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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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 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.

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 bassinet beds, total beds as of June 30, 2020 and 2019, equates to 1,650 and 1,296, respectively.

VUMC Beds (Licensed, Observation, JV, Managed)

Licensed Beds	**FY 2020**	**FY 2019**
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	1,420	1,072
Observation, JV, and Managed Beds and Bassinets		
Current Observation/Extended Recovery Beds	85	93
Current Bassinets	49	35
Stallworth Rehabilitation Hospital Beds (JV)[1]	80	80
MCJCHV at Williamson Medical Center Inpatient and Observation Unit (Managed)[2]	16	16
Total Observation, JV, and Managed Beds and Bassinets as of June 30, 2020 and 2019	230	224
Total Licensed, Observation, JV, and Managed Beds and Bassinets as of June 30, 2020 and 2019	1,650	1,296

(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.

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:

	FY 2020	**FY 2019**
Licensed beds(1)	1,420	1,072
Hospital inpatient days(2)	371,335	353,554
Hospital discharges	66,971	64,559
Average length of stay in days(2)	5.5	5.5
Average occupancy level (licensed beds)(2)(3)	81.8%	90.4%
Surgical operations(4)	59,422	58,398
Ambulatory visits(5)	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:

	FY 2020	FY 2019
Total CMI(1)	2.24	2.14
Medicare CMI(1)	2.42	2.34

(1) Excludes normal newborns and VWCH. Total CMI and Medicare CMI including VWCH is 2.13 and 2.37, respectively, for FY 2020.

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:

Payor Mix(1)	6/30/20 Gross	6/30/20 Net
Other Third-Party Payors, Primarily Commercial Carriers(2)	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.

Payor Mix	**6/30/19 Gross**	**6/30/19 Net**
Other Third-Party Payors, Primarily Commercial Carriers (1)	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

	Total Payments as of 6/30/20(1)	**Total Payments as of 6/30/19**(1)	**Termination Dates**
Aetna	6.8%	7.7%	12/31/2021
BlueCross (2)	30.5%	29.8%	12/31/2023
CIGNA (2)	8.6%	8.5%	10/31/2020
Humana (2)	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

	Working Capital	Unrestricted and Restricted Investments (1)	Self-Insurance Trust	Total
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 (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%	2%	1%
SERP	0%	2%	0%	0%
Split Interest Trusts	0%	1%	0%	0%
	100%	100%	100%	100%

(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 [(1)]	$ 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	$ 1,134,072	$ 541,742
Unrestricted investments [(2)]	771,351	606,988
Total unrestricted cash and investments	$ 1,905,423	$ 1,148,730
Average daily operating expenses [(3)]	$ 12,648	$ 11,533
Days cash on hand [(4)]	150.6	99.6

(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 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

		Actual
Excess of revenues over expenses (1)	$	153,972
Unrealized losses (gains) on investments (2)		(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	$	374,912
Maximum annual debt service	$	109,039
Maximum annual debt service coverage (3)		3.4x
Annual debt service (Scheduled) (4)	$	73,263
Annual debt service coverage (Scheduled) (5)		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

		Actual
Excess of revenues over expenses (1)	$	208,100
Unrealized losses on investments (2)		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	$	388,758
Maximum annual debt service	$	94,201
Maximum annual debt service coverage (3)		4.1x
Annual debt service (Scheduled) (4)	$	65,430
Annual debt service coverage (Scheduled) (5)		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)*:

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

(1) Total outstanding long-term debt, including current maturities, excluding the Subordinate Promissory Note, drawn line of credit, and operating lease liabilities.
(2) Total outstanding long-term debt divided by total annualized EBIDA, which includes realized gains from sale of assets incurred in the normal course of operations, investment income (all gains), unrestricted gifts or restricted gifts released from restrictions (spent on the purpose), unrealized gain or loss on interest rate swap, and equity earnings in unconsolidated organizations.
(3) Unrestricted cash and investments divided by long-term debt, which includes unrestricted cash and cash equivalents and unrestricted investments.

Existing Lease Agreements

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

	Equipment		Property		Ground Lease		Total	
2021	$	24,354	$	54,861	$	19,440	$	98,655
2022		12,665		47,668		19,440		79,773
2023		5,898		43,971		19,440		69,309
2024		1,336		41,933		19,440		62,709
2025		232		39,438		19,440		59,110
Thereafter		-		158,829		1,730,160		1,888,989
Total	$	44,485	$	386,700	$	1,827,360	$	2,258,545

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 only perform 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 $222 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 $222 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.

Subsequent Events

After June 30, 2020, additional information was issued to clarify certain aspects of the above described COVID-19 funding programs, including the Provider Relief Fund and the Medicare Advanced and Accelerated Payment Program. In the notes to our consolidated financial statements we have discussed these changes. In Note 20 Subsequent Events, we disclosed that the Department of Health and Human Services issued a notice on September 19, 2020, which adjusted requirements for those health care entities that received funding through the Provider Relief Fund, potentially impacting how these entities account for and record payments received. In Note 19 Other Events, we describe changes issued on October 1, 2020, to the Medicare Accelerated and Advance Payment Program, mainly impacting the timing under which the advanced payments will be repaid, and related interest charged on these advances. VUMC is still assessing the impact these notices will have on our consolidated financial statements. Finally, after June 30, 2020, VUMC announced plans to purchase two hospitals from subsidiaries of Community Health Systems. This event is also disclosed in Note 20 Subsequent Events.

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.

Vanderbilt University Medical Center

Consolidated Financial Statements and Supplementary Information
Years Ended June 30, 2020 and 2019

Ernst & Young LLP

Building a better working world

Vanderbilt University Medical Center
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June 30, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Vanderbilt University Medical Center

We have audited the accompanying consolidated financial statements of Vanderbilt University Medical Center, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vanderbilt University Medical Center at June 30, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, *Leases (Topic 842)*

As discussed in Note 2 to the consolidated financial statements, Vanderbilt University Medical Center changed its method of accounting for leases as a result of the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842),* effective July 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

October 13, 2020

Vanderbilt University Medical Center
Consolidated Balance Sheets
June 30, 2020 and 2019

($ in thousands)	2020	2019
Assets		
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	118,439	89,311
Total current assets	2,156,327	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	$ 5,245,977	$ 3,446,398
Liabilities and Net Assets		
Current liabilities:		
Current portion 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	222,445	-
Estimated payables under third-party programs	45,957	24,877
Accrued compensation and benefits	238,039	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	1,017,390	578,992
Long-term debt, net of current portion	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	3,843,991	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	$ 5,245,977	$ 3,446,398

The accompanying notes are an integral part of these consolidated financial statements.

Vanderbilt University Medical Center
Consolidated Statements of Operations
Years Ended June 30, 2020 and 2019

($ in thousands)	2020	2019
Operating revenues		
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	4,885,685	4,497,329
Operating expenses		
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	4,743,278	4,316,227
Income from operations	142,407	181,102
Nonoperating revenues and expenses		
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	(37,152)	(17,480)
Total nonoperating revenues and expenses	15,639	31,073
Excess of revenues over expenses	158,046	212,175
Excess of revenues over expenses attributable to noncontrolling interests	(4,074)	(4,075)
Excess of revenues over expenses attributable to VUMC	153,972	208,100
Other changes in net assets without donor restrictions		
Change in noncontrolling interest's net assets	(1,141)	2,052
Net assets released from restriction for capital	4,773	35,110
Other changes	(458)	(182)
Total changes in net assets without donor restrictions	$ 157,146	$ 245,080

The accompanying notes are an integral part of these consolidated financial statements.

Vanderbilt University Medical Center
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2020 and 2019

($ in thousands)	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	153,972	208,100
Change in noncontrolling interest's net assets	(1,141)	2,052
Net assets released from restriction for capital	4,773	35,110
Other changes	(458)	(182)
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
Net assets with donor restrictions		
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 assets released from restriction for capital	(4,773)	(35,110)
Other changes	2,413	182
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
Total net assets		
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

The accompanying notes are an integral part of these consolidated financial statements.

Vanderbilt University Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

($ in thousands)	2020	2019
Cash flows from operating activities		
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)
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	11,935	(8,100)
Accounts payable and other accrued expenses	21,141	38,073
Medicare accelerated payments	222,445	-
Other assets and other liabilities, net	6,755	(95,548)
Net cash provided by operating activities	436,851	294,622
Cash flows from investing activities		
Purchase of property, plant, and equipment	(238,291)	(195,197)
Purchases of long-term securities	(255,581)	(340,184)
Sales and maturities of long-term securities	239,623	232,230
Acquisition of hospital	(19,252)	-
Proceeds on sale of property, plant, and equipment	5	220
Net cash used in investing activities	(273,496)	(302,931)
Cash flows from financing activities		
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 capital 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	432,291	16,830
Net change in cash, cash equivalents, and restricted cash	595,646	8,521
Cash, cash equivalents, and restricted cash		
Beginning of the period	586,686	578,165
End of the period	$ 1,182,332	$ 586,686

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Organization

Vanderbilt University Medical Center ("VUMC") is a Tennessee not-for-profit corporation incorporated in March 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. (formerly called HealthSouth 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 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 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. 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.

The terms “Company,” “VUMC,” “we,” “our”, or “us” as used herein and unless otherwise stated or indicated by context refer to Vanderbilt University Medical Center and its affiliates. The terms “facilities” or “hospitals” refer to entities owned and operated by VUMC and its affiliates, and the term “employees” refers to employees of VUMC and its affiliates.

VUMC operates on a fiscal year which ends on June 30. The term “Fiscal” preceding a year refers to a particular VUMC fiscal year.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Based on the existence or absence of donor-imposed restrictions, VUMC classifies resources into two categories: net assets without donor restrictions and net assets with donor restrictions. In addition, these statements follow GAAP applicable to the not-for-profit industry as described in the Financial Accounting Standards Board's ("FASB") *Accounting Standards Codification* ("ASC") Topic 958.

Principles of Consolidation

The consolidated financial statements include the accounts of VUMC and its wholly owned, majority-owned, and controlled organizations. Noncontrolling interests in less-than-wholly owned consolidated subsidiaries of VUMC are presented as a component of net assets to distinguish between the interests of VUMC and the interests of the noncontrolling owners. All material intercompany transactions and account balances among the various entities have been eliminated.

VUMC uses the equity method to account for its interests in unconsolidated partnerships, joint ventures, and limited liability entities over which it exercises significant influence. Investment carrying amounts are adjusted for VUMC's share of investee earnings or losses based on percentage of ownership. Distributions received from unconsolidated entities that represent returns on VUMC's investment (i.e., dividends) are reported as cash flows from operating activities in VUMC's statement of cash flows.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. These estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the reporting periods. Actual results ultimately could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. VUMC invests operating assets in a diversified manner. At times, VUMC may have cash and cash equivalents at a financial institution in excess of federally insured limits, and therefore, bears a risk of loss.

Liquidity and Availability

As of June 30, 2020, VUMC has $2,420.1 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash and cash equivalents of $1,170.5 million, patient accounts receivable of $470.6 million, pledges receivable of $7.6 million, and unrestricted investments of $771.4 million. As of June 30, 2019, VUMC had $1,670.5 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash and cash equivalents of $574.7 million, patient accounts receivable of $482.5 million, pledges receivable of $6.3 million, and unrestricted investments of $607.0 million. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Pledges receivable are subject to implied time restrictions but are expected to be collected within one year.

VUMC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, VUMC invests cash in excess of daily requirements in various short-term investments, including certificate deposits and short-term treasury instruments.

