VANDERBILT UNIVERSITY

Consolidated Financial Statements

pwc

Independent Auditor's Report

Board of Trust
Vanderbilt University

We have audited the accompanying consolidated financial statements of Vanderbilt University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the consolidated 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 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanderbilt University at June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 23, 2014

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813)236 6000, www.pwc.com/us

Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2014 and 2013 (in thousands)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,244,720	$ 845,472
Accounts receivable, net	414,565	413,172
Prepaid expenses and other assets	89,192	85,675
Contributions receivable, net	74,820	70,302
Student loans and other notes receivable, net	40,251	43,582
Investments	4,179,606	4,141,408
Investments allocable to noncontrolling interests	150,067	186,901
Property, plant, and equipment, net	1,765,244	1,781,293
Interests in trusts held by others	39,790	38,091
Total assets	**$ 7,998,255**	**$ 7,605,896**
LIABILITIES		
Accounts payable and accrued liabilities	$ 212,167	$ 226,643
Accrued compensation and withholdings	216,117	235,169
Deferred revenue	92,985	93,029
Actuarial liability for self-insurance	113,626	107,514
Actuarial liability for split-interest agreements	35,667	33,968
Government advances for student loans	22,366	22,052
Commercial paper	209,845	214,011
Long-term debt and capital leases	1,083,285	1,127,458
Fair value of interest rate exchange agreements	168,451	206,733
Total liabilities	**2,154,509**	**2,266,577**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	3,029,763	2,784,933
Unrestricted net assets related to noncontrolling interests	150,067	186,901
Total unrestricted net assets	3,179,830	2,971,834
Temporarily restricted net assets	1,467,482	1,235,066
Permanently restricted net assets	1,196,434	1,132,419
Total net assets	**5,843,746**	**5,339,319**
Total liabilities and net assets	**$ 7,998,255**	**$ 7,605,896**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2014 (in thousands)

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES				
Tuition and educational fees	$ 478,320	$ -	$ -	$ 478,320
Less student financial aid	(213,543)			(213,543)
Tuition and educational fees, net	264,777	-	-	264,777
Grants and contracts:				
Government sponsors	358,632	-	-	358,632
Private sponsors	69,466	-	-	69,466
Facilities and administrative costs recovery	140,051	-	-	140,051
Total grants and contracts	568,149	-	-	568,149
Contributions	38,182	23,980	55,551	117,713
Endowment distributions	149,905	6,520	1,135	157,560
Investment income	18,264	3,268	6,655	28,187
Health care services	2,608,475	-	-	2,608,475
Room, board, and other auxiliary services, net	111,925	-	-	111,925
Other sources	63,483	-	-	63,483
Net assets released from restrictions	10,202	(10,202)	-	-
Total revenues and other support	**3,833,362**	**23,566**	**63,341**	**3,920,269**
EXPENSES				
Instruction	495,824	-	-	495,824
Research	434,009	-	-	434,009
Health care services	2,389,431	-	-	2,389,431
Public service	41,298	-	-	41,298
Academic support	139,026	-	-	139,026
Student services	49,828	-	-	49,828
Institutional support	61,778	-	-	61,778
Room, board, and other auxiliary services	143,287	-	-	143,287
Total expenses	**3,754,481**	**-**	**-**	**3,754,481**
Change in unrestricted net assets from operating activity	**78,881**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	128,449	193,706	-	322,155
Change in appreciation of self-insurance assets	10,049	-	-	10,049
Change in appreciation of other investments	27,237	-	-	27,237
Change in appreciation of interest rate exchange agreements	6,352	-	-	6,352
Contributions for plant	3,235	6,445	-	9,680
Net assets released from restrictions for plant	6,405	(6,405)	-	-
Nonoperating net asset reclassifications	(15,778)	15,104	674	-
Total other changes in net assets	**165,949**	**208,850**	**674**	**375,473**
Increase in net assets controlled by Vanderbilt	**244,830**	**232,416**	**64,015**	**541,261**
Decrease in net assets related to noncontrolling interests	**(36,834)**	**-**	**-**	**(36,834)**
Total increase in net assets	**$ 207,996**	**$ 232,416**	**$ 64,015**	**$ 504,427**
Net assets, June 30, 2013	**$ 2,971,834**	**$ 1,235,066**	**$ 1,132,419**	**$ 5,339,319**
Net assets, June 30, 2014	**$ 3,179,830**	**$ 1,467,482**	**$ 1,196,434**	**$ 5,843,746**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2013 (in thousands)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and educational fees	$ 482,528	$ -	$ -	$ 482,528
Less student financial aid	(209,940)			(209,940)
Tuition and educational fees, net	272,588	-	-	272,588
Grants and contracts:				
Government sponsors	377,839	-	-	377,839
Private sponsors	61,714	-	-	61,714
Facilities and administrative costs recovery	142,609	-	-	142,609
Total grants and contracts	582,162	-	-	582,162
Contributions	37,940	12,388	60,340	110,668
Endowment distributions	144,801	4,476	1,279	150,556
Investment income	19,675	854	1,337	21,866
Health care services	2,393,980	-	-	2,393,980
Room, board, and other auxiliary services, net	106,664	-	-	106,664
Other sources	53,285	-	-	53,285
Net assets released from restrictions	14,322	(14,322)	-	-
Total revenues and other support	**3,625,417**	**3,396**	**62,956**	**3,691,769**
EXPENSES				
Instruction	490,044	-	-	490,044
Research	448,983	-	-	448,983
Health care services	2,281,608	-	-	2,281,608
Public service	32,199	-	-	32,199
Academic support	156,250	-	-	156,250
Student services	49,082	-	-	49,082
Institutional support	64,025	-	-	64,025
Room, board, and other auxiliary services	146,909	-	-	146,909
Total expenses	**3,669,100**	**-**	**-**	**3,669,100**
Change in unrestricted net assets from operating activity	**(43,683)**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	73,019	96,231	-	169,250
Change in appreciation of self-insurance assets	5,232	-	-	5,232
Change in appreciation of other investments	23,149	-	-	23,149
Change in appreciation of interest rate exchange agreements	108,844	-	-	108,844
Contributions for plant	3,757	1,779	-	5,536
Net assets released from restrictions for plant	49,262	(49,262)	-	-
Nonoperating net asset reclassifications	5,975	(8,294)	2,319	-
Other	(424)	-	-	(424)
Total other changes in net assets	**268,814**	**40,454**	**2,319**	**311,587**
Increase in net assets controlled by Vanderbilt	**225,131**	**43,850**	**65,275**	**334,256**
Decrease in net assets related to noncontrolling interests	**(14,485)**	**-**	**-**	**(14,485)**
Total increase in net assets	**$ 210,646**	**$ 43,850**	**$ 65,275**	**$ 319,771**
Net assets, June 30, 2012	**$ 2,761,188**	**$ 1,191,216**	**$ 1,067,144**	**$ 5,019,548**
Net assets, June 30, 2013	**$ 2,971,834**	**$ 1,235,066**	**$ 1,132,419**	**$ 5,339,319**

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013 (in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	$ 504,427	$ 319,771
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Change in net assets related to noncontrolling interests	36,834	14,485
Net realized losses (gains) on investments	63,811	(212,662)
Net change in unrealized appreciation on investments	(490,108)	16,352
Contributions for plant and endowment	(75,606)	(72,180)
Contributions of securities other than for plant	(20,717)	(14,577)
Proceeds from sale of donated securities	2,773	1,497
Depreciation and amortization	175,779	174,330
Amortization of bond discounts and premiums	(5,210)	(4,922)
Payments to terminate interest rate exchange agreements	31,930	-
Net change in fair value of interest rate exchange agreements	(38,282)	(108,844)
Change in:		
Accounts receivable, net of accrued investment income	(1,271)	105,463
Prepaid expenses and other assets	(3,517)	(3,508)
Contributions receivable	(4,518)	2,032
Interests in trusts held by others	(908)	(151)
Change in:		
Accounts payable and accrued liabilities, net of nonoperating items	(23,014)	(9,807)
Accrued compensation and withholdings	(19,052)	(10,690)
Deferred revenue	(44)	(25,797)
Actuarial liability for self-insurance	6,112	1,971
Actuarial liability for split-interest agreements	1,699	(203)
Net cash provided by operating activities	**141,118**	**172,560**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,734,836)	(3,784,742)
Proceeds from sales of investments	3,122,144	3,712,975
Purchases of investments allocable to noncontrolling interests	(4,004)	(16,398)
Proceeds from sales of investments allocable to noncontrolling interests	70,668	65,208
Change in accrued investment income	(122)	(69)
Payments to terminate interest rate exchange agreements	(31,930)	-
Acquisitions of property, plant, and equipment	(152,862)	(223,968)
Loss from disposals of property, plant, and equipment	1,670	3,984
Student loans and other notes receivable disbursed	(2,439)	(3,747)
Principal collected on student loans and other notes receivable	5,770	5,574
Net cash provided by (used in) investing activities	**274,059**	**(241,183)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for plant and endowment	75,606	72,180
Change in government advances for student loans	314	(61)
Proceeds from debt issuances	-	169,603
Payments to retire or defease debt	(43,129)	(204,316)
Proceeds from sale of donated securities restricted for endowment	17,944	13,080
Proceeds from noncontrolling interests in investment partnerships	4,004	16,398
Payments to noncontrolling interests in investment partnerships	(70,668)	(65,208)
Net cash (used in) provided by financing activities	**(15,929)**	**1,676**
Net change in cash and cash equivalents	**$ 399,248**	**$ (66,947)**
Cash and cash equivalents at beginning of year	**$ 845,472**	**$ 912,419**
Cash and cash equivalents at end of year	**$ 1,244,720**	**$ 845,472**
Supplemental disclosure of cash flow information:		
Cash paid for interest	71,657	71,475
Donated securities	20,717	14,577

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

Vanderbilt University
Notes to the Consolidated Financial Statements

1. Organization

The Vanderbilt University (Vanderbilt) is a private, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational, research, and health care facilities as part of its mission to be a leading center for informed and creative teaching, scholarly research, and public service. Vanderbilt provides educational services to approximately 6,800 undergraduate and 5,900 graduate and professional students enrolled in its 10 schools and colleges.

