sup>	2.42	2.34

(1) Excludes normal newborns and VWCH.

During the twelve months ended June 30, 2020 and 2019, ambulatory visits at the Medical Center totaled 2,091,169 and 2,117,101, 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 twelve months ended June 30, 2020 and 2019.

### VUMC Payor Mix

The Medical Center receives payment on behalf of most of its patients from a number of third parties, including Blue Cross and other private insurers, the federal government through Medicare, and the federal and state governments through Medicaid. TennCare, the State's managed care plan operating under a Section 1115 Medicaid demonstration waiver from the federal government, provides the majority of Medicaid revenues. The remaining Medicaid revenues are from Medicaid patients who live outside of the State. Blue Cross, one of VUMC's largest payors represented 20% of total gross patient service revenue (based on total gross patient service revenue, including professional fee revenue) for the twelve months ended June 30, 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 twelve months ended June 30, 2020 and 2019, respectively:

<i>Payor Mix</i> <sup>(1)</sup>	<b>6/30/20 Gross</b>	<b>6/30/20 Net</b>
Other Third-Party Payors, Primarily Commercial Carriers <sup>(2)</sup>	46.0%	63.3%
Medicare/Managed Medicare	31.9%	22.9%
TennCare/Medicaid	17.4%	13.0%
Uninsured (self-pay)	4.7%	0.8%
Total	100.0%	100.0%

(1) Includes VWCH.

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

<i>Payor Mix</i>	<b>6/30/19 Gross</b>	<b>6/30/19 Net</b>
Other Third-Party Payors, Primarily Commercial Carriers <sup>(1)</sup>	45.9%	61.7%
Medicare/Managed Medicare	32.6%	23.5%
TennCare/Medicaid	17.9%	13.9%
Uninsured (self-pay)	3.6%	0.9%
Total	100.0%	100.0%

(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 twelve months ended June 30, 2020 and 2019, as well as the respective contract renewal date.

#### **Commercial Contract Payments as a Percentage of Total Net Patient Revenue**

	<b>Total Payments as of 6/30/20<sup>(1)</sup></b>	<b>Total Payments as of 6/30/19<sup>(1)</sup></b>	<b>Termination Dates</b>
Aetna	6.8%	7.7%	12/31/2021
BlueCross <sup>(2)</sup>	30.5%	29.8%	12/31/2023
CIGNA <sup>(2)</sup>	8.6%	8.5%	9/30/2020
Humana <sup>(2)</sup>	1.1%	1.0%	9/30/2021
United	8.2%	7.8%	7/31/2021
Total as a % of total net patient revenue	55.2%	54.8%	

(1) Represents cash payments received for discharges that occurred during the twelve months ended June 30, 2020 and 2019, respectively. Excludes professional fee billing.

(2) If not renegotiated by either party, contract renews indefinitely.  
Note: Does not include behavioral or dental service contracts.

Medicare Advantage contracts represented approximately \$229.6 million and \$221 million in net revenue or 7.2% of Hospital and Clinic net revenue for the twelve months ended June 30, 2020 and 2019, respectively, and have renewal dates ranging from July 31, 2021 through June 30, 2023.

## SUMMARY OF FINANCIAL DATA

### Cash and Investments

The VUMC Board of Directors (the “Board”) approves the investment policy, while VUMC management is responsible for appointing and removing investment managers, monitoring asset allocation within the policy guidelines, and other ongoing oversight of the investment portfolio. VUMC utilizes external investment advisors to provide professional investment analysis and guidance to assist in evaluating the performance of the funds. As the risk profile of VUMC matures, VUMC management anticipates undertaking modest additional risk, through asset allocation adjustments, in order to improve long-term investment returns. The table below summarizes VUMC’s investment allocation as of June 30, 2020, including working capital.

#### Summary of Cash and Investments Asset Allocation As of June 30, 2020

	<b>Working Capital</b>	<b>Unrestricted and Restricted Investments <sup>(1)</sup></b>	<b>Self- Insurance Trust</b>	<b>Total</b>
Cash & Cash Equivalents	75%	0%	0%	57%
Short-Term Investments	15%	0%	0%	11%
Equity Investments	0%	24%	35%	6%
Hedged Equity Investments	0%	13%	14%	3%
Fixed Income Investments	9%	31%	27%	15%
Hedged Debt Investments	0%	22%	13%	5%
Other Marketable Alternatives <sup>(2)</sup>	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%	2%	1%
SERP	0%	2%	0%	0%
Split Interest Trusts	0%	1%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes permanent endowment funds of \$52.7 million.