As more fully described in Note 11 Long-Term Debt, VUMC also has committed lines of credit in the amount of $250.0 million, with $100.0 million drawn as of June 30, 2020, which it could draw upon in the event of an unanticipated liquidity need.

Revenue Recognition – Patient Services

VUMC recognizes revenue from patient services at the amount that reflects the consideration to which VUMC expects to be paid for providing such services. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. Patient service revenue is recognized as performance obligations based on the nature of the services provided by VUMC are satisfied.

Performance obligations satisfied over time relate to admitted patients in VUMC hospitals receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time with the related revenue being recognized when goods or services are provided.

VUMC has elected to apply the optional exemption provided in FASB (ASC) 606-10-50-14 as substantially all of its performance obligations relate to contracts with a duration of less than one year. Therefore, VUMC is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. Unsatisfied or partially satisfied performance obligations are primarily related to in-house patients at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which is typically within a week.

VUMC uses a portfolio approach consisting of major payor classes to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. Based on historical collection trends and other analysis, VUMC believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

VUMC determines the transaction price, which involves estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with VUMC policy, and historical collection experience. VUMC analyzes its history and identifies trends for each of its major revenue categories to estimate the appropriate price concessions. Management regularly reviews data about these major revenue categories in evaluating the reasonableness of the transaction price, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors.

In addition to patient payments, VUMC earns revenue and reimbursements from certain services provided under federal healthcare programs and other contracts with third-party payors. These compensation arrangements are complex programs which extend over multiple accounting periods and are subject to the interpretation of federal and state-specific reimbursement rates, new or changing legislation, and final cost report settlements. Estimated settlements under these programs are recorded in the period the related services are performed and are subsequently adjusted, as needed, based on new information.

VUMC provides care to patients who meet the criteria for charity care under its financial assistance policy for no payment or at payment amounts less than its established charge rates. VUMC does not recognize the charges that qualify as charity care as revenue because VUMC does not pursue collection of these amounts.

Revenue Recognition – Non-Patient Services
Revenue for non-patient services is recognized at an amount that reflects the consideration VUMC expects to be entitled in exchange for providing goods or services. The amounts recognized reflect considerations due from customers, the U.S. government, and others, and is recognized as performance obligations are satisfied. Primary categories of non-patient revenue include academic and research revenue as well as other miscellaneous activities as further described in Note 8 Other Relevant Financial Information.

VUMC receives funding through grants and contracts issued by departments and agencies of the U.S. government, industry, and other foundation sponsors who restrict the use of such funds to academic and research purposes. VUMC recognizes revenue from these grants and contracts in accordance with contract terms, as defined in the agreements governing that funding. VUMC recognizes facilities and administrative (“F&A”) costs recovery as revenue when the allowable expenditure is incurred on the associated grant or contract. This activity represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities.

Grants and contracts receivable include amounts due from these sponsors of externally funded research. These amounts have been billed or are billable to the sponsor and are recorded at the amount that reflects the consideration VUMC expects to receive.

Deferred Revenue
Deferred revenue is recorded for funds received in advance. The related revenue is recognized when the performance obligations have been met.

Gift Income and Pledges
VUMC recognizes unconditional promises to give cash and other assets, referred to as pledges, as gift income at fair value when the pledge is received. Conditional promises to give are recognized as pledges once the conditions are substantially met. Pledges are recognized as net assets with donor restrictions. Gifts received with donor stipulations limiting the use of the donated assets are reported as net assets with donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as gift income in the accompanying consolidated statements of operations. Gift income is recognized when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions until the assets are placed in service, at which point they are reclassified to net assets without donor restrictions.

Pledges receivable are reported net of allowances for uncollectible amounts based on an analysis of past collection experience and other judgmental factors. Pledges receivable are included in other current or other noncurrent assets in the consolidated balance sheets based on the expected timing of cash flows. VUMC discounts the noncurrent portion of pledges receivables at a rate commensurate with the scheduled timing of receipt. VUMC applied annual discount rates ranging from 0.5% to 1.5% to amounts outstanding as of June 30, 2020 and 2019.

Concentrations of Credit Risk
VUMC grants unsecured credit to its patients, primarily residing in Nashville, Tennessee and the surrounding areas of middle Tennessee, most of whom are insured under commercial, Medicare, or TennCare agreements. Medicare, Blue Cross Blue Shield (“BCBS”), and TennCare (which includes BCBS, United, and Amerigroup) represent VUMC’s significant concentrations of credit risk from payors.

Inventories
VUMC reports inventories at the lower of cost or market, with cost being determined on the first-in, first-out method. Inventories consist primarily of medical supplies, surgical implants, and pharmaceuticals.

Restricted Cash
VUMC reports cash whose use is restricted at cost, which approximates fair value. The cash is primarily restricted for use in purchasing and constructing property, plant, and equipment.

Investments
VUMC reports investments held at fair value in the consolidated balance sheets. VUMC records purchases and sales of securities on the trade dates, and realized gains and losses are determined based on the average historical cost of the securities sold. VUMC reports net receivables and payables arising from unsettled trades as a component of investments.

Property, Plant, and Equipment, Net
VUMC records purchases of property, plant, and equipment at cost and expenses repairs and maintenance costs as incurred. VUMC capitalizes interest cost incurred on borrowed funds during the period of construction of capital assets as a component of the cost of acquiring those assets. VUMC capitalizes donated assets at fair value on the date of donation.

Capitalized software for internal use is recorded during the application development stage. These costs include fees paid to third parties for direct costs of materials and services consumed in developing or obtaining the software; payroll related costs and capitalized interest costs. Costs for training and application maintenance in the post-implementation operation stage are expensed as incurred.

VUMC computes depreciation using the straight-line method over the estimated useful life of land improvements (5 to 18 years), buildings and leasehold improvements (2 to 40 years), and equipment (1 to 20 years). Equipment costs also include capitalized internal use software costs, which are expensed over the expected useful life, which is generally 3 to 12 years. VUMC assigns useful lives in accordance with American Hospital Association guidelines.

Software for internal use is amortized on a straight-line basis over its estimated useful life. In determining the estimated useful life, management considers the effects of obsolescence, technology, competition, other economic factors, and rapid changes that may be occurring in the development of software products, operating systems, and computer hardware. Amortization begins once the software is ready for its intended use.

Impairment of Long-Lived Assets
VUMC reviews long-lived assets, such as property, plant, and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. VUMC measures the recoverability of assets to be held and used by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, VUMC recognizes an impairment charge to the extent the carrying amount of the asset exceeds its fair value.

Conditional Asset Retirement Costs and Obligations
VUMC recognizes the estimated fair value of liabilities for existing legal obligations to perform certain activities, primarily asbestos removal, in connection with the retirement, disposal, or abandonment of assets. These liabilities are included in other noncurrent liabilities on the consolidated balance sheets and total $6.5 million and $6.3 million as of June 30, 2020 and 2019, respectively. VUMC measures these liabilities using estimated cash flows with an inflation rate applied of 3.0% as of June 30, 2020 and 2019. VUMC discounts those cash flow estimates at a credit-adjusted, risk-free rate, which ranged from 2.9% to 4.2% as of June 30, 2020 and 2019, and adjusts these liabilities for accretion costs and revisions in estimated cash flows.

Long-Term Debt
The carrying value of VUMC's debt is the par amount adjusted for the net unamortized amount of debt issuance costs, and bond premiums and discounts.

Interest Rate Exchange Agreements
VUMC reports interest rate exchange agreements at fair value, which is determined to be the present value of future net cash settlements that reflect market yields as of the measurement date and estimated amounts that VUMC would pay, or receive, to terminate the contracts as of the report date. VUMC considers current interest rates and creditworthiness of the interest rate exchange counterparties when estimating termination settlements.

Self-Insurance Reserves
VUMC elects to self-insure a portion of its medical malpractice, professional, and general liability coverage via an irrevocable self-insurance trust. For Fiscal 2020, the maximum annual self-insurance retention was $6.0 million per occurrence, up to $46.0 million in the aggregate. For Fiscal 2019, the maximum annual self-insurance retention was $5.5 million per occurrence, up to $43.0 million in the aggregate. Actuarial firms assist management in estimating expected losses on an annual basis, at which time VUMC records medical malpractice, professional, and general liability expense within the limits of the program. These liabilities are classified as current or noncurrent based on the expected timing of cash flows and are measured at the net present value of those cash flows using a discount rate of 2.5% as of June 30, 2020 and 2019. For both Fiscal 2020 and 2019, VUMC obtained excess medical malpractice, professional, and general liability coverage from commercial insurance carriers for claims exceeding the retention limits, up to $150.0 million. These policies would also provide coverage up to $150.0 million if any claims in the aggregate exceeded the retention limits.

VUMC also elects to self-insure for employee health and workers' compensation expenses. Actuarial firms assist management in estimating expected losses on an annual basis. The maximum retention for workers' compensation was $0.8 million per occurrence for both Fiscal 2020 and 2019. There is no stop loss insurance on health plan claims.

Income Taxes
VUMC is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from federal income taxes under Section 501(a) of the Code.

Excess of Revenues Over Expenses
The consolidated statements of operations include excess of revenues over expenses as a performance indicator. Excess of revenues over expenses includes all changes in net assets without donor restrictions, except for changes in noncontrolling interest holders' share of consolidated entities, net assets released from restrictions used for capital, and certain other items.

Statement of Cash Flows
For VUMC's consolidated statements of cash flows, cash, cash equivalents, and restricted cash is defined as those amounts included in the cash and cash equivalents caption and restricted cash caption on the consolidated balance sheets.

Recent Accounting Pronouncements
Periodically, the FASB issues Accounting Standards Updates ("ASUs") that may impact the recognition, measurement, and presentation of balances and activity in VUMC's consolidated financial statements or the disclosures contained within those statements. As part of preparing consolidated financial statements, VUMC evaluates the effects of the ASUs and applies the updated guidance within the required effective dates.

Adopted

- In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize assets and liabilities for most leases. VUMC adopted this standard on July 1, 2019, using a modified retrospective approach and therefore applied the transition provisions to the most recent period presented in the consolidated financial statements, recognizing assets and offsetting obligations for current operating leases.

Not Yet Adopted

- In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU intends to improve the effectiveness of disclosures in the notes to the financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for VUMC for annual and interim periods beginning after December 15, 2019 with early adoption permitted. VUMC is currently assessing the impact that ASU 2018-13 will have on the consolidated financial statements and will adopt the provisions upon the effective date.

3. Related Parties

On April 29, 2016, VUMC acquired the assets, liabilities, rights, and obligations of the clinical enterprise, postgraduate medical training programs, and clinically related research of the University's owned and operated Medical Center, "the Acquisition".

The assets acquired and liabilities assumed from the Acquisition were detailed in a Master Transfer and Separation Agreement ("MTSA"). The MTSA contains the framework for the ongoing economic relationship between VUMC and the University. The relationship is memorialized in the form of an Academic Affiliation Agreement ("AAA"), a Trademark License Agreement ("TMLA"), a Ground

Lease, and a Reciprocal Master Services Agreement ("MSA"). The agreements are described below.

- The AAA outlines the ongoing academic, research, and clinical affiliation between the University and VUMC for all the University's degree-granting, certificate, and research programs. The AAA allocates responsibility between the University and VUMC for jointly administered research and academic programs and is an exclusive agreement between VUMC and VU requiring VUMC to be organized, governed, and operated in a manner that supports VU's academic and research mission. The agreement provides that VU will be the exclusive academic affiliate of VUMC, and VUMC will be the exclusive clinical affiliate of VU.