The consolidated financial statements include the accounts of all entities in which Vanderbilt has a significant financial interest and over which Vanderbilt has control. The patient care enterprise includes Vanderbilt University Hospitals and Clinics (the Hospital); Vanderbilt Medical Group, a physician practice plan; and Vanderbilt Health Services, Inc. (VHS), which includes wholly owned and joint ventured businesses primarily consisting of community physician practices, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, and a rehabilitation hospital.

Vanderbilt eliminates all material intercompany accounts and transactions in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements of Vanderbilt have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). Based on the existence or absence of donor-imposed restrictions, Vanderbilt classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets are free of donor-imposed restrictions. This classification includes all revenues, gains, and losses not temporarily or permanently restricted by donors. Vanderbilt reports all expenditures in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Temporarily restricted net assets contain donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of Vanderbilt. 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 Trust for distribution.

Permanently restricted net assets are amounts held in perpetuity as requested by donors. These net assets may include unconditional pledges, donor-restricted endowments (at historical value), split-interest agreements, and interests in trusts held by others. Generally, the donors of these assets permit Vanderbilt to use a portion of the income earned on related investments for specific purposes.

Vanderbilt reports expirations of temporary restrictions on net assets, i.e., the passage of time and/or fulfilling donor-imposed stipulations, as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

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. Such assets, reported at fair value, primarily consist of depository account balances, money market funds, and short-term U.S. Treasury securities.

Prepaid Expenses and Other Assets
Prepaid expenses and other assets primarily represent inventories, prepaid expenses, and other segregated investment-related assets managed by third parties related to a legacy deferred compensation program that are earmarked to ultimately settle certain liabilities. Vanderbilt excludes this latter group of assets, reported at fair value, from the investments category since it will not directly benefit from the investment return.

Fair Value Measurements
Fair value measurements represent the price received to sell an asset or price paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Inputs to the valuation techniques used are prioritized to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Vanderbilt gives consideration to certain investment funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Vanderbilt uses net asset value per share or its equivalent in estimating the fair value of interests in investment companies for which a readily determinable fair value is not available.

Investments
Vanderbilt reports investments at fair value using the three-level hierarchy established under GAAP. After review and evaluation, Vanderbilt utilizes estimates provided by fund managers for certain alternative investments, mainly investments in limited partnerships where a ready market for the investments does not exist.

Vanderbilt has exposure to a number of risks including liquidity, interest rate, counterparty, basis, tax, regulatory, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in Vanderbilt's financial statements.

Vanderbilt sometimes uses derivatives to manage investment market risks and exposure. The consolidated financial statements contain derivatives, which consist of both internally managed transactions and those entered into through external investment managers, at fair value. The most common instruments utilized are futures contracts and hedges against currency risk for investments denominated in other than U.S. dollars. For internally managed transactions, Vanderbilt utilizes futures contracts with durations of less than three months.

Vanderbilt 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. Vanderbilt includes net receivables and payables arising from unsettled trades as a component of investments.

Unless donor-restricted endowment gift agreements require a separate investment, Vanderbilt manages all endowment investments as an investment pool.

Investments Allocable to Noncontrolling Interests and Net Assets Related to Noncontrolling Interests

Vanderbilt reports the respective assets for entities in which other organizations are minority equity participants at fair value as investments allocable to noncontrolling interests on the consolidated statements of financial position.

The balance representing such organizations' minority or noncontrolling interests is recorded based on contractual provisions, which represent an estimate of a settlement value assuming the entity was liquidated in an orderly fashion as of the report date.

Split-Interest Agreements and Interests in Trusts Held by Others

Vanderbilt's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and life income funds for which Vanderbilt serves as trustee. Vanderbilt includes assets held in these trusts in investments at fair value. Vanderbilt recognizes contribution revenue at the dates the trusts are established, net of the liabilities for the present value of the estimated future payments to the donors and/or other beneficiaries. Annually, Vanderbilt records the change in fair value of split-interest agreements based on the assets that are associated with each trust and recalculates the liability for the present value of the estimated future payments to the donors and/or other beneficiaries.

Vanderbilt is also the beneficiary of certain trusts held and administered by others. Vanderbilt records its share of these trust assets at fair value as interests in trusts held by others with any resulting gains or losses reported as investment income.

Property, Plant, and Equipment

Purchased property, plant, and equipment, recorded at cost, includes, where appropriate, capitalized interest on construction financing net of income earned on unspent proceeds. Vanderbilt records donated assets at fair value on the date of donation, expenses repairs and maintenance costs as incurred, and expenses additions to the library collection at the time of purchase.

Vanderbilt calculates depreciation using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Vanderbilt removes property, plant, and equipment from the accounting records at the time of disposal.

Conditional asset retirement obligations related to legal requirements to perform certain future activities associated with the retirement, disposal, or abandonment of assets are accrued utilizing site-specific surveys to estimate the net present value for applicable future costs, e.g., asbestos abatement or removal.

Vanderbilt reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Vanderbilt recognizes an impairment charge when the fair value of the asset or group of assets is less than the carrying value.

Debt Portfolio Financial Instruments

Vanderbilt reports long-term debt and capital leases at carrying value. The carrying value of Vanderbilt's debt is the par amount adjusted for the net unamortized amount of bond premiums and discounts. Vanderbilt employs derivatives, primarily interest rate exchange agreements, to help manage interest rate risks associated with variable-rate debt. The consolidated statements of activities include any gain or loss resulting from recording the fair value of derivative financial instruments as a nonoperating item. In addition to the credit risk of the counterparty owing a balance, Vanderbilt calculates the fair value of interest rate exchange agreements based on the present value sum of future net cash settlements that reflect market yields as of the measurement date and reports periodic net cash settlement amounts with counterparties as adjustments to interest expense on the related debt.

Parties to interest rate exchange agreements are subject to risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. Vanderbilt deals only with high-quality counterparties that meet rating criteria for financial stability and credit worthiness. Additionally, the agreements require the posting of collateral when amounts subject to credit risk under the contracts exceed specified levels.

Revenue Recognition

Vanderbilt's revenue recognition policies are:

Tuition and educational fees, net—Vanderbilt recognizes student tuition and educational fees as revenues in the year the related academic services occur and defers amounts received in advance of services not yet rendered. Vanderbilt reflects financial aid provided for tuition and educational fees as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services provided to Vanderbilt.

Grants and contracts —Vanderbilt recognizes revenues from grants and contracts when allowable expenditures under such agreements occur.

Facilities and administrative (F&A) costs recovery—Vanderbilt recognizes F&A costs recovery as revenue. This activity represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Vanderbilt's federal F&A costs recovery rate for on-campus research was 56.0% in both fiscal 2014 and 2013. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2014 and 2013.

Health care services—Vanderbilt reports health care services revenue at established rates, net of contractual adjustments, charity care, and provision for bad debt. Vanderbilt accrues third party contractual revenue adjustments under governmental reimbursement programs on an estimated basis in the period the related services occur. Vanderbilt adjusts the estimated amounts for Medicare based on final settlements determined by Vanderbilt's Medicare Administrative Contractor (MAC).

3. Accounts Receivable

Accounts receivable as of June 30 were as follows *(in thousands)*:

2014	Gross Receivable	Bad Debt Allowance	Net Receivable
Patient care	$ 392,035	$ (76,286)	$ 315,749
Tuition/fees, grants, other	98,679	(2,064)	96,615
Accrued investment income	2,201	-	2,201
Accounts receivable and related allowance	**$ 492,915**	**$ (78,350)**	**$ 414,565**
Days receivable			*39.5*

2013	Gross Receivable	Bad Debt Allowance	Net Receivable
Patient care	$ 374,526	$ (56,548)	$ 317,978
Tuition/fees, grants, other	95,191	(2,076)	93,115
Accrued investment income	2,079	-	2,079
Accounts receivable and related allowance	**$ 471,796**	**$ (58,624)**	**$ 413,172**
Days receivable			*41.6*

Patient care receivables represented 79.5% and 79.4% of total accounts receivables as of June 30, 2014 and 2013, respectively. The largest portion of patient care receivables relates to the Hospital and in turn the largest component of the Hospital's receivables was from third party payers.