(2) Includes REITs and commodities.

The following table sets forth VUMC unrestricted cash and investments and days cash on hand as of June 30, 2020 and 2019. This financial information is provided for informational purposes only and is not necessarily, and should not be assumed to be, an indication of the results that will be achieved in the future (\$ in thousands):

### Summary of Unrestricted Cash and Cash Equivalents

	FY 2020	FY 2019
Cash and cash equivalents <sup>(1)</sup>	\$ 1,170,526	\$ 574,748
Less: restricted cash and cash equivalents included above	(36,394)	(29,827)
Less: restricted pending donor gifts included above	(60)	(3,179)
Total unrestricted cash and cash equivalents	<u>\$ 1,134,072</u>	<u>\$ 541,742</u>
Unrestricted investments <sup>(2)</sup>	771,351	606,988
Total unrestricted cash and investments	<u>\$ 1,905,423</u>	<u>\$ 1,148,730</u>
Average daily operating expenses <sup>(3)</sup>	<u>\$ 12,648</u>	<u>\$ 11,533</u>
Days cash on hand <sup>(4)</sup>	<u>150.6</u>	<u>99.6</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 3<sup>rd</sup> party.
- (4) Unrestricted cash and investments divided by average daily operating expenses (excluding depreciation and amortization) for the twelve months then ended.

## Debt Service Coverage

The following tables set forth, for the twelve months ended June 30, 2020 and 2019, VUMC's income available for debt service, and indicates the extent to which such income available for debt service would provide coverage for maximum annual and annual debt service on all long-term debt (\$ in thousands):

### As of June 30, 2020

	<b>Actual</b>
Excess of revenues over expenses <sup>(1)</sup>	\$ 153,972
Unrealized losses (gains) on investments <sup>(2)</sup>	(3,637)
Unrealized loss on interest rate swap, net of cash settlements	37,152
Depreciation and amortization	126,654
Interest	60,771
Income available to pay debt service	<u>\$ 374,912</u>
Maximum annual debt service	\$ 109,039
Maximum annual debt service coverage <sup>(3)</sup>	3.4x
Annual debt service (Scheduled) <sup>(4)</sup>	\$ 73,263
Annual debt service coverage (Scheduled) <sup>(5)</sup>	5.1x

(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 were \$69.3 million, excluding debt service related to operating leases.

(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 June 30, 2019**

	<b>Actual</b>
Excess of revenues over expenses <sup>(1)</sup>	\$ 208,100
Unrealized losses on investments <sup>(2)</sup>	126
Unrealized loss on interest rate swaps, net of cash settlements	17,480
Depreciation and amortization	106,524
Interest	56,528
Income available to pay debt service	<u>\$ 388,758</u>
Maximum annual debt service	\$ 94,201
Maximum annual debt service coverage <sup>(3)</sup>	4.1x
Annual debt service (Scheduled) <sup>(4)</sup>	\$ 65,430
Annual debt service coverage (Scheduled) <sup>(5)</sup>	5.9x

(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. Actual payments during the fiscal year were 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.



### Capitalization Ratios

The following table provides VUMC's capitalization ratios as of and for the twelve months ended June 30, 2020 and 2019, (\$ in thousands):

	<b>FY 2020</b>	<b>FY 2019</b>
Long-term debt <sup>(1)</sup>	\$ 1,776,028	\$ 1,430,861
Net assets without donor restrictions	1,215,431	1,058,285
Total capitalization	<u>\$ 2,991,459</u>	<u>\$ 2,489,146</u>
Ratio of long-term debt to capitalization (%)	59.4%	57.5%
EBIDA	\$ 341,397	\$ 371,153
Ratio debt to total EBIDA <sup>(2)</sup>	5.2x	3.9x
Total unrestricted cash and investments	\$ 1,905,423	\$ 1,148,730
Ratio cash to debt (%) <sup>(3)</sup>	107.3%	80.3%

(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):

<b>Description</b>	<b>Notional Amount</b>	<b>Rate Paid</b>	<b>Rate Received</b>	<b>Maturity</b>	<b>Fair Value</b>
Fixed-payer interest rate agreement	\$ 75,000	4.12%	68% of one-month LIBOR	4/29/2021	\$ 50,329
Fixed-payer interest rate agreement	\$ 75,000	4.18%	68% of one-month LIBOR	4/29/2023	50,013
					<u>\$ 100,342</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*):