  The AAA requires VUMC to pay VU an annual fee in equal monthly payments adjusted annually for inflation based upon the Biomedical Research and Development Price Index ("BRDPI") in perpetuity under certain mutually agreed-upon termination or default clauses. During Fiscal 2020 and 2019, VUMC recorded operating expense totaling $76.9 million and $74.9 million, respectively, in connection with fees due under the AAA.

- Under the TMLA, the University grants, subject to certain consents and approvals, a perpetual license to use various University-owned licensed marks in connection with VUMC's fundamental activities after the Acquisition date. The licensed marks, which VUMC continues to use as its primary brands, include virtually all those previously in use by VUMC. This agreement requires VUMC to pay VU a monthly royalty payment equal to 1.0% of all operating revenue of VUMC and a percentage of net income from operations (10% in Fiscal 2019 and 15% in Fiscal 2020 and beyond). During Fiscal 2020 and 2019, VUMC recorded operating expense totaling $70.4 million and $63.8 million, respectively, in connection with royalty fees due under the TMLA. Also, VUMC is required to pay in equal monthly installments an annual TMLA base fee, which increases 3% annually, but is also reduced by the amount of principal payments made under a subordinate note discussed in Note 11 Long-Term Debt (the "Fixed TMLA Royalty Payment"). During Fiscal 2020 and 2019, VUMC recorded operating expense totaling $62.5 million and $60.6 million, respectively, in connection with this base fee. VU sold its rights to future royalty payments to a third party. The TMLA is in force in perpetuity under certain mutually agreed-upon termination or default clauses.

- The Ground Lease is an agreement between VU and VUMC that allows VUMC to use the land on which VUMC's campus and related buildings are located. The initial term of the Ground Lease ends June 30, 2115, with the option to extend the lease for two additional terms of up to 50 to 99 years each with agreement between VU and VUMC. The lease covers 1.7 million square feet or 38.75 acres of space, payable monthly and CPI adjusted annually. During Fiscal 2020 and 2019, VUMC recorded operating expense totaling $19.4 million and $19.0 million, respectively, in connection with fees due under the Ground Lease.

- The University and VUMC provide services to one another for agreed-upon consideration as outlined in the MSA. VU provides services to VUMC, such as information technology infrastructure support, utilities, and law enforcement staffing. VUMC provides various operational services for the University, such as a student health clinic and animal care. Additionally, the MSA encompasses an Employee Matters Agreement ("EMA") and specific Employee Service Agreements ("ESAs"). The EMA and ESAs govern employee transactions and ongoing sharing between VU and VUMC in various capacities, such as research, teaching, clinical, and other administrative services. Services under the MSA can be terminated by either party subject to predetermined cancellation notification periods. In connection with the MSA, during Fiscal 2020 and 2019, VUMC recognized revenue totaling $44.2 million and $45.1 million, respectively, and recorded operating expense totaling $123.4 million and $122.8 million, respectively.

- Also, as part of the Acquisition, VUMC issued to VU a $100.0 million subordinate promissory note payable, which is further described in Note 11 Long-Term Debt, with a balance of $79.6 million as of June 30, 2020, and $84.6 million as of June 30, 2019. VU sold its rights to future principal and interest payments on this note to a third party.

The impact of these agreements in the consolidated statements of operations during Fiscal 2020 and 2019 is as follows:

($ in thousands)	2020	2019
Academic and research revenue	$ 13,055	$ 14,401
Other operating revenue	31,192	30,745
Total operating revenues	$ 44,247	$ 45,146
Operating expenses		
Salaries, wages, and benefits	$ 9,086	$ 7,725
Facilities and equipment	59,516	58,872
Services and other	284,040	274,512
Interest	2,661	2,823
Total operating expenses	$ 355,303	$ 343,932

Other current assets include amounts receivable from VU, which totaled $6.7 million as of June 30, 2020, and $4.9 million as of June 30, 2019. Accounts payable and other accrued expenses include amounts payable to related parties, which totaled $51.1 million as of June 30, 2020, and $47.7 million as of June 30, 2019.

In the normal course of business, members of VUMC's Board of Directors or VUMC employees may be directly or indirectly associated with companies engaged in business activities with VUMC. VUMC has a written conflict of interest policy that requires, among other things, that members of the VUMC community (including trustees) may not review, approve, or administratively control contracts or business relationships when (i) the contract or business relationship is between VUMC and a business in which the individual or a family member has a material financial interest, or (ii) the individual or a family member is an employee of the business and is directly involved with activities pertaining to VUMC.

Furthermore, VUMC's conflict of interest policy extends beyond the foregoing business activities in that disclosure is required for any situation in which an applicable individual's financial, professional, or other personal activities may directly or indirectly affect, or have the appearance of affecting, an individual's professional judgment in exercising any VUMC duty or responsibility, including the conduct or reporting of research.

The policy extends to all individual members of the VUMC community (including Board of Directors, VUMC Officials, full-time, part-time, temporary faculty and staff). Each applicable person is required to certify compliance with the conflict of interest policy on an annual basis. This certification includes specifically disclosing whether VUMC conducts business with an entity in which he or she (or an immediate family member) has a material financial interest, as well as any other situation that could appear to present a conflict with VUMC's best interests.

When situations exist relative to the conflict of interest policy, VUMC takes active measures to appropriately manage the actual or perceived conflict in the best interests of VUMC, including periodic reporting of measures taken to the Audit Committee of the Board of Directors.

4. Patient Service Revenue, Patient Accounts Receivable, and Estimated Third-Party Settlements

Management has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the major classes of payors. The sources of patient service revenue by payor for Fiscal 2020 and 2019 are as follows:

($ in thousands)	2020	2019
Other third-party payors, primarily commercial carriers	$ 2,553,307	$ 2,355,860
Medicare/Managed Medicare	924,241	896,843
TennCare/Medicaid	522,606	529,785
Uninsured (self-pay)	31,566	38,383
	$ 4,031,720	$ 3,820,871

Patient accounts receivable comprise amounts due from the following sources as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Medicare	$ 77,696	$ 72,473
TennCare/Medicaid	57,741	65,903
Blue Cross	99,861	115,023
Other third-party payors, primarily commercial carriers	192,258	184,774
Patient responsibility(1)	42,994	44,312
Patient accounts receivable	$ 470,550	$ 482,485

(1) Includes self-pay after insurance.

Estimated third-party settlements by major payor category as of June 30, 2020 and 2019, are as follows:

($ in thousands)	2020	2019
Receivables under third-party programs		
Tricare/Champus(1)	$ 4,484	$ 8,536
Total receivables under third-party programs	$ 4,484	$ 8,536
Payables under third-party programs		
TennCare/Medicaid	$ 37,781	$ 18,896
Medicare(1)	9,752	14,517
Other	2,908	-
Total payables under third-party programs	$ 50,441	$ 33,413

(1) These two federal healthcare programs are combined for presentation purposes on the face of the consolidated balance sheets and are reflected as an obligation in Fiscal 2020 and Fiscal 2019.

Certain contracts require pay for performance or episode of care settlements whereby VUMC receives additional payment or pays a penalty based on its ability to achieve certain clinical measures or manage the cost of care for patients within various thresholds. VUMC estimates and accrues these adjustments in the period the related services are rendered and adjusts these estimates in future periods as settlements are finalized. The aggregate liability associated with pay for performance and episode of care settlements at June 30, 2020 and 2019, was $2.5 million and $1.3 million, respectively, with the ultimate resolution of such financial arrangements not expected to have a material impact on the operating results of VUMC.

Medicare
Amounts received under Medicare are subject to review and final determination by program intermediaries or their agents. Final settlements have been reached for program periods ended June 30, 2015. Final settlements have not been reached for subsequent years due to audit delays experienced with the Medicare Administrative Contractor, and thus, those periods remain subject to audit by program representatives.

TennCare
TennCare is a Medicaid managed care program implemented by the state of Tennessee to provide healthcare coverage to those patients eligible for Medicaid through the Federal 1115 Waiver Program. VUMC contracts with each of the three TennCare managed care organizations (“MCOs”), which offer health maintenance organization (“HMO”) and Medicare Special Needs Products for Dual Eligible Enrollees. VUMC receives inpatient reimbursement through payments that are primarily based on the Medicare severity diagnostic related group system (“MS-DRG”) for these plans. VUMC receives outpatient payments generally based on an ambulatory payment classification system (“APC”), and/or a payor-developed fee schedule.

In accordance with the Tennessee Hospital Assessment Act, VUMC receives a payment of a portion of its unreimbursed TennCare costs based upon VUMC’s share of uninsured TennCare costs for all of the covered hospitals.

There is no assurance that this program will be continued in its current structure or will not be materially modified in the future, however, we anticipate funding will remain relatively stable over the coming year.

In Fiscal 2020 and 2019, patient service revenue includes the following supplemental amounts received in each respective period from TennCare and the associated reserves for those payments, changes in estimates effecting reserves are excluded:

($ in thousands)	2020	2019
Charity pool	$ 24,696	$ 12,246
Graduate medical education	14,592	14,603
Trauma fund	1,685	1,600
Virtual disproportionate share	960	-
Total supplemental TennCare revenue, net of audit provision	$ 41,933	$ 28,449

5. Charity Care Assistance, Community Benefits, and Other Unrecovered Costs

VUMC maintains a policy which sets forth the criteria under which health care services are provided to patients who have minimal financial resources to pay for medical care. Additionally, VUMC provides other services that benefit the economically disadvantaged for which little or no payment is expected.

Charity care is determined by examining patient and family income relative to the federal poverty guidelines. VUMC provides additional discounts based on the income level of the patient household using a sliding scale for those patients with a major catastrophic medical event not qualifying for full charity assistance. Tennessee law mandates that all uninsured patients receive a discount from billed charges for medically necessary services. These amounts are classified as charity care if the patient meets charity care criteria, for which no revenue is recorded, or is included as a part of price concessions.

VUMC maintains records to identify and monitor the level of charity care provided, and these records include gross charges and patient deductibles, coinsurance and copayments foregone for services furnished under its charity care policy, and the estimated cost of those services. VUMC calculates a ratio of total costs to gross charges and then multiplies the ratio by foregone charity care charges in determining the estimated cost of charity care. The gross amount of foregone charity care revenue in Fiscal 2020 and 2019 totals $422.7 million and $341.5 million, respectively. The estimated cost of providing care to charity patients in Fiscal 2020 and 2019 totals $110.1 million and $89.9 million, respectively.

In addition to the charity care services described above, TennCare/Medicaid and state indigent programs do not cover the full cost of providing care to beneficiaries of those programs. As a result, in addition to direct charity care costs, VUMC provided services related to TennCare/Medicaid and state indigent programs and was reimbursed substantially below the cost of rendering such services. VUMC also provides public health education and training for new health professionals and provides, without charge, services to the community at large for many patients with special needs.