The Hospital provides services to patients in advance of receiving payment and generally does not require collateral or other security for those services. However, the Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, TennCare, Blue Cross, health maintenance organizations, or other commercial insurance policies).

During fiscal 2013, due to a noted trend of an increasing balance of aggregate patient care net receivables, along with corresponding cash collections not being realized, Vanderbilt performed an extensive analysis of its patient care net revenue accounting and estimation processes and systems, including in-depth hindsight liquidation analysis. This analysis resulted in the university recording an unfavorable $121 million change in estimate of the net realizable value of patient receivables during fiscal 2013. Vanderbilt reported this change in estimate as a reduction of health care services revenue in the accompanying consolidated statements of activities for the year ended June 30, 2013.

As of June 30, the Hospital had receivables, net of related contractual allowances, including estimated amounts for cost reports and other settlements with government payers, from the following payers *(in thousands)*:

	2014	2013
Medicare	$ 39,473	$ 54,221
TennCare/Medicaid	29,693	40,480
Blue Cross	68,630	64,910
Cigna	19,134	15,324
Aetna	14,334	9,166
United	9,622	8,595
Other commercial carriers	60,405	51,622
Patient responsibility	30,964	30,941
Total Hospital receivables, net	**$ 272,255**	**$ 275,259**

Patient care bad debt charges, reported as a reduction to health care services revenue on the consolidated statements of activities, totaled $96.6 million and $65.3 million as of June 30, 2014 and 2013, respectively (both recorded at gross charge level).

4. Contributions Receivable

Contributions receivable as of June 30 were as follows *(in thousands)*:

	2014	2013
Unconditional promises expected to be collected:		
in one year or less	$ 33,929	$ 32,285
between one year and five years	51,461	48,229
in more than five years	841	1,122
Contributions receivable	86,231	81,636
Less: Discount	1,404	1,065
Less: Allowance for uncollectible promises	10,007	10,269
Contributions receivable, net	**$ 74,820**	**$ 70,302**

Vanderbilt discounts contributions receivable at a rate commensurate with the scheduled timing of receipt. Vanderbilt applied discount rates ranging from 0.5% to 1.5% to amounts outstanding as of June 30, 2014, and June 30, 2013.

Vanderbilt's methodology for calculating an allowance for uncollectible promises consists of analyzing write-offs as a percentage of gross pledges receivable along with assessing the age and activity of outstanding pledges.

In addition to pledges reported as contributions receivable, Vanderbilt had cumulative bequest intentions of approximately $233.8 million and $230.2 million as of June 30, 2014 and 2013, respectively. Due to their conditional nature, Vanderbilt does not recognize intentions to give as assets.

Contributions receivable, net as of June 30 were as follows *(in thousands)*:

	2014	2013
Contributions receivable, net:		
Temporarily restricted	$ 32,859	$ 26,555
Permanently restricted	41,961	43,747
Total	**$ 74,820**	**$ 70,302**

Contributions
Vanderbilt recognizes unconditional promises to give (pledges) as contribution revenue upon receipt of a commitment from the donor. Vanderbilt records pledges with payments due in future periods as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Vanderbilt calculates an allowance for uncollectible contributions receivable based upon an analysis of past collection experience and other judgmental factors.

Vanderbilt records contributions with donor-imposed restrictions as unrestricted revenue if the university meets the restrictions and receives the contribution in the same reporting period. Otherwise, Vanderbilt records contributions with donor-imposed restrictions as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction.

After meeting donor stipulations, Vanderbilt releases contributions recorded as temporarily restricted net assets from restrictions and recognizes these contributions as unrestricted net assets. Vanderbilt releases from restrictions contributions for plant facilities and recognizes these contributions as a nonoperating item only after incurring expenses for the applicable plant facilities or when asset is placed in service based on donor intent.

In contrast to unconditional promises as described above, Vanderbilt does not record conditional promises (primarily bequest intentions) until the university substantially meets donor contingencies.

Unrestricted Operating Results
Unrestricted operating results (change in unrestricted net assets from operating activity) in the consolidated statements of activities reflect all transactions that change unrestricted net assets, except for nonoperating activity related to endowment and other investments, changes in the fair value of derivative financial instruments, contributions for plant facilities, and certain other nonrecurring items.

Endowment distributions reported as operating revenue consist of endowment return (regardless of when such income arose) distributed to support current operational needs. Vanderbilt's Board of Trust approves the distribution amount from the endowment pool on an annual basis, determined by applying a spending rate to an average of the previous three calendar year-end market values. The primary objective of the endowment distribution methodology is to reduce the impact of capital market fluctuations on operational programs.

Operating investment income consists of dividends, interest, and gains and losses on unrestricted, nonendowed investments directly related to core operating activities. Such income includes investment returns on Vanderbilt's working capital assets. For working capital assets invested in long-term pooled investments managed in conjunction with endowment funds, the amount resulting from pre-established distributions from pooled investments is deemed operating investment income; the difference between total returns for these pooled investments and the aforementioned pre-established distributions is reported as nonoperating activity. Operating investment income also excludes investment returns on segregated gift funds and funds set aside for nonoperating purposes such as segregated assets for self-insurance relative to malpractice and professional liability and assets on deposit with trustees.

Vanderbilt allocates management and administrative support costs attributable to divisions that primarily provide health care or auxiliary services based upon institutional budgets. Thus, institutional support expense separately reported in the consolidated statements of activities relates to Vanderbilt's other primary programs such as instruction, research, and public service.

Vanderbilt allocates costs related to the operation and maintenance of physical plant, including depreciation of plant assets, to operating programs and supporting activities based upon facility usage. Additionally, the university allocates interest expense to the activities that have benefited most directly from the debt proceeds.

Income Taxes
Vanderbilt is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and generally is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Vanderbilt is, however, subject to federal and state income tax on unrelated business income, and provision for such taxes is included in the accompanying consolidated financial statements.

Use of Estimates
The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results ultimately could differ from management's estimates.

Reclassifications
Vanderbilt made certain reclassifications within tuition revenue, health care services revenue, and functional expense categories to prior year amounts to conform to the current year presentation.

Subsequent Events
Vanderbilt evaluated events subsequent to June 30, 2014, and through the date of issuance of the consolidated financial statements, October 23, 2014. Vanderbilt did not identify any material subsequent events for recognition or disclosure.

5. Student Loans and Other Notes Receivable

Student loans and other notes receivable as of June 30 were as follows *(in thousands)*:

2014	Gross Receivable	Bad Debt Allowance	Net Receivable
Federal loans	$ 20,077	$ (1,995)	$ 18,082
Institutional loans	19,238	(2,820)	16,418
Faculty mortgages	5,751	-	5,751
Student loans, other notes receivable and related allowance	**$ 45,066**	**$ (4,815)**	**$ 40,251**

2013	Gross Receivable	Bad Debt Allowance	Net Receivable
Federal loans	$ 19,988	$ (1,765)	$ 18,223
Institutional loans	21,128	(2,752)	18,376
Faculty mortgages	6,983	-	6,983
Student loans, other notes receivable and related allowance	**$ 48,099**	**$ (4,517)**	**$ 43,582**

Vanderbilt remains committed to "no loans" for its undergraduate students, meaning that the university is meeting full demonstrated financial need with scholarship and grant assistance. Vanderbilt carries loans to students at cost, which, based on secondary market information, approximates the fair value of education loans with similar interest rates and payment terms. For other groups (e.g., professional school students), participation in several federal revolving loan programs, including the Perkins, Nursing, and Health Professionals Student Loan programs, has continued. The availability of funds for new loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Vanderbilt assigns loans receivable from students under governmental loan programs, also carried at cost, to the federal government or its designees. Vanderbilt classifies refundable advances from the federal government as liabilities in the statements of financial position. Outstanding loans cancelled under a governmental program result in a reduction of the funds available for loan and a decrease in the university's liability to the government.

Included in institutional loans as of June 30, 2014, is an outstanding note receivable of $3.6 million from McKendree Village, LLC, an affiliate of Vanderbilt that sold all of its operations and is in the process of dissolving. Because it is unlikely McKendree Village, LLC will repay this debt, it has been fully reserved in the consolidated financial statements.

Vanderbilt establishes allowances for doubtful accounts based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay amounts due. When deemed to be uncollectible, Vanderbilt writes off institutional loan balances.