	<b>Equipment</b>	<b>Property</b>	<b>Ground Lease</b>	<b>Total</b>
2021	\$ 24,354	\$ 54,861	\$ 19,440	\$ 98,655
2022	12,665	47,668	19,440	79,773
2023	5,898	43,972	19,440	69,310
2024	1,336	41,933	19,440	62,709
2025	232	39,438	19,440	59,110
Thereafter	-	158,830	1,730,160	1,888,990
Total	<u>\$ 44,485</u>	<u>\$ 386,702</u>	<u>\$ 1,827,360</u>	<u>\$ 2,258,547</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

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. Patient activity and operating results were significantly impacted during the fourth quarter as a result. Through June 30, 2020, volumes have rebounded from the mid-March through mid-May periods with most metrics approaching pre-COVID-19 levels.

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. As of June 30, 2020, VUMC has recognized approximately \$119 million from the Provider Relief Fund and an \$11 million Employee Retention Credit provided for under the CARES Act in other operating revenue.

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. As of June 30, 2020, VUMC has received approximately \$219 million in advanced/accelerated Medicare reimbursements, pursuant to the CMS Accelerated and Advance Payment Program recorded as an obligation on our balance sheet. These funds will be recouped over the course of the next fiscal year.

FY20 operating earnings before interest, depreciation and amortization (operating EBIDA) of \$330 million was \$14 million less than FY19 operating EBIDA of \$344 million. FY20 operating results of \$142 million were \$39M less than FY19 operating results of \$181M. Excess of revenues over expenses of \$154 million were \$54 million less than FY19 excess of revenues over expenses of \$208 million. The reduction in EBIDA, operating results, and excess of revenues over expenses was driven by decreased operating revenues due to COVID-19 and the stay-at-home orders coupled with increased operating expenses to prepare for COVID-19. We incurred additional operating expenses to set up COVID-19 testing sites, purchase testing supplies, purchase personal protective equipment, and additional costs to purchase supplies and provide labor for screeners at entrances to safely serve our patient population. In addition, non-operating revenues and expenses were negatively impacted by market volatility and the related impact to our investment performance and our interest rate swap valuation. Our operating expenses increased by \$403 million, excluding interest, depreciation and amortization when compared to the prior year. This increase in expense was partially offset by a \$389 million increase in operating revenue when compared to the prior year. While our revenues exceeded the prior period, they were negatively impacted by COVID-19 resulting in expense growth that exceeded our revenue growth when compared to the prior year.

Prior to the impact of COVID-19 our operating revenues exceed prior year. March FYTD20 operating revenue exceeding March FYTD19 operating revenue by \$337 million. The stay-at-home orders and the related deferral of elective procedures in March through May negatively impacted our operating revenue when compared to the prior year. April and May MTD FY20 operating revenues were behind the same periods in FY19 by \$82 million and \$45 million, respectively, creating a cumulative decrease in operating revenue of \$127 million. During June of FY20, MTD operating revenue recovered and was favorable compared to the FY19 by \$177 million as stay-at-home orders were eased and our volumes began to

recover. The increase in operating revenue in June compared to the prior year comprises a \$43 million increase in patient service revenue, as both surgical and ambulatory volumes recovered, and a \$134 million increase in other revenue when compared to FY19. The increase in other revenue was driven by \$130 million in CARES relief recorded in June, comprising \$119 million of provider relief and \$11 million of payroll retention credits.

The decrease in non-operating revenues and expenses of \$15M is due to an increase to our interest rate swap obligations, net of settlements, of \$20 million combined with unfavorable investment income of \$3 million due pandemic-related market volatility. 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 \$6 million increase in gift income.

### **Revenues**

FY20 operating revenue increased approximately \$389 million, or 9%, to \$4,886 million from \$4,497 million a year earlier. The primary driver of the increase in operating revenue was a \$211 million, or 6%, increase in patient service revenue to \$4,032 million from \$3,821 million a year earlier. The increase in operating revenue is also driven by an increase of \$144 million in other operating revenue to \$301 million from \$157 million a year earlier, primarily due to CARES relief of \$130 million discussed above. The remaining increase in operating revenue is due to an increase in academic and research revenue.