6. Academic and Research Revenue, and Grants and Contracts Receivable

Academic and research revenue comprises the following for Fiscal 2020 and 2019:

($ in thousands)	**2020**	**2019**
Grants and contracts revenue		
Federally funded	$ 297,651	$ 297,758
Non-federally funded	132,557	113,423
	430,208	411,181
Facilities and administrative costs recovery	122,614	108,266
Academic and research revenue	$ 552,822	$ 519,447

Grants and contracts receivable comprise the following as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Federally funded	$ 28,077	$ 28,171
Non-federally funded	31,954	30,579
Total grants and contracts receivable	$ 60,031	$ 58,750

7. Pledges Receivable, Net

Pledges receivable, net of applied discounts and allowance for uncollectible pledges, as of June 30, 2020 and 2019, were as follows:

($ in thousands)	2020	2019
Amounts due		
Within one year	$ 11,347	$ 8,072
In one to five years	24,809	25,027
Total pledges receivable	36,156	33,099
Unamortized discount	(1,112)	(1,296)
	35,044	31,803
Allowance for uncollectible pledges	(6,126)	(3,317)
Net pledges receivable	$ 28,918	$ 28,486
Net pledges receivable classified as		
Current	$ 7,552	$ 6,327
Noncurrent	21,366	22,159
	$ 28,918	$ 28,486

In addition to pledges reported as pledges receivable, VUMC had cumulative bequest intentions and conditional promises to give totaling $66.9 million as of June 30, 2020, and $65.8 million as of June 30, 2019. Due to their conditional nature, VUMC does not recognize intentions to give as assets.

8. Other Relevant Financial Information

Other current assets comprise the following as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Prepaid expenses	$ 35,728	$ 39,610
Other receivables	55,483	31,261
Amounts due from VU (see Note 3 Related Parties)	6,684	4,929
Current pledges receivable, net (see Note 7 Pledges Receivable, Net)	7,552	6,327
Expected recoveries from commercial insurance excess coverage	2,652	3,345
Other	10,340	3,839
Total other current assets	$ 118,439	$ 89,311

Other noncurrent assets comprise the following as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Equity in unconsolidated organizations	$ 23,234	$ 21,480
Noncurrent pledges receivable (see Note 7 Pledges Receivable, Net)	21,366	22,159
Other	8,747	4,428
Total other noncurrent assets	$ 53,347	$ 48,067

Other operating revenues comprise the following for Fiscal 2020 and 2019:

($ in thousands)	2020	2019
CARES funding	$ 130,399	$ -
Clinical contracts	46,886	40,952
Amounts recognized under MSA with VU (see Note 3 Related Parties)	31,192	30,745
VHS other revenue	28,176	23,622
Nonclinical contracts	11,898	8,442
Resident and house staff rotations	10,557	11,507
Other	42,035	41,743
Total other operating revenue	$ 301,143	$ 157,011

9. Investments

VUMC investments are made up of current investments, restricted cash, noncurrent investments, and noncurrent investments limited as to use on the face of the consolidated balance sheets. VUMC investments include assets limited as to use related to the following specified purposes as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Self-insured malpractice program	$ 46,223	$ 52,069
Donor endowments	52,590	38,443
Split-interest trusts	7,124	7,383
Supplemental employee retirement program assets	7,589	5,714
	$ 113,526	$ 103,609

VUMC's endowment does not include gift annuities, interests in trusts held by others, contributions pending donor designation, or contributions receivable.

The Board of Directors' interpretation of its fiduciary responsibilities for donor-restricted endowments under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requirements is to preserve intergenerational equity, barring the existence of any donor-specific provisions. Under this broad guideline, future endowment beneficiaries should receive at least the same level of real economic support as the current generation. The overarching objective is to preserve and enhance the real (inflation-adjusted) purchasing power of the endowment in perpetuity. VUMC invests assets to provide a relatively predictable and stable stream of earnings to meet spending needs and attain long-term return objectives without the assumption of undue risks.

Self-insured malpractice program – VUMC elects to self-insure a portion of its medical malpractice, professional, and general liability via an irrevocable self-insurance trust.

Donor endowments – Donor-restricted gifts where the principal amount is to be held in perpetuity. Distributions of earnings are restricted for use according to the donor's intent, as specified in a gift agreement. Donor endowments typically benefit specific programs in clinical departments of the Medical Center, for either, research, directorships, or general program support.

Split-interest trusts – Trusts established by donors where VUMC is named as beneficiary. Depending on the terms of the trust, VUMC may receive periodic distributions, and potentially a principal amount at some point in the future. Like donor endowments, split-interest trusts typically benefit specific programs as defined in the terms of the trust.

Supplemental executive retirement program assets – Assets set aside to fulfill obligations as they come due according to the terms of the retirement program.

Investments were as follows as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Corporate bonds	$ 235,249	$ 153,940
Equity mutual funds	128,569	128,287
Cash and cash equivalents	13,147	9,436
Split-interest trusts	7,124	7,383
Hedged equity mutual funds	64,986	61,401
Fixed income mutual funds	190,054	167,079
Certificates of deposit	16,338	25,897
Asset-backed securities	26,448	29,506
Real estate mutual funds	20,680	18,969
Commercial paper	22,218	10,916
Government bonds	80,145	10,604
Hedged debt mutual funds	70,958	86,678
Commodities and managed futures mutual funds	15,902	6,895
Target date mutual funds	4,865	5,544
Total investments, at fair value	$ 896,683	$ 722,535

Investment returns comprise the following elements for Fiscal 2020 and 2019:

($ in thousands)	2020	2019
Interest and dividend income	$ 19,013	$ 19,749
Net realized gains on sales of securities	5,025	10,847
Realized investment gains, before fees	24,038	30,596
Unrealized investment gains (losses), net	3,637	(126)
Total investment returns before fees	27,675	30,470
Investment manager and trustee fees and other	(451)	(364)
Total income from investments, net	$ 27,224	$ 30,106

VUMC has exposure to risks, including liquidity, interest rate, counterparty, basis, regulatory, market, and credit risks, for marketable securities. Due to the level of risk exposure, it is possible that material near-term valuation changes for investment securities may occur.

VUMC manages all investments, including endowments, in various investment pools.

10. Property, Plant, and Equipment, Net

Property, plant, and equipment comprise the following as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Land and land improvements	$ 40,800	$ 33,404
Buildings and improvements	1,189,614	1,005,364
Equipment and software	562,360	441,091
Leasehold improvements	86,869	82,322
Construction in progress	77,739	145,380
Property, plant, and equipment at cost	1,957,382	1,707,561
Accumulated depreciation and amortization	(432,279)	(312,466)
Property, plant, and equipment, net	$ 1,525,103	$ 1,395,095

As part of the MTSA, VUMC acquired land and land improvements and buildings and improvements which are not allowed to be repurposed without the express consent of VU.

In Fiscal 2020 and 2019, VUMC capitalized interest of $2.9 million and $6.0 million, respectively, related to long-term capital projects, primarily the MCJCHV expansion and the VUAH bed expansion.

Property, plant, and equipment balances above include the following amounts related to capitalized internal use software:

($ in thousands)	2020	2019
Equipment and software	$ 167,897	$ 158,189
Construction in progress	11,063	2,976
	178,960	161,165
Accumulated amortization	(40,823)	(26,063)
Internal use software, carrying value	$ 138,137	$ 135,102

Depreciation and amortization comprise the following amounts in Fiscal 2020 and 2019:

($ in thousands)	2020	2019
Depreciation of tangible assets	$ 97,976	$ 82,236
Amortization of finance leases, leasehold improvements, and internal use software	28,678	24,288
Total depreciation and amortization	$ 126,654	$ 106,524

11. Long-Term Debt

Long-term debt comprises the following as of June 30, 2020 and 2019:

($ in thousands)	2020 Carrying Amount	2019 Carrying Amount	Effective Interest Rate (2)	Fiscal Year of Maturity
Series debt				
Fixed-rate debt				
Series 2016A	$ 476,930	$ 476,930	4.1 %	2047
Series 2016B	300,000	300,000	4.1 %	2027
Series 2017A	121,270	121,270	4.1 %	2049
Series 2017	100,000	100,000	4.2 %	2038
Series 2019B	128,600	-	3.9 %	2055
Series 2020A	300,000	-	2.2 %	2022
Total fixed-rate debt	1,426,800	998,200	3.8 %	
Variable-rate debt				
Series 2016D	100,000	100,000	4.1 %	2047
Series 2016E	-	128,070	4.0 %	2047
Series 2016F	21,900	21,900	2.8 %	2025
Series 2017B	50,000	50,000	2.8 %	2047
Series 2018	53,385	53,385	1.9 %	2050
Series 2019A	35,000	-	2.0 %	2050
Total variable-rate debt	260,285	353,355	3.0 %	
Total series debt	1,687,085	1,351,555		
Other long-term debt				
Line of credit	100,000	-	1.1 %	2021
Subordinated note payable	79,583	84,583	3.2 %	2036
Product financing arrangement	29,236	31,508	4.6 %	2027
Finance leases	15,980	1,730	3.1 %	Various
Subtotal(1)	1,911,884	1,469,376	3.7 %	
Net unamortized premiums	56,244	58,424		
Net unamortized issuance costs	(12,517)	(12,355)		
Total long-term debt	1,955,611	1,515,445		
Line of credit	(100,000)	-		
Current portion of long-term debt	(14,321)	(8,568)		
Long-term debt, net	$ 1,841,290	$ 1,506,877		

(1) The effective interest rate of 3.7% as of June 30, 2020, is presented exclusive of interest rate exchange agreements discussed in Note 12 Interest Rate Exchange Agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 4.0%.

(2) The effective interest rate for each debt instrument is calculated by dividing each instrument's interest expense by the weighted average debt outstanding, and where applicable, interest expense is reduced by premium amortization and increased by original issue discount amortization. Interest rates per the agreements are detailed in the accompanying notes.

On April 29, 2016, VUMC issued the Series 2016 A, B, D, E, and F bonds (“2016 Series Debt”) and notes aggregating $1.3 billion of proceeds for the purpose of financing the Medical Center Acquisition and paying a portion of the costs of issuance associated with the 2016 Series Debt.

The bonds and notes comprising the 2016 Series Debt were issued by the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (“HEFB”). As a conduit issuer, the HEFB loaned the debt proceeds to VUMC. VUMC’s debt service requirements under these loan agreements coincide with required debt service of the actual HEFB bonds.

- The Series 2016A tax-exempt fixed-rate revenue bonds were issued in the par amount of $476.9 million and include an original issue premium of $59.6 million. The Series 2016A bonds have a final maturity date of July 1, 2046, and can be optionally redeemed at par on or after July 1, 2026. The 2016A bonds were structured as serial bonds with maturities from Fiscal 2030 through 2032, as well as three term bonds maturing Fiscal 2036 through 2047, which are subject to mandatory sinking fund redemption in lots. The Series 2016A bonds bear interest at 5% per annum and pay interest semiannually on July 1 and January 1.

- The Series 2016B taxable fixed-rate revenue bonds were issued in the par amount of $300.0 million, bearing interest at 4.1% per annum. Interest is paid semiannually on July 1 and January 1, and has a bullet maturity of July 1, 2026. VUMC is entitled, at its option, to redeem all or a portion of the Series 2016B bonds before April 1, 2026, at a make-whole redemption price, which equals the greater of (i) 100% of the remaining outstanding principal and (ii) the net present value of the remaining scheduled principal and interest payments to the original maturity date, using a discount rate of 35 basis points above rates for U.S. Treasury securities with comparable maturities.

- The Series 2016D taxable variable-rate revenue notes (“floating rate notes”) were issued in the par amount of $100.0 million and bear interest initially at a fixed spread to one-month LIBOR of 2.5% through the initial mandatory tender date of July 1, 2021, and a final maturity of July 1, 2046. Beginning six months prior to the mandatory tender date of July 1, 2021, the bonds have an optional redemption feature. If the Series 2016D bonds are successfully remarketed at the mandatory tender date, they are subject to mandatory redemption in lots commencing on July 1, 2021, and each July thereafter until final maturity.