As part of Vanderbilt's efforts to attract and retain a world-class faculty, Vanderbilt provides various incentives and historically provided home mortgage financing assistance in select situations. Notes receivable amounting to $5.8 million were outstanding at June 30, 2014. Deeds of trust on properties concentrated in the surrounding region collateralize these notes. Vanderbilt has not recorded an allowance for doubtful accounts against these loans based on their collateralization and prior collection history.

6. Investments

Investments consist of the following as of June 30 *(in thousands)*:

	2014	2013
Derivative contract collateral and short-term securities[1]	$ 77,839	$ 93,632
Global equities [2]	1,198,266	1,099,032
Fixed income [1]	177,867	233,782
Hedged strategies	745,508	953,350
Private capital [3]	1,479,241	1,282,557
Real estate [3]	279,042	292,746
Natural resources [3]	340,126	341,942
Equity method securities	15,782	15,716
Trusts [4]	4,652	4,137
Other investments[4]	11,350	11,415
Total value	**$ 4,329,673**	**$ 4,328,309**
Total cost	**$ 3,381,099**	**$ 3,849,347**

[1] Quoted prices in active markets primarily determines fair value.
[2] Fund managers provide the net asset value per share of the specific investments to establish fair value.
[3] Fund managers provide the net asset value of Vanderbilt's ownership interests at the fund level to establish fair value.
[4] Carrying value provides a reasonable estimate of fair value for certain components.

Included in the amounts reported in the table above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. During fiscal 2014, the minority limited partners funded capital commitments totaling $4.0 million. Additionally, Vanderbilt made payments to the minority limited partners of $70.7 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2014, the minority limited partners' interests in the results of the underlying returns from the private fund assets were $240.8 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $150.1 million as of June 30, 2014.

Investments, along with cash and cash equivalents, provide liquidity support for Vanderbilt's operations. Of these combined amounts, based on prevailing market conditions as of June 30, 2014, $1,133.0 million was available on a same-day basis and an additional $1,025.0 million was available within 30 days.

Excluding derivative instruments held by investment managers as part of their respective investment strategies, Vanderbilt held financial futures derivative contracts with notional values of $345.3 million and $278.7 million as of June 30, 2014 and 2013, respectively. Counterparties settle the fair market value of such contracts daily.

Derivative contract collateral and short-term securities are composed primarily of amounts posted as collateral in accordance with interest rate exchange agreements and unspent bond proceeds with trustees.

Global equities consist of investment funds globally diversified across public markets including U.S. markets, other developed markets, and emerging and frontier markets. Fund managers of these investments have the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

Fixed income includes investments directed towards capital preservation and predictable yield as well as more opportunistic strategies focused on generating return on price appreciation. These investments are primarily public investments such as investment-grade corporate bonds, high-yield corporate bonds, bank debt, commercial mortgage-backed securities, residential non-agency mortgage-backed securities, asset-backed securities, direct lending, and below investment-grade developed and emerging market sovereign debt. Vanderbilt may make investments through commingled vehicles, separately managed accounts, synthetic transactions, and limited partnership interests.

Hedged strategies investments reflect multiple strategies such as event driven, relative value, and equity funds to diversify risks and reduce volatility in the portfolio generally in hedge fund structures. These strategies also include investments in both long and short primarily credit-oriented securities. Investments may include mortgage-backed securities, trade finance, debt and asset-backed securities, repurchase agreements, senior loans, and bank loans.

Private capital consists of investments that participate in early-stage, high-potential, high-risk, growth startup companies. Private investments include buyouts, distressed debt, mezzanine debt, growth equity, and venture capital. Vanderbilt may make investments through commingled vehicles, separately managed accounts, synthetic transactions, limited partnership interests, and direct investments.

Real estate comprises illiquid investments in residential and commercial real estate assets, projects, or land held directly or in commingled limited partnership funds. The nature of the investments in this category is such that distributions generally reflect liquidation of the underlying assets of the funds.

Natural resources include illiquid investments in timber, oil and gas production, mining, energy, and related services businesses held directly or in commingled limited partnership funds.

Equity method securities and trusts are investments in joint ventures accounted for under the equity method of accounting and Vanderbilt's split-interest agreements with donors.

7. Investment Return

A summary of investment return, including endowment distributions, by net asset category for the fiscal years ended June 30 follows *(in thousands)*:

	2014	2013
OPERATING		
Unrestricted:		
Endowment distributions	$ 149,905	$ 144,801
Investment income	18,264	19,675
Total operating return	**168,169**	**164,476**
NONOPERATING		
Unrestricted:		
Change in appreciation of institutional endowments, net of distributions	128,449	73,019
Change in appreciation of self-insurance assets	10,049	5,232
Investment income	27,237	23,149
Temporarily restricted:		
Endowment distributions	6,520	4,476
Investment income	3,268	854
Change in appreciation of donor-restricted endowments, net of distributions	193,706	96,231
Permanently restricted:		
Endowment distributions	1,135	1,279
Investment income	6,655	1,337
Total nonoperating return	**377,019**	**205,577**
Total investment return	**$ 545,188**	**$ 370,053**

The components of total investment return for the fiscal years ended June 30 were as follows *(in thousands)*:

	2014	2013
Net interest, dividend, and partnership income	$ 118,891	$ 173,743
Net realized (losses) gains	(63,811)	212,662
Change in unrealized appreciation	490,108	(16,352)
Total investment return	**$ 545,188**	**$ 370,053**

In addition to a core group of investment professionals dedicated to the management of Vanderbilt's endowment, Vanderbilt employs external investment managers. Particularly for alternative investments such as hedge funds, investment manager fee structures frequently have a base component along with a performance component relative to the entire life of the investments. Under these arrangements, management fees are frequently subject to substantial adjustments based on cumulative future returns for a number of years hence.

Vanderbilt reports investment returns net of returns attributed to limited partners on investments allocable to noncontrolling interests.

Vanderbilt incurred internal endowment management costs of $11.9 million in fiscal 2014 and $10.4 million in fiscal 2013. The consolidated statements of activities reflect these costs as institutional support expense. Vanderbilt reported the funding of these costs as other sources of revenue in fiscal 2014 and change in appreciation of endowment, net of distributions in fiscal 2013. On a prospective basis, Vanderbilt will record this funding as other sources of revenue. Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $4.5 million and $9.6 million in fiscal 2014 and 2013, respectively. Vanderbilt reported investment returns net of these external manager fees.

8. Endowment

Endowment-related assets include donor-restricted endowments and institutional endowments (quasi-endowments). Vanderbilt's endowment does not include gift annuities, interests in trusts held by others, contributions pending donor designation, and contributions receivable.

The Board of Trust's interpretation of its fiduciary responsibilities for donor-restricted endowments under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements, barring the existence of any donor-specific provisions, is to preserve intergenerational equity. 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. Vanderbilt 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.

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, Vanderbilt reports the historical value for such endowments as permanently restricted net assets and the net accumulated appreciation as temporarily restricted net assets. In this context, 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.

Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves the university's operating budget for the ensuing fiscal year. For fiscal years 2014 and 2013, Vanderbilt's Board of Trust approved endowment distributions based on 4.5% of the average of the previous three calendar year-end market values. Vanderbilt reinvests actual realized endowment return earned in excess of distributions. For years when the endowment return is less than the distribution, the endowment pool's cumulative returns from prior years cover the shortfall.

Vanderbilt may not fully expend board-appropriated endowment distributions in a particular fiscal year. In some cases, Vanderbilt will approve endowment distributions for reinvestment into the endowment.

A summary of Vanderbilt's endowment for the fiscal years ended June 30 follows (*in thousands*):

2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 24,785	$ 1,080,443	$ 1,105,228
Accumulated net appreciation of donor-restricted endowments	-	1,329,499	-	1,329,499
Reinvested distributions of donor-restricted endowments				
At historical value	94,224	3,783	-	98,007
Accumulated net appreciation	108,417	2,239	-	110,656
Institutional endowments				
At historical value	335,875	-	-	335,875
Accumulated net appreciation	1,066,985	-	-	1,066,985
Endowment net assets as of June 30, 2014	**$ 1,605,501**	**$ 1,360,306**	**$ 1,080,443**	**$ 4,046,250**

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 23,454	$ 1,021,892	$ 1,045,346
Accumulated net appreciation of donor-restricted endowments	-	1,136,106	-	1,136,106
Reinvested distributions of donor-restricted endowments				
At historical value	94,118	1,643	-	95,761
Accumulated net appreciation	92,017	1,926	-	93,943
Institutional endowments				
At historical value	309,251	-	-	309,251
Accumulated net appreciation	954,936	-	-	954,936
Endowment net assets as of June 30, 2013	**$ 1,450,322**	**$ 1,163,129**	**$ 1,021,892**	**$ 3,635,343**

The components of the life-to-date accumulated net appreciation of pooled endowments as of June 30 were as follows *(in thousands)*:

	2014	2013
Net realized appreciation less endowment distributions	$ 1,708,468	$ 1,838,135
Net unrealized appreciation	798,672	346,850
Total	**$ 2,507,140**	**$ 2,184,985**

In striving to meet the overarching objectives for the endowment, over the past 20 years the university has experienced an 11% annualized standard deviation in its returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components designed to serve a specific role in establishing the right balance between risk and return. These three components are global, public, and private equity investments. Vanderbilt expects these three investments, including private capital and many hedge funds, to produce favorable returns in environments of accelerated growth and economic expansion. Vanderbilt expects hedged strategies and fixed income investments to generate stable returns and preserve capital during periods of poor equity performance. Vanderbilt uses real estate and natural resources allocations to provide an inflation hedge.