### **Expenses**

FY20 expense increased approximately \$427 million, or 10%, to \$4,743 million from \$4,316 million a year earlier. The primary drivers were increases in salaries, wages and benefits of \$205 million and supplies and drugs of \$154 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. The salaries, wages and benefits increase was also driven by increased staffing associated with our COVID-19 preparedness. Drug expense has increased primarily due to the ongoing introduction of sophisticated new pharmaceutical compounds, which VUMC, as a leading academic medical center, provides to our quaternary patients.

### **Balance Sheet / Cash Flow**

FY20 net assets increased by approximately \$188 million primarily due to excess of revenues over expenses and donor-restricted contributions, net of those released from restrictions, and other unrestricted changes of approximately \$154 million, \$31 million and \$3 million respectively. Cash increased by approximately \$596 million which was primarily due to EBIDA of \$330 million, a line of credit draw of \$100 million related to COVID-19 preparedness, proceeds from the issuance of callable two-year debt of \$300 million to provide additional liquidity during COVID-19, and \$219 million in advanced/accelerated Medicare reimbursements under the CARES Act. These increases were partially offset by \$254 million for the construction of certain long-lived assets and investment purchases, net of sales, of \$166 million. The remaining change in cash was largely due to changes in working capital.

### **Conclusion**

Our FY20 EBIDA margin and operating margin is 6.8% and 2.9%, respectively. Both EBIDA and operating margin percentages have decreased due to the impact of COVID-19 compared to FY19 EBIDA margin and operating margin of 7.7% and 4.0%, respectively; however, margins have shown considerable improvement from the mid-March – April periods as volumes rebound. We anticipate stabilized operations during FY21 as we continue to support COVID-19 patients and the associated response to the virus in our community

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

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,170,526	\$ 574,748
Current investments	232,178	115,941
Patient accounts receivable	470,550	482,485
Grants and contracts receivable	60,031	58,750
Inventories	104,603	75,407
Other current assets	114,887	89,311
Total current assets	2,152,775	1,396,642
Restricted cash	11,806	11,938
Noncurrent investments	539,173	491,047
Noncurrent investments limited as to use	113,526	103,609
Property, plant, and equipment, net	1,525,103	1,395,095
Operating lease assets	846,695	-
Other noncurrent assets	53,347	48,067
Total assets	\$ 5,242,425	\$ 3,446,398
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current installments of long-term debt	\$ 14,321	\$ 8,568
Line of credit	100,000	-
Accounts payable and other accrued expenses	309,162	304,188
Medicare accelerated payments	218,894	
Estimated payables under third-party programs	45,957	24,877
Accrued compensation and benefits	238,038	214,382
Current portion of operating lease liabilities	70,062	-
Current portion of deferred revenue	4,827	14,965
Current portion of medical malpractice self-insurance reserves	12,577	12,012
Total current liabilities	1,013,838	578,992
Long-term debt, net of current installments	1,841,290	1,506,877
Noncurrent portion of operating lease liabilities	797,811	-
Fair value of interest rate exchange agreements	100,342	67,901
Noncurrent portion of medical malpractice self-insurance reserves	47,682	44,328
Noncurrent portion of deferred revenue	4,027	7,773
Other noncurrent liabilities	35,449	26,345
Total liabilities	3,840,439	2,232,216
Net assets		
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,208,796	1,050,509
Net assets without donor restrictions related to noncontrolling interests	6,635	7,776
Total net assets without donor restrictions	1,215,431	1,058,285
Net assets with donor restrictions	186,555	155,897
Total net assets	1,401,986	1,214,182
Total liabilities and net assets	\$ 5,242,425	\$ 3,446,398

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE TWELVE MONTHS ENDED JUNE 30, 2020 AND 2019**  
(\$ in thousands)