- The Series 2016E taxable term loan revenue notes were issued in the par amount of $128.1 million and were placed privately with a bank. The notes bear interest in a variable-rate mode at a fixed spread to one-month LIBOR of 2.4% through the initial mandatory tender date of July 1, 2022, and a final maturity of July 1, 2046. During Fiscal 2018, VUMC renegotiated the interest to a variable-rate mode at a fixed spread to one-month LIBOR of 1.8%. In addition to optional redemption of all or a portion of the notes at any time, subject to notice, the Series 2016E notes are subject to principal amortization commencing on July 1, 2022, as defined in the Series 2016E loan agreement between VUMC and the lender. During Fiscal 2020, the Series 2016E bonds were extinguished using proceeds from the 2019B taxable fixed private placement notes, discussed further below.

- The Series 2016F taxable variable-rate revenue bonds were issued in the par amount of $75.0 million and were placed privately with a bank. The bonds bear interest in a variable-rate mode at a fixed spread to one-month LIBOR of 2.5% through the initial mandatory tender date of July 1, 2022. During Fiscal 2018, $53.1 million of the Series 2016F bonds were extinguished using proceeds from the 2018 tax-exempt fixed-rate revenue bonds, discussed further below. The renegotiated interest rate on the remaining $21.9 million of principal outstanding is a variable-rate mode at a fixed spread to one-month LIBOR of 1.2%. The remaining principal has a mandatory tender date of July 1, 2024. Prior to that, VUMC must pay $2.1 million of principal on July 1, 2022, and $2.2 million of principal on July 1, 2023. The remaining $17.6 million of principal is due on July 1, 2024.

On July 26, 2017, the Series 2017A Tax-Exempt and Series 2017 Taxable Corporate Bonds were issued, and on August 1, 2017, the Series 2017B Taxable Revenue Bonds were issued ("2017 Series Debt"), aggregating $271.3 million of proceeds for the purpose of refinancing existing debt, funding capital projects related to the MCJCHV expansion and the VUAH bed expansion/clinical relocation, which is a phased project, and paying a portion of the costs of issuance associated with the 2017 Series Debt.

The Series 2017A Tax-Exempt Revenue Bonds and the Series 2017B Taxable Term Loan Revenue Note were issued by the HEFB. The Series 2017 Taxable Bonds were a corporate issue with VUMC as the issuer.

- The Series 2017A tax-exempt fixed-rate revenue bonds were issued in the par amount of $121.3 million and include an original issue premium of $5.1 million. The final maturity date is July 1, 2048, and optional redemption at par can occur on or after July 1, 2027. The Series 2017A bonds bear interest at 4.4% per annum and pay interest semiannually on July 1 and January 1.

- The Series 2017 taxable fixed-rate corporate bonds were issued in the par amount of $100.0 million, bearing interest at 4.2% per annum. Interest is paid semiannually on July 1 and January 1, and the bonds have a final maturity date of July 1, 2037. There is a bullet payable beginning July 1, 2026, that allows VUMC to call the debt.

- The Series 2017B taxable variable-rate term loan notes were issued in the par amount of $50 million and placed privately with a bank. The notes bear interest initially at a fixed-spread to one-month LIBOR of 1.2%. The notes have a final maturity date of July 1, 2046, a tender date of August 1, 2024, and may be redeemed at any time. Proceeds from the issuance of the Series 2017B notes were used to extinguish the Series 2016C R-FLOATs, initially issued on April 29, 2016.

On April 20, 2018, the Series 2018 Tax-Exempt Revenue Bonds ("2018 Series Debt") aggregating $53.4 million of proceeds were issued for the purpose of refinancing existing debt and paying a portion of the costs of issuance associated with the 2018 Series Debt. The Series 2018 Tax-Exempt Revenue Bonds were issued by the HEFB, were placed privately with a bank, and bear interest at a fixed spread to 81% of one-month LIBOR of 0.6%. The bonds have a final maturity date of July 1, 2049 and can be optionally redeemed on or after July 1, 2025. Proceeds from the issuance of the Series 2018 bonds were used to extinguish a portion of the Series 2016F taxable variable-rate bonds.

On July 30, 2019, VUMC entered into a term loan agreement (2019A Term Loan) with a lender for $35 million to pay for the acquisition of Tennova – Lebanon (now Vanderbilt Wilson County Hospital) hospital facilities, near term capital expenditures, and costs of issuance. The term loan bears interest at a variable rate plus a fixed spread to one-month LIBOR of 0.50% through the maturity date of August 1, 2029. VUMC has the option to redeem prepay all or a portion of the loan at any time, subject to notice. The 2019 loan is subject to principal amortization commencing on July 1, 2024 and ending July 1, 2049, as defined in the 2019 loan agreement between VUMC and the lender.

On October 22, 2019, the Series 2019B Taxable Fixed Private Placement Notes ("Series 2019B Notes") aggregating $128.6 million of proceeds were issued for the purpose of refinancing existing debt and paying a portion of the costs of issuance associated with the Series 2019B Notes. The lender for the Series 2019B Notes was New York Life. The Series 2019B Notes were placed privately with a bank, and bear interest at a fixed rate of 3.9% per annum. The notes have a final maturity date of July 1, 2054. Proceeds from the issuance of the Series 2019B Notes were used to extinguish the Series 2016E Taxable Term Loan Revenue Notes.

On April 9, 2020, the Series 2020A Taxable Fixed Term Loan ("Series 2020A Loan") aggregating $300 million was issued to provide additional liquidity during the COVID-19 pandemic. The lender for the Series 2020A Loan was JPMorgan Chase Bank. The debt bears interest at a fixed rate of 2.1% per annum, has an optional redemption after one year, and has a final maturity date of April 1, 2022. As of June 30, 2020, these funds have not been used and are held in cash and investments on the consolidated balance sheet.

Each of the bonds and notes comprising the 2016, 2017, 2018, 2019, and 2020 Series Debt represent separate obligations under a Master Trust Indenture ("MTI") structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group; presently, VUMC has no other third-party members participating in the obligated group. All debt issued under the MTI is a general obligation of the obligated group. Under the provisions of the Leasehold Deed of Trust, Security Agreement, Assignment of Rents and Leases, and Fixture Filing (the "Security Agreement") within the MTI, gross receivables of the obligated group are pledged as collateral. Additionally, the Security Agreement established a mortgage lien on (i) the leasehold interest of the land subject to the Ground Lease; (ii) the buildings, structures, improvements, and fixtures now or hereafter located on the land subject to the Ground Lease; and (iii) certain other collateral.

Trust indentures for certain bond issues contain covenants and restrictions, the most material of which include limitations on the issuance of additional debt, maintenance of a specified debt service coverage ratio, and a minimum amount of days cash on hand. VUMC complied with such covenants and restrictions as of June 30, 2020 and 2019.

On April 29, 2016, VUMC delivered a secured subordinated promissory note in the amount of $100.0 million to the University to finance the Acquisition (the "subordinated note"). In July of 2018, VU sold its rights to future principal and interest payments on this note to a third party. The note was issued at a fixed rate of 3.25% with monthly principal payments totaling $5.0 million annually commencing on May 31, 2016, for a period of 20 years ending on April 30, 2036. VUMC may, at any time and from time to time, without premium or penalty, prepay all or any portion of the unpaid principal amount of the subordinated note. This note is secured by the gross receivables and mortgaged property described in the Security Agreement subject to the requirements of the 2016 Series Debt and the MTI.

As part of the Acquisition, VUMC assumed a 10-year, unsecured, noninterest-bearing product financing arrangement with a vendor for the purchase and implementation of internal use software. As part of this agreement, VUMC committed to an annual payment of $0.5 million payable in monthly installments through November 2019. These payments were considered imputed interest. During Fiscal 2020, the annual payment increased to $5.3 million payable in monthly installments. These payments are considered principal and imputed interest and continue through Fiscal 2027. The balance due under the Product Financing Arrangement is $29.2 million and $31.5 million as of June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, $4.1 million and $1.9 million was included in the current portion of long-term debt caption, with the remaining balance in long-term debt, net of current portion.

In Fiscal 2020 and 2019, noncash investing and financing activities totaled $19.1 million and $2.4 million, respectively, related to finance leases.

VUMC has an agreement with a bank to provide a general use line of credit with a maximum available commitment totaling $100.0 million. On March 18, 2020, VUMC drew down the available $100 million, which bears interest at a fixed spread to one-month LIBOR of 0.7% and has no maturity date if the line of credit is renewed annually. The outstanding balance on the line of credit is $100.0 million and $0.0 million as of June 30, 2020 and 2019, respectively. The line of credit accrues a commitment fee of 0.15% per annum on any unused portion of the line of credit.

VUMC established three additional lines of credit with banks in Fiscal 2020:

- $50 million line of credit with Truist, bearing interest at a fixed spread to one-month LIBOR of 1.0%, maturing in FY 2022 with a commitment fee of 0.25% on any unused portion of the line of credit.
- $50 million line of credit with Truist, bearing interest at a fixed spread to one-month LIBOR of 0.85%, maturing in FY 2021 with a commitment fee of 0.25% on any unused portion of the line of credit.
- $50 million line of credit with Bank of New York Mellon, bearing interest at a fixed spread to one-month LIBOR of 1.4%, maturing in FY 2021 with a commitment fee of 0.25% on any unused portion of the line of credit.

As of June 30, 2020, VUMC has not drawn on any of these three new lines of credit. Commitment fees for the lines of credit totaled $0.2 million in Fiscal 2020.

Interest paid on all obligations, net of amounts capitalized, was $62.7 million and $59.7 million in Fiscal 2020 and 2019, respectively.

Principal retirements and scheduled sinking fund requirements based on nominal maturity schedules for long-term debt due in subsequent fiscal years ending June 30 are as follows:

($ in thousands)

2021	$ 114,321
2022	412,963
2023	14,763
2024	14,528
2025	79,658
Thereafter	1,275,651
	$ 1,911,884

12. Interest Rate Exchange Agreements

On April 29, 2016, the University transferred an interest rate exchange agreement to VUMC with a total notional amount of $150.0 million and an original termination date of May 1, 2040. VUMC split the transferred notional amount into two agreements, with key features summarized below:

Notional Amount	Pay Fixed Rate	Receive Variable Rate	Mandatory Termination Date
$75.0 million	4.12%	68% of one-month LIBOR	April 29, 2021[1]
$75.0 million	4.18%	68% of one-month LIBOR	April 29, 2023

(1) As of June 30, 2020, we were negotiating to extend the mandatory termination date for this agreement. Subsequent to the balance sheet date, we executed this agreement which extended the mandatory termination date to April 2026. Under these new terms, the fixed rate increases to 4.28% starting May 3, 2021.

VUMC incorporated these interest rate exchange agreements into its debt portfolio management strategy. Collateral pledging requirements were removed from the novated agreements, and the agreements were modified to either be negotiated, extended, or terminated automatically on April 29, 2021 and 2023, at which point the exchange agreements will be settled at fair value.

VUMC recorded the following activity related to the interest rate exchange agreements during Fiscal 2020 and 2019:

($ in thousands)	2020	2019
Mark-to-market adjustments	$ (32,441)	$ (13,695)
Cash settlements	(4,711)	(3,785)
Unrealized loss on interest rate exchange agreements, net of cash settlements	$ (37,152)	$ (17,480)

13. Leases

VUMC has operating and finance leases for real estate, personal property and equipment. VUMC determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets.