From time to time, the fair value of assets associated with an endowed fund may fall below the level that a donor or UPMIFA requires in terms of maintenance of perpetual duration endowments. As of June 30, 2014 and 2013, Vanderbilt had deficiencies of this nature of approximately $1 million consisting of 50 endowments and $6 million consisting of 139 endowments, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature.

Changes in endowment net assets for the fiscal years ended June 30 were as follows (*in thousands*):

2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2013	$ 1,450,322	$ 1,163,129	$ 1,021,892	$ 3,635,343
Endowment investment return:				
Investment income, net of fees	49,319	74,375	-	123,694
Net appreciation (realized and unrealized)	146,586	221,057	-	367,643
Total endowment investment return	195,905	295,432	-	491,337
Gifts and additions to endowment, net	26,730	3,471	58,551	88,752
Endowment distributions	(62,822)	(94,738)	-	(157,560)
Transfers for internal management costs	(4,754)	(7,170)	-	(11,924)
Other	120	182	-	302
Endowment net assets as of June 30, 2014	**$ 1,605,501**	**$ 1,360,306**	**$ 1,080,443**	**$ 4,046,250**

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2012	$ 1,326,907	$ 1,070,333	$ 962,796	$ 3,360,036
Endowment investment return:				
Investment income, net of fees	63,894	98,211	-	162,105
Net appreciation (realized and unrealized)	61,987	95,278	-	157,265
Total endowment investment return	125,881	193,489	-	319,370
Gifts and additions to endowment, net	60,809	(3,435)	59,096	116,470
Endowment distributions	(59,342)	(91,214)	-	(150,556)
Transfers for internal management costs	(4,104)	(6,309)	-	(10,413)
Other	171	265	-	436
Endowment net assets as of June 30, 2013	**$ 1,450,322**	**$ 1,163,129**	**$ 1,021,892**	**$ 3,635,343**

9. Property, Plant, and Equipment

Vanderbilt reports property, plant, and equipment at cost or, if a gift, at fair value as of the date of the gift, net of accumulated depreciation. Vanderbilt computes depreciation using the straight-line method over the estimated useful lives of the assets.

Property, plant, and equipment as of June 30 were as follows *(in thousands)*:

	2014	2013
Land	$ 73,897	$ 73,897
Buildings and improvements	2,902,231	2,714,757
Moveable equipment	937,059	892,230
Construction in progress	67,483	160,893
Property, plant, and equipment	3,980,670	3,841,777
Less: Accumulated depreciation	2,215,426	2,060,484
Property, plant, and equipment, net	**$ 1,765,244**	**$ 1,781,293**

Purchases for the library collection are not included in the amounts above since Vanderbilt expenses them at the time of purchase. As of June 30, 2014, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled $376 million.

Vanderbilt did not capitalize interest in either fiscal 2014 or fiscal 2013 due to immateriality.

Vanderbilt capitalized internal-use software development costs of $6.5 million and $5.4 million in fiscal 2014 and 2013, respectively, primarily for work associated with the student information system.

Vanderbilt reviews property, plant, and equipment for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The university recognizes an impairment loss only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. During 2014, Vanderbilt booked impairment losses of $1.3 million related to property, plant, and equipment.

Vanderbilt identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $16.5 million and $19.9 million as of June 30, 2014 and 2013, respectively. These liability estimates, included in accounts payable and accrued liabilities in the consolidated statements of financial position, use an inflation rate of 4.0% and a discount rate of 5.0% based on relevant factors at origination.

10. Long-Term Debt, Capital Leases, and Commercial Paper

Long-term debt consists of bonds and notes payable with scheduled final maturity dates at least one year after the original issuance date. Outstanding long-term debt, capital leases, and commercial paper (CP) obligations reflected in the financial statements at carrying value as of June 30 were as follows *(in thousands)*:

	Years to Nominal Maturity	Outstanding Fixed Coupon Interest Rates as of June 30, 2014	Fiscal 2014 Effective Interest Rate[2]	Outstanding Principal 2014	2013
FIXED-RATE DEBT					
Series 2008A	5	5.00%	4.0%	$ 109,600	$ 117,600
Series 2008B[1]	5	4.00%-5.00%	3.9%	78,185	95,660
Series 2009A	26	4.00%-5.50%	4.9%	97,100	97,100
Series 2009B[1]	26	5.00%-5.50%	5.0%	232,900	232,900
Series 2009A Taxable	5	5.25%	5.3%	250,000	250,000
Series 2012C	4	3.00%-5.00%	1.3%	18,620	25,875
Series 2012D	24	3.00%-5.00%	3.2%	106,230	106,230
Series 2012E	6	2.00%-5.00%	0.8%	39,490	45,225
Fixed-rate debt			4.4%	**932,125**	**970,590**
VARIABLE-RATE DEBT					
Series 2012A	25		0.5%	67,000	67,000
Series 2012B	25		0.7%	67,000	67,000
Variable-rate debt			0.6%	**134,000**	**134,000**
Par amount of long-term debt			3.9%	1,066,125	1,104,590
Net unamortized premium			-	17,131	22,341
Total long-term debt			3.9%	1,083,256	1,126,931
Capital leases	1		10.7%	29	527
Total long-term debt and capital leases			**3.9%**	**1,083,285**	**1,127,458**
Tax-exempt commercial paper	<1		0.2%	95,000	99,205
Taxable commercial paper	<1		0.3%	114,845	114,806
Total commercial paper			**0.2%**	**209,845**	**214,011**
Total long-term debt, capital leases, and commercial paper			**3.3%**	**$ 1,293,130**	**$ 1,341,469**

[1] Issued under Master Trust Indenture structure.
[2] Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 5.1%.

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements. A successive note discusses these agreements in more detail.

The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (HEFB) issued Vanderbilt's tax-exempt CP and all of the aforementioned bonds, with the exception of the Series 2009A Taxable notes. As a conduit issuer, the HEFB loans the debt proceeds to Vanderbilt. Pursuant to loan agreements, Vanderbilt's debt service requirements under these loan agreements coincide with required debt service of the actual HEFB bonds.

All debt instruments are general obligations of Vanderbilt. Vanderbilt did not pledge any of its assets as collateral for this debt.

Included in the foregoing table are the Hospital's bonds, with a $311.1 million principal balance outstanding as of June 30, 2014, that were issued 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, Vanderbilt's hospitals and clinics have no other members participating in the obligated group. Bonds issued under the MTI are payable from hospital revenues. A Vanderbilt debt service guarantee supplements all outstanding MTI bonds.

Trust indentures for certain bond issues contain covenants and restrictions involving the issuance of additional debt, maintenance of a specified debt service coverage ratio, and the maintenance of credit facilities for liquidity purposes. Vanderbilt was in compliance with such covenants and restrictions as of June 30, 2014.

The components of interest for total long-term debt, capital leases, CP, and interest rate exchange agreements follows *(in thousands)*:

	2014	2013
Payments for interest costs	$ 71,657	$ 71,475
Accrued interest expense	$ 65,478	$ 68,108

Payments for interest costs, including amounts capitalized, occur on varying scheduled payment dates for debt, maturity dates for CP, and settlement dates for interest rate exchange agreements. Vanderbilt calculates accrued interest expense for its debt, CP, and interest rate exchange agreements based on applicable interest rates for the respective fiscal year.

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)*:

2015	$ 40,240
2016	54,245
2017	44,875
2018	47,070
2019	342,300
Thereafter	537,395
Total long-term debt principal retirements	**$ 1,066,125**

In addition to scheduled principal and interest payments on long-term debt obligations, Vanderbilt's capital lease agreements outstanding as of June 30, 2014, required payments of $0.4 million during fiscal 2014. The remaining capital lease obligation will be paid during fiscal 2015. Furthermore, requirements in earlier years in the preceding table could be greater if Vanderbilt must purchase either a portion or all of its floating-rate notes or CP in the event of failed remarketings, on mandatory tender dates, or scheduled maturities as described in the following paragraphs.

Vanderbilt had $134.0 million of variable-rate bonds outstanding as of June 30, 2014, consisting entirely of floating-rate notes with mandatory tender dates of October 1, 2015 and 2017.