	<b>Twelve Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating revenues</b>		
Patient service revenue	\$ 4,031,720	\$ 3,820,871
Academic and research revenue	552,822	519,447
Other operating revenue	301,143	157,011
Total operating revenues	<u>4,885,685</u>	<u>4,497,329</u>
<b>Operating expenses</b>		
Salaries, wages, and benefits	2,495,795	2,290,910
Supplies and drugs	1,046,398	892,211
Facilities and equipment	273,405	268,974
Services and other	740,255	701,079
Depreciation and amortization	126,654	106,524
Interest	60,771	56,529
Total operating expenses	<u>4,743,278</u>	<u>4,316,227</u>
Income from operations	<u>142,407</u>	<u>181,102</u>
<b>Nonoperating revenues and expenses</b>		
Income from investments	27,224	30,106
Gift income	20,702	14,416
Earnings of unconsolidated organizations	4,865	4,031
Unrealized loss on interest rate exchange agreements, net of cash settlements	<u>(37,152)</u>	<u>(17,480)</u>
Total nonoperating revenues and expenses	<u>15,639</u>	<u>31,073</u>
Excess of revenues over expenses	158,046	212,175
Excess of revenues over expenses attributable to noncontrolling interests	<u>(4,074)</u>	<u>(4,075)</u>
Excess of revenues over expenses attributable to VUMC	153,972	208,100
<b>Other changes in net assets without donor restrictions</b>		
Change in noncontrolling interest's net assets	(1,141)	2,052
Net asset reclassification	(2,409)	(182)
Net assets released from restriction for capital	4,773	35,110
Other changes	1,951	-
Total changes in net assets without donor restrictions	<u>\$ 157,146</u>	<u>\$ 245,080</u>

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

	<b>Twelve Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net assets without donor restrictions</b>		
Net assets without donor restrictions at the beginning of the period	\$ 1,058,285	\$ 813,205
Excess of revenues over expenses	153,972	208,100
Change in noncontrolling interest's net assets	(1,141)	2,052
Net asset reclassification	(2,409)	(182)
Net assets released from restriction for capital	4,773	35,110
Other changes	1,951	-
Change in net assets without donor restrictions	157,146	245,080
Net assets without donor restrictions at the end of the period	\$ 1,215,431	\$ 1,058,285
<b>Net assets with donor restrictions</b>		
Net assets with donor restrictions at the beginning of the period	\$ 155,897	\$ 114,425
Contributions	45,079	85,331
Restricted investment income	1,727	1,665
Net assets released from restrictions for operations	(13,788)	(10,596)
Net asset reclassification	2,409	182
Net assets released from restriction for capital	(4,773)	(35,110)
Other changes	4	-
Change in net assets with donor restrictions	30,658	41,472
Net assets with donor restrictions at the end of the period	\$ 186,555	\$ 155,897
<b>Total net assets</b>		
Beginning of the period	\$ 1,214,182	\$ 927,630
Change in total net assets	187,804	286,552
End of the period	\$ 1,401,986	\$ 1,214,182

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

	<b>Twelve Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Change in total net assets	\$ 187,804	\$ 286,552
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	126,654	106,524
Amortization of debt issuance costs, and original issue premium and discount	709	26
Loss on disposal of assets	1,116	485
Undistributed equity in earnings of equity method affiliates	(1,754)	343
Net realized and unrealized gain on investments	(8,662)	(10,721)
Purchases of trading securities	(392,111)	(231,753)
Sales of trading securities	242,191	220,535
Change in split-interest trusts	260	194
Unrealized loss on interest rate exchange agreements	32,441	13,695
Restricted contributions for endowments and property, plant, and equipment	(14,073)	(25,683)
(Decrease) increase in cash due to changes in:		
Patient accounts receivable	11,935	(8,100)
Accounts payable and other accrued expenses	21,501	38,073
Medicare accelerated payments	218,894	-
Other assets and other liabilities, net	6,475	(95,548)
Net cash provided by operating activities	<u>433,380</u>	<u>294,622</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(254,072)	(195,197)
Purchases of long-term securities	(255,581)	(340,184)
Sales and maturities of long-term securities	239,623	232,230
Proceeds on sale of property, plant, and equipment	5	220
Net cash used in investing activities	<u>(270,025)</u>	<u>(302,931)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	463,600	-
Draws on line of credit	100,000	-
Debt issuance costs	(1,645)	-
Repayment of long-term debt	(133,070)	(5,000)
Principal payments under finance lease obligations	(4,334)	(1,831)
Restricted contributions for endowments and property, plant, and equipment	14,073	25,683
Distributions to noncontrolling interests	(6,333)	(2,022)
Net cash provided by financing activities	<u>432,291</u>	<u>16,830</u>
Net change in cash, cash equivalents, and restricted cash	<u>595,646</u>	<u>8,521</u>
<b>Cash, cash equivalents, and restricted cash</b>		
Beginning of the period	586,686	578,165
End of the period	<u>\$ 1,182,332</u>	<u>\$ 586,686</u>