VUMC has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, VUMC elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets represent VUMC's right to use an underlying asset during the lease term, and lease liabilities represent VUMC's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. VUMC's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of

VUMC's operating leases do not provide an implicit rate, VUMC uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. VUMC considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance.

Operating and finance lease right-of-use assets and lease liabilities as of June 30, 2020 is as follows:

($ in thousands)	**Balance Sheet Classification**	**2020**
Assets:		
Operating leases	Operating leases	$ 846,695
Finance leases	Property, plant, and equipment, net	16,712
Total lease assets		$ 863,407
Liabilities:		
Current:		
Operating leases	Current portion of operating lease liabilities	$ 70,062
Finance leases	Current portion of long-term debt	5,206
Noncurrent:		
Operating leases	Noncurrent portion of operating lease liabilities	797,811
Finance leases	Long-term debt, net of current portion	10,774
Total lease liabilities		$ 883,853
Weighted-average remaining term:		
Operating leases		57.3 years
Finance leases		3.8 years
Weighted-average discount rate:		
Operating leases		3.7%
Finance leases		2.4%

Included in the tables above is the Ground Lease with VU expiring in 2115 discussed below. Excluding this lease, the weighted average remaining lease term for VUMC's operating leases is 8.7. The land lease comprises $489.7 million of the operating lease asset and $492.5 million of the operating lease liability detailed below.

Lease expense for finance and operating leases for the year ended June 30, 2020, are as follows:

($ in thousands)	2020
Finance lease expense:	
Amortization of leased assets	$ 4,433
Interest on lease liabilities	273
Operating lease expense [1]	107,358
Short-term lease expense [1]	3,787
Variable lease expense [1]	13,321
	$ 129,172

[1] Expense is included in "Facilities and equipment" in the consolidated statements of operations.

The following table presents supplemental cash flow information for the year ended June 30, 2020:

($ in thousands)	2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 103,166
Operating cash flows for finance leases	273
Financing cash flows for finance leases	4,334

The following table reconciles the undiscounted minimum lease payments to the operating and financing lease liabilities recorded on the consolidated balance sheet at June 30, 2020:

($ in thousands)	Operating Leases	Finance Leases
2021	$ 98,655	$ 5,396
2022	79,773	3,832
2023	69,309	3,231
2024	62,709	2,692
2025	59,110	1,253
Thereafter	1,888,989	-
Total minimum lease payments	2,258,545	16,404
Less: amount of lease payments representing interest	(1,390,672)	(424)
Present value of future minimum lease payments	867,873	15,980
Less: current lease obligations	(70,062)	(5,206)
Long-term lease obligations	$ 797,811	$ 10,774

In Fiscal 2019, rent expense was $124.8 million.

Essential provisions of leases considered by management to be material are as follows:

- On April 29, 2016, VUMC entered into a Ground Lease with VU for approximately 1.7 million square feet of land for an initial term ending June 30, 2115, and an option to extend for up to two additional terms of 50 to 99 years each upon agreement by VU and VUMC. The initial annual base rent of $19.4 million is payable monthly, and is CPI adjusted annually. The Ground Lease allows VUMC to use the land on which its campus and related buildings are located. Included in the table above are $1.8 billion in ground lease payments representing future minimum rentals based on current payments.

- In July 2007, VU entered into an agreement to lease approximately 50% of the space in the 850,000 square foot One Hundred Oaks shopping center located approximately five miles from the main campus (“100 Oaks Lease”). VU redeveloped this leased space primarily for medical and office uses. This operating lease commenced during Fiscal 2009 with an initial lease term of 12 years. In October 2014, VU agreed to an amendment which extends the original lease term by an additional 15 years, with an option to renew the lease further for four additional 10-year periods. As part of the lease agreement, the lessee also has first rights on leasing additional space in the shopping center and first rights on purchasing if the landlord desires to sell. On April 29, 2016, the 100 Oaks Lease was assigned to VUMC. As a condition of the assignment, amendments to the 100 Oaks Lease were added which required VUMC to provide the landlord a $25.0 million irrevocable standby letter of credit, pay a $13.2 million refinancing penalty payable to the landlord, and pay $7.8 million of the landlord’s closing costs, financing fees, and prepayment penalties associated with a refinancing of the landlord’s debt. The prepayment penalty and closing costs were recorded as part of the Acquisition. The irrevocable standby letter of credit must remain in place through April 29, 2026. The amounts related to this standby letter of credit are recorded as facilities and equipment expense and totaled $0.2 million in both Fiscal 2020 and 2019. VUMC included minimum property rental payments totaling $118.6 million related to this space in the above minimum lease payments table.

- On April 29, 2016, VU assigned to VUMC a lease for approximately 231,000 square feet of office space at 2525 West End Avenue with expiration dates ranging from 2026 through 2030, with options to renew for two additional five-year periods. VUMC included minimum lease payments totaling $67.8 million related to this space in the above minimum lease payments table.

- On April 29, 2016, VUMC and VU entered into certain lease agreements for the use of space in buildings owned by both entities. As of June 30, 2020, VUMC’s estimated future minimum lease payments to VU totaled $22.1 million. Estimated future lease receipts from VU for the fiscal year ended June 30, 2021, are $7.4 million, subject to annual renewal.

14. Net Assets

Net asset restrictions relate to the following purposes as of June 30, 2020 and 2019:

($ in thousands)	2020	2019
Donor-restricted - time or purpose		
Property, plant, and equipment	$ 10,920	$ 11,023
Research and education	106,167	88,084
Operations	4,661	3,841
Total donor-restricted - time or purpose	$ 121,748	$ 102,948
Donor restricted - perpetuity		
Research and education	$ 64,807	$ 52,949

Net assets without donor restrictions are free of donor-imposed restrictions. This classification includes all revenues, gains, and losses not restricted by donors. VUMC reports all expenditures in net assets without donor restrictions since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Donor restricted – time or purpose contain donor-imposed stipulations that expire with the passage of time or that can be satisfied by the action of VUMC. These net assets may include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments not yet appropriated by the Board of Directors for distribution. Donor gifts that are restricted for funding capital projects are considered released from restriction once related capital expenditures have been made and the asset is placed in service.

Donor restricted – perpetuity contains amounts held in perpetuity as requested by donors. These net assets may include unconditional pledges, donor-restricted endowments, split-interest agreements, and interests in trusts held by others. Generally, the donors of these assets permit VUMC to use a portion of the income earned on related investments for specific purposes.

UPMIFA specifies that unless stated otherwise in a gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, VUMC reports the historical value of such endowments as donor restricted – perpetuity and the net accumulated appreciation as donor restricted – time or purpose. In this context, the historical value represents the original value of initial contributions restricted as permanent endowments plus the original value of subsequent contributions and, if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

15. Fair Value Measurements

Fair value measurements represent the amount at which the instrument could be exchanged in an orderly transaction between market participants at the measurement date. VUMC utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that VUMC has the ability to access.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the assets or liabilities, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect VUMC's assumptions about the inputs market participants would use in pricing the asset or liability, including assumptions about risk. Unobservable inputs are developed based on the best information available in the circumstances and may include VUMC's own data.

VUMC's principal assets and liabilities are cash and cash equivalents, investments, patient accounts receivable, estimated receivables and payables under third-party programs, grants and contracts receivable, pledges receivable, accounts payable and other accrued expenses, self-insurance reserves, long-term debt, and interest rate exchange agreements. Except for long-term debt, the carrying amount of these assets and liabilities approximates fair value.

As of June 30, 2020, the carrying value and estimated fair value of total long-term debt totaled $2.0 billion and $2.0 billion, respectively. As of June 30, 2019, the carrying value and estimated fair value of total long-term debt totaled $1.5 billion and $1.6 billion, respectively. VUMC bases estimated fair value of long-term debt on market conditions prevailing at fiscal year-end reporting dates. Besides potentially volatile market conditions, fair value estimates typically reflect limited secondary market trading. The fair values of the fixed-rate Series Debt, as defined in Note 11 Long-Term Debt, were based on a Level 2 computation using quoted prices for similar liabilities in active markets as of June 30, 2020 and 2019, as applicable. The carrying amounts related to VUMC's variable-rate Series Debt and other long-term debt obligations approximate their fair values as of June 30, 2020 and 2019. As of June 30, 2020 and 2019, the fair values of the subordinated note payable and the product financing arrangement were based on a Level 2 discounted cash flow approach applying a risk-adjusted spread for issuers of similar credit quality to U.S. Treasury yields for securities with comparable maturities.

For financial instruments measured at fair value on a recurring basis, the following tables summarize valuation hierarchy levels as of June 30, 2020 and 2019, determined by the nature of the financial instrument and the least observable input significant to the fair value measurement:

	Fair Value Measurements as of June 30, 2020			
($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Carrying Amount**
Assets				
Corporate bonds	$ 15,805	$ 219,444	$ -	$ 235,249
Equity mutual funds	34,589	93,980	-	128,569
Cash and cash equivalents	13,147	-	-	13,147
Beneficial interests in split-interest trusts	-	7,124	-	7,124
Hedged equity mutual funds	-	64,986	-	64,986
Fixed-income mutual funds	120,658	69,396	-	190,054
Certificates of deposit	-	16,338	-	16,338
Asset-backed securities	-	26,448	-	26,448
Real estate mutual funds	-	20,680	-	20,680
Commercial paper	-	22,218	-	22,218
Government bonds	10,665	69,480	-	80,145
Hedged debt mutual funds	-	70,958	-	70,958
Commodities and managed futures mutual funds	9,121	6,781	-	15,902
Target date mutual funds	-	4,865	-	4,865
Total assets reported at fair value	$ 203,985	$ 692,698	$ -	$ 896,683
Liabilities				
Interest rate exchange agreements	$ -	$ 100,342	$ -	$ 100,342
Total liabilities reported at fair value	$ -	$ 100,342	$ -	$ 100,342

($ in thousands)	Fair Value Measurements as of June 30, 2019 Level 1	Level 2	Level 3	Total Carrying Amount
Assets				
Corporate bonds	$ 2,657	$ 151,283	$ -	$ 153,940
Equity mutual funds	31,873	96,414	-	128,287
Cash and cash equivalents	9,436	-	-	9,436
Beneficial interests in split-interest trusts	-	7,383	-	7,383
Hedged equity mutual funds	-	61,401	-	61,401
Fixed-income mutual funds	46,146	120,933	-	167,079
Certificates of deposit	-	25,897	-	25,897
Asset-backed securities	-	29,506	-	29,506
Real estate mutual funds	-	18,969	-	18,969
Commercial paper	-	10,916	-	10,916
Government bonds	-	10,604	-	10,604
Hedged debt mutual funds	-	86,678	-	86,678
Commodities and managed futures mutual funds	-	6,895	-	6,895
Target date mutual funds	-	5,544	-	5,544
Total assets reported at fair value	$ 90,112	$ 632,423	$ -	$ 722,535
Liabilities				
Interest rate exchange agreements	$ -	$ 67,901	$ -	$ 67,901
Total liabilities reported at fair value	$ -	$ 67,901	$ -	$ 67,901

VUMC employs derivatives, primarily interest rate exchange agreements, to help manage interest rate risks associated with variable-rate debt. In addition to the credit risk of the counterparty owing a balance, VUMC calculates the fair value of interest rate exchange agreements based on the present value of future net cash settlements that reflect market yields as of the measurement date.

Parties to interest rate exchange agreements are subject to risk for changes in interest rates, as well as the risk of credit loss in the event of nonperformance by the counterparty. VUMC deals only with high-quality counterparties that meet rating criteria for financial stability and credit-worthiness.