As of June 30, 2014, Vanderbilt had $95.0 million of tax-exempt CP outstanding and $114.8 million of taxable CP outstanding. Vanderbilt can issue up to a combined $675.0 million under its tax-exempt and taxable CP programs. However, issuance of incremental taxable CP beyond that outstanding as of June 30, 2014, would require approval by Vanderbilt's Board of Trust and the HEFB as conduit issuer.

The weighted average duration of Vanderbilt's CP portfolio totaled 97 days as of June 30, 2014, and 106 days as of June 30, 2013.

Debt liquidity support with short-term remarketing periods (CP totaling $209.8 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2014, Vanderbilt estimates that $1,133.0 million of liquid assets were available on a same-day basis and an additional $1,025.0 million was available within 30 days.

A second tier of debt liquidity support consists of two revolving credit facilities with maximum available commitments totaling $400 million as of June 30, 2014, dedicated to Vanderbilt's debt portfolio liquidity support. One of these lines totaling $200 million includes a general use provision. These commitments expire in March 2016 and April 2017. The maximum repayment period, which may extend beyond the expiration date, ranges from 90 days to three years. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has entered into an agreement with one bank to provide a general use line of credit with a maximum available commitment totaling $100.0 million as of June 30, 2014. This line of credit expires in October 2014. Vanderbilt had no outstanding draws against these credit facilities as of June 30, 2014, or June 30, 2013.

Vanderbilt reports long-term debt at carrying value, which is the par amount adjusted for the net unamortized amount of bond premiums and discounts. The carrying value and estimated fair value of Vanderbilt's long-term debt as of June 30 were as follows (*in thousands*):

	2014	2013
Carrying value of long-term debt	$ 1,083,256	$ 1,126,931
Fair value of long-term debt	$ 1,175,327	$ 1,196,940

Vanderbilt 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 also reflect limited secondary market trading. Vanderbilt reports capital leases and commercial paper at carrying value, which closely approximates fair value for those liabilities.

None of Vanderbilt's fixed-rate debt has a mandatory tender date preceding the respective final maturity date. The Series 2008A and 2008B bonds include amortizing principal amounts each year but these bonds are noncallable before their October 2018 final maturity date. The Series 2009A and 2009B bonds include amortizing principal amounts each year beginning fiscal 2016 and a call feature at par beginning October 2019. The Series 2009A Taxable notes do not amortize and include a call feature before the April 2019 maturity date only if Vanderbilt pays a make-whole call provision to the bondholders. The Series 2012C bonds include annual amortizing principal amounts each year, excluding October 2015, until their final maturity in October 2017. The Series 2012D bonds include amortizing principal amounts each year beginning in fiscal 2021 and a call feature at par beginning October 2023. The Series 2012E bonds include annual amortizing principal amounts beginning October 2013, until their final maturity in October 2019.

11. Interest Rate Exchange Agreements

Vanderbilt entered into interest rate exchange agreements as part of its debt portfolio management strategy. These agreements result in periodic net cash settlements paid to, or received from, counterparties. Adjustments to interest expense for net settlements due to counterparties totaled $23.0 million and $25.8 million in fiscal 2014 and 2013, respectively.

Vanderbilt estimates the fair value of interest rate exchange agreements by calculating the present value sum of future net cash settlements that reflect market yields as of the measurement date and estimated amounts that Vanderbilt would pay, or receive, to terminate the contracts as of the report date. Vanderbilt considers current interest rates and current creditworthiness of the interest rate exchange counterparties when estimating termination settlements. The estimated fair value of Vanderbilt's outstanding interest rate exchange agreements was a liability of $168.4 million and a liability of $206.7 million as of June 30, 2014 and 2013, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2014 or 2013. During fiscal 2014, Vanderbilt novated $99.6 million of fixed-payer interest rate exchange agreements in order to diversify counterparty risk and reduce the university's aggregate collateral posting requirements. Also during fiscal 2014, Vanderbilt terminated $169.8 million notional of fixed-rate payer interest rate exchange agreements at a cost of $31.9 million to reduce collateral exposure and eliminate ongoing settlement costs. Following the novation, terminations, and scheduled amortizations, Vanderbilt had $544.8 million of aggregate fixed-payer interest rate exchange agreements outstanding for which the university receives 68.2% of one-month LIBOR and pays a weighted average fixed rate of 3.8%.

Gains and losses from changes in the fair value of interest rate exchange agreements, reported in the nonoperating section of the consolidated statements of activities, resulted in net gains of $6.4 million in fiscal 2014 and $108.9 million in fiscal 2013, respectively. The $6.4 million of net unrealized gains on the interest rate exchange agreements includes a $13.4 million unrealized gain to adjust the discount rate to reflect counterparty credit risk partially offset by a $7.0 million unrealized loss due to a long-term LIBOR rate change. LIBOR decreased to 3.3% as of June 30, 2014, from 3.4% as of June 30, 2013.

The interest rate exchange agreements include collateral pledging requirements based on the fair value of the contracts. Collateral held by counterparties as of June 30, 2014 and 2013, totaled $75.8 million and $95.1 million, respectively. Vanderbilt estimates that a decline in long-term LIBOR rates to approximately 1% would result in the fair value of the portfolio being a liability of approximately $420 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $280 million. As of June 30, 2014, 30-year LIBOR was 3.3%.

As of June 30, 2014, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was fully hedged.

The notional amounts of Vanderbilt's outstanding interest rate exchange agreements as of June 30 were as follows *(in thousands)*:

Description	Rate Paid	Rate Received	Maturity	2014	2013
Fixed-payer interest rate exchange agreements	Avg fixed rate of 3.83%	Avg of 68.2% of one-month LIBOR[1]	17 to 30 years	$ 544,800	$ 718,200
Basis interest rate exchange agreements	SIFMA[2]	Avg of 81.5% of one-month LIBOR[1]	21 to 22 years	$ 500,000	$ 500,000

[1] LIBOR (London Interbank Offered Rate) is a reference rate based on interest rates at which global banks borrow funds from other banks in the London interbank lending market.
[2] SIFMA (Securities Industry and Financial Markets Association) is a seven-day high-grade market index rate based upon tax-exempt variable rate debt obligations.

12. Net Assets

Unrestricted net assets consist of the following internally designated groups:

Designated for operations represents cumulative operating activity. These net assets also reflect the realized losses of derivative financing activities.

Designated gifts and grants include gift and grant funds.

Designated for student loans represents Vanderbilt funds set aside to serve as revolving loan funds for students.

Designated for plant facilities represents (a) Vanderbilt's investment in property, plant, and equipment, net of accumulated depreciation, as well as (b) funds designated for active construction projects and retirement of capital-related debt, offset by (c) Vanderbilt's conditional asset retirement obligation.

Reinvested distributions of donor-restricted endowments at historical value are amounts related to donor-restricted endowments reinvested in the endowment in accordance with donor requests.

Accumulated net appreciation of reinvested distributions represents cumulative appreciation on reinvestments of donor-restricted endowments.

Institutional endowments (quasi-endowments) *at historical value* are amounts set aside by Vanderbilt to generate income in perpetuity to support operating needs.

Accumulated net appreciation of institutional endowments represents cumulative appreciation on institutional endowments.

Fair value of interest rate exchange agreements, net represents the mark-to-market valuation for interest rate exchange contracts.

Net assets related to noncontrolling interests represents minority partners' share of the equity in two partnerships (endowment private equity and real estate partnerships) formed to acquire, hold, and manage private fund assets.

Based on the foregoing designations, **unrestricted net assets** as of June 30 were composed of the following *(in thousands)*:

	2014	2013
Designated for operations	$ 791,540	$ 688,845
Designated gifts and grants	78,893	103,438
Designated for student loans	22,227	23,096
Designated for plant facilities	700,053	725,965
Reinvested distributions of donor-restricted endowments at historical value	94,224	94,118
Accumulated net appreciation of reinvested distributions	108,417	92,017
Institutional endowments at historical value	335,875	309,251
Accumulated net appreciation of institutional endowments	1,066,985	954,936
Fair value of interest rate exchange agreements, net	(168,451)	(206,733)
Net assets related to noncontrolling interests	150,067	186,901
Total unrestricted net assets	**$ 3,179,830**	**$ 2,971,834**

Temporarily restricted net assets as of June 30 were composed of the following *(in thousands)*:

	2014	2013
Donor-restricted endowments at historical value	$ 24,785	$ 23,454
Accumulated net appreciation of donor-restricted endowments	1,329,499	1,136,106
Reinvested distributions of donor-restricted endowments at historical value	3,783	1,643
Accumulated net appreciation of reinvested distributions	2,239	1,926
Contributions	86,153	52,335
Interests in trusts held by others	5,769	6,233
Life income and gift annuities	15,254	13,369
Total temporarily restricted net assets	**$ 1,467,482**	**$ 1,235,066**

Vanderbilt designated temporarily restricted net assets for the following purposes as of June 30 *(in thousands)*:

	2014	2013
Student scholarships	$ 469,118	$ 391,674
Endowed chairs	384,130	332,416
Operations	294,966	258,606
Program support	107,802	90,481
Capital improvements	15,954	11,505
Subsequent period operations and other	195,512	150,384
Total temporarily restricted net assets	**$ 1,467,482**	**$ 1,235,066**

Permanently restricted net assets as of June 30 were composed of the following *(in thousands)*:

	2014	2013
Donor-restricted endowments at historical value	$ 1,080,443	$ 1,021,892
Contributions	41,961	44,255
Interests in trusts held by others	34,021	31,859
Life income and gift annuities	40,009	34,413
Total permanently restricted net assets	**$ 1,196,434**	**$ 1,132,419**

Based on relative fair values as of June 30, donor-restricted endowments supported the following:

	2014	2013
Financial aid	35%	34%
Endowed chairs	29%	29%
Operations	21%	22%
Program support	8%	8%
Research, lectureships, fellowships, and other	7%	7%
Total support	**100%**	**100%**

13. Fair Value Measurement

Vanderbilt utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

> **Level 1** consist of quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.
>
> **Level 2** include inputs other than quoted prices in Level 1 directly or indirectly observable for the assets or liabilities.
>
> **Level 3** are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety is classified depends on the lowest level input that is significant to the fair value measurement.