16. Retirement Plan

VUMC's full-time employees participate in a 403(b) defined contribution retirement plan administered by a third party. For eligible employees with one year of continuous service, this plan requires employer matching of employee contributions up to 5% of eligible compensation. The employee immediately vests in these contributions.

VUMC funds the obligations under this plan through monthly transfers to the respective retirement plan administrator with the corresponding expense recognized in the year incurred. During Fiscal 2020 and 2019, VUMC recognized $69.8 million and $64.1 million, respectively, of expense in connection with this plan.

17. Functional Expense

VUMC provides general health care services primarily to residents within its geographic location and supports research and education programs. Total operating expense by nature and function for Fiscal 2020 and 2019 were as follows:

($ in thousands)	For the year ended June 30, 2020			
	Healthcare Services	Academic Research and Education	Administrative and Other	Total
Salaries, wages, and benefits	$ 1,773,506	$ 542,728	$ 179,561	$ 2,495,795
Supplies and drugs	980,544	46,640	19,214	1,046,398
Facilities and equipment	160,705	40,556	72,144	273,405
Services and other	549,059	98,291	92,905	740,255
Depreciation and amortization	103,734	1,521	21,399	126,654
Interest	47,172	13,585	14	60,771
Total operating expense	$ 3,614,720	$ 743,321	$ 385,237	$ 4,743,278

($ in thousands)	For the year ended June 30, 2019			
	Healthcare Services	Academic Research and Education	Administrative and Other	Total
Salaries, wages, and benefits	$ 1,613,439	$ 490,280	$ 187,191	$ 2,290,910
Supplies and drugs	831,059	47,418	13,734	892,211
Facilities and equipment	156,210	38,257	74,507	268,974
Services and other	517,935	95,339	87,805	701,079
Depreciation and amortization	83,922	992	21,610	106,524
Interest	43,082	12,241	1,206	56,529
Total operating expense	$ 3,245,647	$ 684,527	$ 386,053	$ 4,316,227

Certain expense categories are attributable to more than one function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and benefits, and services and other.

18. Commitments and Contingencies

Management has policies, procedures, and an organizational structure to enforce and monitor compliance with government statutes and regulations. VUMC's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time.

- Litigation. VUMC is a defendant in certain lawsuits alleging medical malpractice and civil action.

  On August 16, 2016, VUMC received written notice from VU of a third-party claim which could, if determined adversely to VU, require indemnification by VUMC pursuant to the provisions of the MTSA, dated as of April 29, 2016. The third-party claim was prompted by a lawsuit (Cassell v. Vanderbilt University, et al., No. 3:16-cv-02086 (U.S.D.C. M.D. TN)) brought by current and former employees of VU which alleged claims relating to administration of the Vanderbilt University Retirement Plan and New Faculty Plan. A settlement in the matter was reached and was approved by the United States District Court for the Middle District of Tennessee in late October 2019, under which Plaintiffs dismissed their lawsuit in exchange for payment by VU of $14.5 million. VUMC had established a liability reserve reflecting its estimated liability under the settlement, net of proceeds of applicable policies of insurance. Settlement funds were deposited with the settlement administrator and were distributed to Plan participants beginning in April 2020, and the litigation is now resolved.

  In late Fiscal 2018, VUMC identified that standing orders used in certain VUMC clinical departments may not have been documented and entered appropriately. Upon further review, VUMC determined that medical record documentation required to support the medical necessity for the services rendered pursuant to certain of such orders was insufficient and that certain reimbursement amounts received for the services so ordered must consequently be repaid. Repayments totaling approximately $2.7 million were made to governmental and commercial payors during the period from December 2019 through March 2020.

  In December 2019, VUMC was notified by the Internal Revenue Service ("IRS") of its intention to conduct an examination of the VUMC 403b Retirement Plan for the year ending December 31, 2017. During that examination, VUMC identified certain concerns relating to the calculation of the employer match provided under the Plan, which was implemented by VUMC in April 2016. VUMC is evaluating options to resolve these concerns; if they are not resolved favorably, correction of the concerns could be required by the IRS. VUMC has established a liability reserve relating to the potential cost to correct such issues.

  Through the operation of its compliance program, VUMC from time to time initiates the review of billing for clinical services provided by VUMC and its affiliated providers. VUMC has established a liability reserve relating to certain matters under review as of June 30, 2020, which is not material to VUMC's overall financial position.

- Regulations. VUMC's compliance with regulations and laws is subject to future government reviews and interpretations, as well as regulatory actions unknown at this time. VUMC believes that the liability, if any, from such reviews will not have a significant effect on VUMC's consolidated financial position.

- Medical Malpractice Self-Insurance. The consolidated balance sheets include reserves for medical malpractice, professional, and general liability coverage totaling $60.3 million as of June 30, 2020, and $56.3 million as of June 30, 2019. These liabilities are measured at the net present value of those cash flows using a discount rate of 2.5% at both dates and are classified as current or noncurrent based on the expected timing of cash flows. Other current assets include expected recoveries from commercial insurance carriers under excess coverage arrangements totaling $2.7 million as of June 30, 2020, and $3.3 million as of June 30, 2019. During Fiscal 2020 and 2019, VUMC recorded expenses for medical malpractice self-insurance of $26.0 million and $23.5 million, respectively.

- Employee Health and Workers' Compensation Insurance. Accrued compensation and benefits included actuarially determined liabilities for employee health and workers' compensation claims totaling $16.9 million and $6.1 million, respectively, as of June 30, 2020, and $17.3 million and $6.6 million, respectively, as of June 30, 2019. During Fiscal 2020 and 2019, VUMC recorded expenses for self-insured employee health benefit plans, net of employee premiums, totaling $181.5 million and $177.2 million, respectively. During Fiscal 2020 and 2019, VUMC recorded expenses for self-insured workers' compensation plans of $2.9 million and $2.8 million, respectively.

- Federal and State Contracts and Other Requirements. Expenditures related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. Amounts of expenditures that granting agencies might disallow cannot be determined at this time. These amounts affect government grants and contracts revenue, as well as facilities and administrative costs recovery. VUMC does not expect these costs to impact the consolidated financial position by material amounts.

- Health Care Services. In Fiscal 2020 and 2019, 83% and 85%, respectively, of VUMC's operating revenue was generated by providing health care services, where revenue is affected by reimbursement arrangements with federal and state healthcare programs, commercial insurance, and other managed care payors. If reimbursement rates from third-party payors decrease or if contract terms become less favorable in future periods, VUMC's operating revenues may decline. See Note 4 Patient Service Revenue, Patient Accounts Receivable, and Estimated Third-Party Settlements, for further information regarding healthcare revenues and related receivables.

- HIPAA Compliance. Under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the federal government has authority to complete fraud and abuse investigations. HIPAA has established substantial fines and penalties for offenders. VUMC maintains policies, procedures, and organizational structures to enforce and monitor compliance with HIPAA, as well as other applicable local, state, and federal statutes and regulations.

- Construction. VUMC had contractual commitments under major construction and equipment contracts totaling $90.2 million and $113.7 million as of June 30, 2020 and 2019, respectively.

- Letter of Credit. As a requirement of the assignment of the 100 Oaks Lease described in Note 13 Leases, VUMC provided an irrevocable standby letter of credit of $25.0 million to the landlord of the property dated June 10, 2016.

19. Other Events

COVID-19

In January of Fiscal 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public emergency due to a novel strain of coronavirus. During March of this fiscal year, the World Health Organization designated the outbreak of this coronavirus, known as COVID-19, as a global pandemic. This global health crisis has impacted many facets of our business. Patient volumes and the related revenue for most services were significantly lower in the fourth quarter of Fiscal 2020 as various policies were implemented by federal, state and local governments in response, including stay-at-home orders issued by the Governor of Tennessee and Mayor of Nashville resulting in business closures, social distancing and suspension of elective and nonemergent procedures. Potential changes in payor mix were evaluated to determine impact on collectability estimates and ultimately the recognition of revenue. VUMC experienced supply chain disruptions, including price increases in medical supplies, particularly personal protective equipment. The pandemic also created significant volatility in the U.S. and global financial markets that impacted VUMC's investment portfolios. Through June 30, 2020, volumes rebounded from the mid-March through mid-May periods with many metrics approaching pre-COVID-19 levels, as certain of these policies, such as stay-at-home orders and suspension of elective and nonemergent procedures were lifted. Due to the evolving nature of the COVID-19 pandemic, despite these positive indicators, the ultimate impact to VUMC and its financial condition is presently unknown.

Sources of pandemic relief include the federal stimulus package known as The Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which was signed into law on March 27, 2020. The Act provides an estimated $2.2 trillion to fight the COVID-19 pandemic, stimulate the U.S. economy and provide emergency assistance to affected individuals and businesses, including hospitals and other healthcare providers. The CARES Act includes a number of provisions important to our industry, including $100.0 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. These provider relief funds included $50 billion distributed to providers based on their share of the Medicare fee-for-service reimbursement ("General Distributions"). Also included was funding for certain targeted distributions ("Targeted Distributions") to qualifying providers (primarily rural and high impact areas). As of June 30, 2020, VUMC has recognized approximately $83.3 million in General Distributions and $35.7 million in Targeted Distributions, for a total of $119.0 million, under the Provider Relief Fund of the CARES Act. These amounts are presented in Other operating revenue in our consolidated statement of operations.

In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments beginning 120 days after receipt. During Fiscal 2020, VUMC received advance payments from Medicare of $222.4 million, which has been recorded as a current liability on our consolidated balance sheet.

On October 1, 2020, a continuing resolution for the Medicare Accelerated and Advance Payment Program was signed (the Resolution), updating key provisions of the program. Under the revised terms of the program, health care providers will have one year before the Centers for Medicare and Medicaid Services (CMS) begins to recoup these advance payments by offsetting them against newly submitted claims. Additionally, once the recoupment period begins, for the first 11 months, only 25% of the claims amount will be withheld, and for the following 6 months, only 50% of the claims amount with be withheld. In total, a provider will have 29 months from the first payment to repay these advances. After the repayment period expires, the remaining balance will be subject to interest. The interest rate, which was previously 10.25%, has been reduced to 4%. VUMC is still assessing the impact the Resolution will have on the consolidated financial statements, if any.

The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021 and the remaining 50% due December 31, 2022. VUMC began deferring these payroll tax payments during the fourth quarter of Fiscal 2020. As of June 30, 2020, VUMC had deferred payroll tax payments of approximately $27.6 million, which are included in Other noncurrent liabilities in the consolidated balance sheet.

Through the Paycheck Protection Program and Health Care Enhancement Act (the “PPPHCE Act”), which was enacted on April 24, 2020, we recognized an additional $11.4 million as a payroll retention credit in Other operating revenue.

To provide more liquidity during the global health crisis, we drew on our $100.0 million existing line of credit and executed the $300.0 million Series 2020A Loan. We also executed three additional lines of credit totaling $150.0 million out of an abundance of caution. As of June 30, 2020, no amounts have been drawn on the new lines of credit. These agreements were discussed further in Note 11 Long-Term Debt.

Subsequent to June 30, 2020 and through the date this report was issued, VUMC has received an additional $9.5 million in Targeted Distributions.

Acquisition of VWCH

Effective August 1, 2019, VUMC acquired a two-campus hospital facility licensed for 245 beds from Community Health Systems, Inc. (“CHS”): Tennova Healthcare – Lebanon, now known as Vanderbilt Wilson County Hospital (“VWCH”) for total consideration of $19.3 million. VUMC’s acquisition included not only the two-campus hospital facilities, but also related physician clinic operations and outpatient services that now bear the Vanderbilt name including: Vanderbilt Surgery Center, Vanderbilt Sleep Disorders Center, Vanderbilt Primary Care, Vanderbilt Primary Care Walk-In, and Vanderbilt Gastroenterology. VWCH is staffed by more than 200 community physicians and employs approximately 600 administrators, nurses, and support personnel. After the acquisition, VUMC retained substantially all employees of the hospital’s previous owner.

The following table summarizes the fair value of net assets acquired:

($ in thousands)

Inventories	$ 2,966
Other current assets	865
Property, plant, and equipment, net	15,780
Accounts payable and other accrued expenses	(359)
Total invested capital	$ 19,252

20. Subsequent Events

On September 19, 2020, the Department of Health and Human Services (HHS) released additional reporting requirements for health care entities that have received either (or both) General and Targeted Distributions from the Provider Relief Fund (PRF). The Post-Payment Notice of Reporting Requirements (the Notice) changes previous reporting requirement guidance issued on July 20, 2020 and amended on August 14, 2020 and could have an impact on how health care entities account for and record PRF payments. HHS intends to issue Frequently Asked Questions to aid in the reporting process. VUMC is still assessing the impact the Notice will have on the consolidated financial statements, if any.

On September 30, 2020, VUMC announced plans to purchase two hospitals from subsidiaries of CHS. The two hospitals (Tennova Healthcare-Shelbyville and Tennova Healthcare-Harton) have a total of 195 beds. A definitive agreement has been executed for the sale of the facilities and related businesses, including physician clinic operations and other outpatient services. VUMC also announced plans to acquire a minority ownership interest in CHS's Tennova Healthcare-Clarksville hospital, a 270-bed facility, from CHS's existing minority partner, GHS Holdings, LLC, a wholly-owned subsidiary of Clarksville Volunteer Health, Inc., a non-profit corporation based in Clarksville, TN. The definitive agreement provides for VUMC to acquire GHS Holdings' 20% ownership interest in Tennova Healthcare-Clarksville and related physician practices.

Management evaluated events after June 30, 2020 through October 13, 2020, the date on which the consolidated financial statements were issued. During this period, other than discussed previously, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements that have not been recorded or disclosed.

Building a better working world

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Vanderbilt University Medical Center

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Vanderbilt University Medical Center consolidating balance sheets and consolidating statements of operations are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

October 13, 2020

Vanderbilt University Medical Center
Consolidating Balance Sheet
June 30, 2020

($ in thousands)	Obligated Group	Nonobligated Entity	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 1,131,662	$ 38,864	$ -	$ 1,170,526
Intercompany receivable	57,063	-	(57,063)	-
Current investments	232,178	-	-	232,178
Patient accounts receivable	462,935	7,615	-	470,550
Grants and contracts receivable	60,031	-	-	60,031
Inventories	103,878	725	-	104,603
Other current assets	102,233	16,206	-	118,439
Total current assets	2,149,980	63,410	(57,063)	2,156,327
Restricted cash	11,806	-	-	11,806
Noncurrent investments	539,173	-	-	539,173
Noncurrent investments limited as to use	113,526	-	-	113,526
Property, plant, and equipment, net	1,515,849	9,254	-	1,525,103
Operating lease assets	832,085	14,610	-	846,695
Other noncurrent assets	39,485	13,862	-	53,347
Total assets	$ 5,201,904	$ 101,136	$ (57,063)	$ 5,245,977
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 13,486	$ 835	$ -	$ 14,321
Intercompany payable	-	57,063	(57,063)	-
Line of credit	100,000	-	-	100,000
Accounts payable and other accrued expenses	291,589	17,573	-	309,162
Medicare accelerated payments	219,881	2,564	-	222,445
Estimated payables under third-party programs	45,957	-	-	45,957
Accrued compensation and benefits	234,754	3,285	-	238,039
Current portion of operating lease liabilities	67,089	2,973	-	70,062
Current portion of deferred revenue	4,158	669	-	4,827
Current portion of medical malpractice self-insurance reserves	12,577	-	-	12,577
Total current liabilities	989,491	84,962	(57,063)	1,017,390
Long-term debt, net of current portion	1,840,922	368	-	1,841,290
Noncurrent portion of operating lease liabilities	785,665	12,146	-	797,811
Fair value of interest rate exchange agreements	100,342	-	-	100,342
Noncurrent portion of medical malpractice self-insurance reserves	47,682	-	-	47,682
Noncurrent portion of deferred revenue	3,957	70	-	4,027
Other noncurrent liabilities	35,205	244	-	35,449
Total liabilities	3,803,264	97,790	(57,063)	3,843,991
Net assets				
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,212,085	(3,289)	-	1,208,796
Net assets without donor restrictions related to noncontrolling interests	-	6,635	-	6,635
Total net assets without donor restrictions	1,212,085	3,346	-	1,215,431
Net assets with donor restrictions	186,555	-	-	186,555
Total net assets	1,398,640	3,346	-	1,401,986
Total liabilities and net assets	$ 5,201,904	$ 101,136	$ (57,063)	$ 5,245,977

The accompanying notes are an integral part of these consolidating financial statements.

Vanderbilt University Medical Center
Consolidating Balance Sheet
June 30, 2019

($ in thousands)	Obligated Group	Nonobligated Entity	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 533,110	$ 41,638	$ -	$ 574,748
Intercompany receivable	56,302	-	(56,302)	-
Current investments	115,941	-	-	115,941
Patient accounts receivable	475,102	7,383	-	482,485
Grants and contracts receivable	58,750	-	-	58,750
Inventories	74,692	715	-	75,407
Other current assets	76,632	12,679	-	89,311
Total current assets	1,390,529	62,415	(56,302)	1,396,642
Restricted cash	11,938	-	-	11,938
Noncurrent investments	491,047	-	-	491,047
Noncurrent investments limited as to use	103,609	-	-	103,609
Property, plant, and equipment, net	1,387,512	7,583	-	1,395,095
Other noncurrent assets	36,488	11,579	-	48,067
Total assets	$ 3,421,123	$ 81,577	$ (56,302)	$ 3,446,398
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 8,378	$ 190	$ -	$ 8,568
Intercompany payable	-	56,302	(56,302)	-
Accounts payable and other accrued expenses	291,740	12,448	-	304,188
Estimated payables under third-party programs	24,877	-	-	24,877
Accrued compensation and benefits	211,032	3,350	-	214,382
Current portion of deferred revenue	13,394	1,571	-	14,965
Current portion of medical malpractice self-insurance reserves	12,012	-	-	12,012
Total current liabilities	561,433	73,861	(56,302)	578,992
Long-term debt, net of current portion	1,506,800	77	-	1,506,877
Fair value of interest rate exchange agreements	67,901	-	-	67,901
Noncurrent portion of medical malpractice self-insurance reserves	44,328	-	-	44,328
Noncurrent portion of deferred revenue	7,545	228	-	7,773
Other noncurrent liabilities	26,337	8	-	26,345
Total liabilities	2,214,344	74,174	(56,302)	2,232,216
Net assets				
Net assets without donor restrictions controlled by Vanderbilt University Medical Center	1,050,882	(373)	-	1,050,509
Net assets without donor restrictions related to noncontrolling interests	-	7,776	-	7,776
Total net assets without donor restrictions	1,050,882	7,403	-	1,058,285
Net assets with donor restrictions	155,897	-	-	155,897
Total net assets	1,206,779	7,403	-	1,214,182
Total liabilities and net assets	$ 3,421,123	$ 81,577	$ (56,302)	$ 3,446,398

The accompanying notes are an integral part of these consolidating financial statements.

Vanderbilt University Medical Center
Consolidating Statement of Operations
Year Ended June 30, 2020

($ in thousands)	Obligated Group	Nonobligated Entity	Eliminations	Consolidated
Operating revenues				
Patient service revenue	$ 3,941,264	$ 90,456	$ -	$ 4,031,720
Academic and research revenue	552,996	(174)	-	552,822
Other operating revenue	284,894	40,456	(24,207)	301,143
Total operating revenues	4,779,154	130,738	(24,207)	4,885,685
Operating expenses				
Salaries, wages, and benefits	2,437,005	58,790	-	2,495,795
Supplies and drugs	1,039,888	6,510	-	1,046,398
Facilities and equipment	265,503	7,902	-	273,405
Services and other	709,381	55,081	(24,207)	740,255
Depreciation and amortization	124,953	1,701	-	126,654
Interest	60,714	57	-	60,771
Total operating expenses	4,637,444	130,041	(24,207)	4,743,278
Income from operations	141,710	697	-	142,407
Nonoperating revenues and expenses				
Income from investments	27,224	-	-	27,224
Gift income	20,702	-	-	20,702
(Losses) earnings of unconsolidated organizations	(1,063)	5,928	-	4,865
Unrealized loss on interest rate exchange agreements, net of cash settlements	(37,152)	-	-	(37,152)
Total nonoperating revenues and expenses	9,711	5,928	-	15,639
Excess of revenues over expense	151,421	6,625	-	158,046
Excess of revenues over expense attributable to noncontrolling interests	-	(4,074)	-	(4,074)
Excess of revenues over expenses attributable to VUMC	$ 151,421	$ 2,551	$ -	$ 153,972

The accompanying notes are an integral part of these consolidating financial statements.

Vanderbilt University Medical Center
Consolidating Statement of Operations
Year Ended June 30, 2019

($ in thousands)	Obligated Group	Nonobligated Entity	Eliminations	Consolidated
Operating revenues				
Patient service revenue	$ 3,730,563	$ 90,308	$ -	$ 3,820,871
Academic and research revenue	519,447	-	-	519,447
Other operating revenue	143,909	32,508	(19,406)	157,011
Total operating revenues	4,393,919	122,816	(19,406)	4,497,329
Operating expenses				
Salaries, wages, and benefits	2,244,287	46,623	-	2,290,910
Supplies and drugs	883,673	8,538	-	892,211
Facilities and equipment	257,868	11,106	-	268,974
Services and other	668,498	51,987	(19,406)	701,079
Depreciation and amortization	105,619	905	-	106,524
Interest	56,507	22	-	56,529
Total operating expenses	4,216,452	119,181	(19,406)	4,316,227
Income from operations	177,467	3,635	-	181,102
Nonoperating revenues and expenses				
Income from investments	30,063	43	-	30,106
Gift income	14,416	-	-	14,416
(Losses) earnings of unconsolidated organizations	(782)	4,813	-	4,031
Unrealized loss on interest rate exchange agreements, net of cash settlements	(17,480)	-	-	(17,480)
Total nonoperating revenues and expenses	26,217	4,856	-	31,073
Excess of revenues over expense	203,684	8,491	-	212,175
Excess of revenues over expense attributable to noncontrolling interests	-	(4,075)	-	(4,075)
Excess of revenues over expenses attributable to VUMC	$ 203,684	$ 4,416	$ -	$ 208,100

The accompanying notes are an integral part of these consolidating financial statements.

1. Basis of Presentation

As discussed in Note 11, Long-Term Debt, each of the bonds and notes comprising the Series Debt represent separate obligations under an MTI structure. All debt issued under the MTI are general obligations of the obligated group, which, for purposes of the preceding consolidating financial statements comprises VUMC and its affiliates, as described in Note 1 Description of Organization, except for VHS, which is a nonobligated entity.

The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the results of operations of the individual companies.

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