The significance of the unobservable inputs to the overall fair value measurement determines the classification of a financial instrument within level 3.

The consolidated statements of activities reflect: all net realized and unrealized gains and losses on level 3 investments as changes in endowment appreciation or changes in appreciation of other investments; gains and losses on investments allocable to noncontrolling interests as a component of net endowment appreciation; and net realized and unrealized gains and losses on interests in trusts held by others as changes in appreciation of other investments.

Rollforwards of amounts for level 3 financial instruments for the fiscal years ended June 30 follow *(in thousands)*:

	June 30, 2013	Realized and unrealized gains (losses)	Purchases	Sales	Transfers into and (out) of level 3	June 30, 2014	Change in unrealized gains (losses) for investments still held at June 30, 2014
LEVEL 3 ASSETS							
Fixed income	$ 19,040	$ (603)	$ 2,397	$ (847)	$ -	$ 19,987	$ (608)
Global equities	159,836	20,543	2,163	(78,402)	-	104,140	2,826
Hedge strategies	578,047	(116,611)	16,150	(243,553)	100,988	335,021	(80,931)
Private capital	1,281,709	360,122	217,407	(382,353)	-	1,476,885	(51,735)
Real estate	292,746	21,900	35,044	(70,648)	-	279,042	30,588
Natural resources	341,942	9,347	44,087	(55,250)	-	340,126	(16,552)
Trusts	4,137	2,303	1,710	(3,498)	-	4,652	689
Other investments	11,176	(38)	216	(130)	-	11,224	-
Interests in trusts held by others	38,091	1,699	-	-	-	39,790	2,108
Total Level 3	**$ 2,726,724**	**$ 298,662**	**$ 319,174**	**$ (834,681)**	**$ 100,988**	**$ 2,610,867**	**$ (113,615)**

	June 30, 2012	Realized and unrealized gains (losses)	Purchases	Sales	Transfers into and (out) of level 3	June 30, 2013	Change in unrealized gains (losses) for investments still held at June 30, 2013
LEVEL 3 ASSETS							
Fixed income	$ 19,754	$ (652)	$ 1,503	$ (2,339)	$ 774	$ 19,040	$ 2,898
Global equities	282,248	3,908	92,968	(219,288)	-	159,836	(95,324)
Hedge strategies	558,295	50,313	308,663	(339,224)	-	578,047	46,681
Private capital	1,210,866	142,701	182,356	(254,214)	-	1,281,709	46,273
Real estate	290,432	13,162	33,858	(44,154)	(552)	292,746	(17,865)
Natural resources	274,183	2,951	170,477	(105,669)	-	341,942	(1,763)
Trusts	3,481	669	-	(13)	-	4,137	4,921
Other investments	12,309	(1,193)	60	-	-	11,176	5
Interests in trusts held by others	39,257	(1,166)	-	-	-	38,091	(1,061)
Total Level 3	**$ 2,690,825**	**$ 210,693**	**$ 789,885**	**$ (964,901)**	**$ 222**	**$ 2,726,724**	**$ (15,235)**

The tables on the following pages present the amounts within each valuation hierarchy level for those assets and liabilities carried at fair value: cash and cash equivalents; investments; investments allocable to noncontrolling interests (in Vanderbilt-controlled real estate and other partnerships); interests in trusts held by others; and the fair value of interest rate exchange agreements.

Noted in the tables on the following page, as a measure of liquidity, are the redemption or liquidation frequencies of investments, along with the numbers of days notice required to liquidate these investments.

As of June 30, 2014, 91% of cash and cash equivalents were available on a same-day basis.

Most investments classified as levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings. Vanderbilt uses the net asset value reported by the fund as a practical expedient to estimate the fair value of interest therein for the majority of these assets; Vanderbilt's ability to redeem its interest at or near the financial statement date determines the net assets classification as level 2 or level 3. Vanderbilt defines near-term as within 90 days of the financial statement date.

During fiscal 2014, Vanderbilt determined it was probable certain investments, for which the university historically used net asset value as a practical expedient to estimate fair value, would sell for an amount other than net asset value. These assets have a fair value of $60 million and are all level 3 assets within the fair value hierarchy. Vanderbilt has begun actively marketing the assets for liquidation.

Derivative contract collateral and short-term securities are primarily composed of amounts posted as collateral in accordance with interest rate exchange agreements and unspent bond proceeds with trustees. Vanderbilt deems a redemption or liquidation frequency for these amounts as nonapplicable.

Global equities and fixed income provide varying levels of liquidity as defined in the following tables. As of June 30, 2014, 54% and 83% of global equities and fixed income value, respectively, were available for daily redemption requests with liquidity within 30 days.

Hedged strategies include daily, quarterly, and annual redemption frequencies. These strategies allow Vanderbilt to provide notice to the fund managers to exit from the respective funds in the time periods noted. As of June 30, 2014, 46% of hedged strategies investments include hedge funds in "hard lockup" periods of up to 36 months. These funds do not allow redemptions or liquidations during that time per terms of the respective agreements with fund managers. Additionally, 22% of hedged strategies investments were in "soft lockup" periods of up to nine months, during which redemptions or liquidations may occur but are subject to withdrawal penalties of up to 5%.

The total asset values for private capital, real estate, natural resources, and other investments are illiquid as of June 30, 2014. These amounts predominantly consist of limited partnerships. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions relative to the timing for disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Unforeseen events prevent Vanderbilt from anticipating such changes. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related asset values are illiquid.

The following tables summarize the fair value measurements and terms for redemptions or liquidations for those assets and liabilities carried at fair value as of June 30 *(in thousands)*:

2014

	Fair Value Measurements					Redemption	
	Level 1	Level 2	Level 3	Total	Group %	or Liquidation Frequency	Days Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 1,244,720	$ -	$ -	$ 1,244,720	91%	Daily	same-day
					9%	Daily	2-90 days
Derivative contract collateral and short-term securities	77,839	-	-	77,839	100%	n/a	n/a
Global equities	1,091,512	2,614	104,140	1,198,266	54%	Daily	2-30 days
					23%	Quarterly-Lockup	>30 days
					3%	Monthly	>30 days
					9%	Daily	>30 days
					4%	Annually-Lockup	>30 days
					6%	Quarterly	>30 days
					1%	n/a	n/a
Fixed income	157,880	-	19,987	177,867	83%	Daily	2-30 days
					17%	Daily	>30 days
Private capital	2,356	-	1,476,885	1,479,241	100%	n/a	n/a
Hedged strategies	316,367	94,120	335,021	745,508	9%	Annually-Lockup	>30 days
					20%	Daily	2-30 days
					10%	Monthly-Lockup	>30 days
					50%	Quarterly-Lockup	>30 days
					11%	n/a	n/a
Natural resources	-	-	340,126	340,126	100%	n/a	n/a
Real estate	-	-	279,042	279,042	100%	n/a	n/a
Trusts	-	-	4,652	4,652	100%	n/a	n/a
Other investments	126	-	11,224	11,350	100%	n/a	n/a
Interests in trusts held by others	-	-	39,790	39,790	100%	n/a	n/a
Total assets reported at fair value	**$ 2,890,800**	**$ 96,734**	**$ 2,610,867**	**$ 5,598,401**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements,	**$ -**	**$ 168,451**	**$ -**	**$ 168,451**			

2013

	Fair Value Measurements				Group	Redemption or Liquidation	Days
	Level 1	Level 2	Level 3	Total	%	Frequency	Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 845,472	$ -	$ -	$ 845,472	86%	Daily	same-day
					14%	Daily	2-90 days
Derivative contract collateral and short-term securities	93,632	-	-	93,632	100%	n/a	n/a
Global equities	934,463	4,733	159,836	1,099,032	65%	Daily	2-30 days
					9%	Daily	>30 days
					9%	Daily	next day
					4%	Monthly	>30 days
					9%	Quarterly-Lockup	>30 days
					4%	Quarterly	>30 days
Fixed income	214,742	-	19,040	233,782	13%	Daily	>30 days
					87%	Daily	next day
Private capital	848	-	1,281,709	1,282,557	100%	n/a	n/a
Hedged strategies	59,915	315,388	578,047	953,350	42%	Quarterly	>30 days
					13%	Quarterly-Lockup	>30 days
					12%	Annually-Lockup	>30 days
					16%	Annually	>30 days
					12%	n/a	>30 days
					5%	Monthly	>30 days
Natural resources	-	-	341,942	341,942	81%	n/a	n/a
					19%	Quarterly	>30 days
Real estate	-	-	292,746	292,746	100%	>1yr	n/a
Trusts	-	-	4,137	4,137	100%	n/a	n/a
Other investments	239	-	11,176	11,415	100%	>1yr	n/a
Interests in trusts held by others	-	-	38,091	38,091	100%	n/a	n/a
Total assets reported at fair value	**$ 2,149,311**	**$ 320,121**	**$ 2,726,724**	**$ 5,196,156**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements,	**$ -**	**$ 206,733**	**$ -**	**$ 206,733**			

14. Retirement Plans

Vanderbilt's full-time faculty and staff members participate in defined contribution retirement plans administered by third-party investment and insurance firms. For eligible employees with one year of continuous service, these plans require employee and matching employer contributions. The employee immediately vests in these contributions.

Vanderbilt funds the obligations under these plans through monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2014 and 2013 were $63.1 million and $63.0 million, respectively.

15. Student Financial Aid

Vanderbilt provides financial aid to students based upon need and merit. Institutional resources, contributions, endowment distributions, and externally sponsored programs fund this financial assistance.

For the fiscal years ended June 30, financial aid for tuition and education fees was as follows *(in thousands)*:

	2014	2013
Tuition and educational fees, gross	$ 478,320	$ 482,528
Less: Financial aid for tuition and educational fees	(213,543)	(209,940)
Tuition and educational fees, net	**$ 264,777**	**$ 272,588**

For the fiscal years ended June 30, financial aid for room and board was as follows *(in thousands)*:

	2014	2013
Room and board, gross	$ 70,809	$ 69,035
Less: Financial aid for room and board	(30,305)	(29,228)
Room and board, net	**$ 40,504**	**$ 39,807**

16. Natural Classification of Expenses and Allocations

For the fiscal years ended June 30, operating expenses incurred were as follows *(in thousands)*:

	2014	2013
Salaries, wages, and benefits	$ 2,271,831	$ 2,277,192
Services	224,158	208,796
General expenses and supplies	843,934	780,529
Depreciation and amortization	175,779	174,330
Interest	65,478	68,108
Utilities, operating leases, and other	173,301	160,145
Total operating expenses	**$ 3,754,481**	**$ 3,669,100**

Natural expense classifications include certain allocations of institutional and other support costs to Vanderbilt's primary programs. Based on the functional uses of space on its campus, Vanderbilt allocated depreciation and interest on indebtedness to the functional operating expense categories shown below *(in thousands)*:

2014

	Depreciation	Interest
Instruction	$ 20,997	$ 3,448
Research	23,792	6,189
Health care services	79,652	40,672
Academic support	8,314	1,122
Student services	1,856	368
Institutional support	11,724	1,107
Room, board, and other auxiliary services	29,444	12,572
Total	**$ 175,779**	**$ 65,478**

2013

	Depreciation	Interest
Instruction	$ 20,116	$ 3,090
Research	27,348	5,105
Health care services	78,134	41,951
Public service	89	23
Academic support	9,559	1,460
Student services	1,659	777
Institutional support	13,509	1,405
Room, board, and other auxiliary services	23,916	14,297
Total	**$ 174,330**	**$ 68,108**

17. Charity Care Assistance and Community Benefits

VUMC (including hospitals, clinics, and physician practice units) maintains a policy which sets forth the criteria to provide without expectation of payment or at a reduced payment rate health care services to patients who have minimal financial resources to pay for medical care. VUMC does not report these charity care services as revenue.

The medical center maintains records to identify and monitor the level of charity care it provides, and these records include the amount of gross charges and patient deductibles, co-insurance and co-payments forgone for services furnished under its charity care policy, and the estimated cost of those services. Charity care utilizes a tiered grid to determine the level of assistance based on Federal poverty guidelines. State of Tennessee law mandates uninsured patient eligibility for a discount from billed charges for medically necessary services, in addition to charity care assistance. 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 that do not qualify for full charity assistance.

The total cost of uncompensated care (charity care and bad debt) was $157.1 million and $137.8 million for fiscal 2014 and 2013, respectively. Of the total uncompensated care, charity care represented 80.8% and 85.3% in fiscal 2014 and 2013, respectively.

In addition to the charity care services described above, the medical center provides a number of other services to benefit the economically disadvantaged for which the medical center receives little or no payment. 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, the medical center provided services related to TennCare/Medicaid and state indigent programs substantially below the cost of rendering such services.

The medical center also provides public health education and training for new health professionals and provides, without charge, services to the community at large, together with support groups for many patients with special needs.

18. Related Parties

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

Furthermore, Vanderbilt'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 university duty or responsibility, including the conduct or reporting of research.

The policy extends to all members of the university community (including trustees, university officials, and faculty and staff and their immediate family members). Each applicable person is required to certify compliance with the conflict of interest policy on an annual basis. This certification includes specifically disclosing whether Vanderbilt 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 Vanderbilt's best interests.

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

19. Lease Obligations

Vanderbilt primarily classifies certain equipment and real property leases as operating leases with lease terms of up to 15 years. Total operating lease expense in fiscal 2014 and 2013 was $70.8 million and $64.7 million, respectively.

As of June 30, 2014, future committed minimum rentals by fiscal year on significant noncancelable operating leases with initial terms in excess of one year were as follows *(in thousands)*:

2015	$ 53,484
2016	45,935
2017	37,176
2018	29,844
2019	21,751
Thereafter	37,377
Total future minimum rentals	**$ 225,567**

Detail of significant noncancelable operating leases by type:

	% of Minimum Rentals	Minimum Rentals
Property leases (123 leases)	67%	$ 151,614
Equipment leases (124 leases)	33%	73,953
Total future minimum rentals	**100%**	**$ 225,567**

Property leases for 2525 West End Avenue (14%) and One Hundred Oaks (14%) account for approximately 28% of the total future minimum rentals.

20. Commitments and Contingencies

(A) *Construction.* As of June 30, 2014, Vanderbilt had contractual commitments for approximately $65.0 million of projects under construction and equipment purchases. The largest components of these commitments were for the campus power plant coal-to-gas conversion project ($20.0 million); structural repair and mechanical updates for Vanderbilt University Hospital ($15.0 million); and the Warren College and Moore College Residential Complex ($10.7 million).

(B) *Litigation.* Vanderbilt is a defendant in several legal actions. One such legal action is a qui tam civil action related to billing and government reimbursement for certain professional health care services provided by the Vanderbilt University Medical Center. The lawsuit was unsealed in the fall of 2013, and the government has decided not to intervene in the litigation at this time. Accordingly, the litigation is currently in the discovery phase with private plaintiffs. Vanderbilt believes that the outcome of these actions will not have a significant effect on its consolidated financial position.

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

D) *Medical Malpractice Liability Insurance.* Vanderbilt is self-insured for the first level of medical malpractice claims. The current self-insured retention is $5.5 million per occurrence, not to exceed an annual aggregate of $43.0 million. Vanderbilt segregates investments for this self-insured retention. An independent actuarial firm performs studies to determine the funding for these segregated assets. Excess malpractice and professional liability coverage has been obtained from commercial insurance carriers on a claims-made basis for claims above the retained self-insurance risk levels.

(E) *Employee Health and Workers Compensation Insurance.* Vanderbilt is self-insured for employee health insurance and workers compensation coverage. Vanderbilt bases estimated liabilities upon studies conducted by independent actuarial firms.

(F) *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 contract revenue as well as facilities and administrative cost recovery. Vanderbilt would not expect these costs to influence the consolidated financial position significantly.

(G) *Health Care Services.* Revenue from health care services includes amounts paid under reimbursement agreements with certain third-party payers and is subject to examination and retroactive adjustments. Vanderbilt reports any differences between estimated year-end settlements and actual final settlements at the time of final settlement. The financial statements include substantially all final settlements through the year ended June 30, 2010. Vanderbilt expects to receive final settlements relative to periods through June 30, 2011, during fiscal 2015.

(H) *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. Vanderbilt 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.

(I) *Partnership Investment Commitments.* There were $530.3 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2014. At the request of the general partners, Vanderbilt may draw down funds over the next several years. Vanderbilt expects to finance these commitments with available cash and expected proceeds from the sales of securities. In addition, Vanderbilt is a secondary guarantor for $17.4 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.