Vanderbilt University | 2011 Financial Report

VANDERBILT UNIVERSITY

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Letter from the Chancellor

We have closed the books of FY2011, a year which by any measure will undoubtedly be remembered as one of great financial challenge for our nation and the world. As we look ahead, it is also wise to take time to reflect on the past year and assess Vanderbilt's progress. Through fiduciary discipline, strategic choices, sound management, and careful stewardship, the university has been able to move forward in exciting and unprecedented ways, despite these difficult economic times.

Our annual operating results improved—from $134 million last year, the best year in Vanderbilt's history, to $139 million this year—and we are paying down our debt with an eye toward further enhancing our long-term financial footing. Our endowment returns are on the rise, and with the support of our alumni, donors, faculty, staff and students, we continued to invest significantly in our missions of research, teaching and serving.

The completion of many capital projects illustrates how our mission-focused strategy guides our growth and shapes Vanderbilt's future. We built out the third floor of The Commons Center, which now serves as the new home for the political science department and connects students in The Ingram Commons with expanded opportunities for intellectual discoveries. All current projects for the football stadium are complete, and enhance the experience for our student athletes as well as the community at large. We have committed funds to build out Vanderbilt Hospital's Critical Care Tower, expand the Monroe Carell Jr. Children's Hospital, and renovate Alumni Hall. In an important next step to further our strategic plan for integrating students' living and learning experiences, funds have been allocated for College Halls at Kissam.

One of this year's highlights was the opening of the newly-renovated Central Library. The amazing transformation returned the 70-year-old building to its original beauty. Updates to technology and new meeting and classroom spaces make it a fantastic gathering place that will be enjoyed by the community for years to come.

Our talented faculty members continue to garner an impressive number of research awards with $587 million awarded in the last fiscal year. We also had great success in adding to our faculty ranks by recruiting outstanding teachers and researchers from America's top-ranked universities.

The true measure of a great university is what its graduates do in the world outside. We can only imagine the contributions that Vanderbilt graduates will make to their local communities, the nation and the world, and the promise of future greatness is clearly evident each year from the best and brightest who apply to this university. Undergraduate applications for fall 2011 were up 14 percent to 24,837. Our undergraduate admit rate is at an impressive 16 percent. With continued investments in the Graduate School, we are able to attract exceptional graduate students. We received 7,251 applications for our Ph.D. programs and admitted the top 12 percent of those applicants.

Thanks to our generous supporters, the Opportunity Vanderbilt campaign surpassed its $100 million goal, raising $108 million to support our expanded financial aid program that supports our ability to fulfill the "no-loan" commitment we made to our undergraduates. This commitment is especially important as our students, their families, and our nation will likely face continued economic challenges in the years ahead.

Writing this letter each year affords me the opportunity to reflect on the tremendous amount of talent and commitment we have among our Vanderbilt family—which can be seen in the university's continued rise in national rankings and the level of excellence for which our patient care is recognized. While these statistics cannot possibly capture the distinction, strength and greatness of Vanderbilt, it is deeply affirming to see all that we have been able to accomplish together.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
STUDENTS					
Undergraduate	6,879	6,794	6,637	6,532	6,378
Graduate and professional	5,835	5,712	5,455	5,315	5,229
Total fall enrollment	12,714	12,506	12,092	11,847	11,607
Undergraduate admissions					
Applied	21,811	19,353	16,944	12,910	12,189
Accepted	3,914	3,899	4,292	4,237	4,128
Enrolled	1,600	1,599	1,569	1,672	1,590
Selectivity	17.9%	20.1%	25.3%	32.8%	33.9%
Yield	40.9%	41.0%	36.6%	39.5%	38.5%
Degrees conferred					
Baccalaureate	1,735	1,583	1,568	1,542	1,468
Master's	1,252	1,280	1,235	1,081	1,062
M.D.	97	118	103	94	114
Other doctoral	556	515	477	519	498
Total degrees conferred	3,640	3,496	3,383	3,236	3,142
Undergraduate 6-year graduation rate	91.9%	90.6%	90.7%	89.4%	90.9%
Undergraduate tuition	$ 38,952	$ 37,632	$ 36,100	$ 34,414	$ 32,620
% increase over prior year	3.5%	4.2%	4.9%	5.5%	5.5%
HOSPITALS AND CLINICS					
Licensed beds	916	916	836	836	836
Inpatient days	282,547	272,731	265,733	267,947	260,977
Discharges	52,453	51,874	51,575	51,831	50,716
Average daily census	774	747	728	732	715
Average length of stay (days)	5.4	5.3	5.2	5.2	5.1
Average occupancy level	84.5%	83.6%	87.1%	87.6%	85.6%
Hospital surgical operations - inpatient	22,246	21,702	21,283	20,383	20,425
Hospital surgical operations - outpatient	25,650	23,790	18,597	19,574	19,823
Ambulatory visits	1,586,395	1,450,196	1,266,255	1,178,841	1,095,559
Emergency visits	109,987	108,398	102,631	102,998	98,229
LifeFlight (helicopter) missions	2,203	2,152	2,112	2,458	2,803
Case mix index	1.93	1.93	1.89	1.81	1.81
FACULTY AND STAFF					
Full-time faculty	3,448	3,309	3,131	2,997	2,876
Full-time staff	19,192	18,089	17,160	16,246	15,438
Part-time faculty	396	424	402	351	346
Part-time staff	798	683	676	666	740
Total headcount	23,834	22,505	21,369	20,260	19,400
RESEARCH EXPENDITURES (in thousands)					
Federal grants and contracts	$ 320,211	$ 279,282	$ 250,431	$ 244,117	$ 227,565
Non-federal grants and contracts	82,694	86,824	92,407	89,368	81,797
Facilities and administrative costs recovery	140,205	125,526	114,509	110,847	101,730
Total research expenditures	$ 543,110	$ 491,632	$ 457,347	$ 444,332	$ 411,092
ENDOWMENT					
Market value (in thousands)	$ 3,375,153	$ 3,007,607	$ 2,833,614	$ 3,495,439	$ 3,488,258
Endowment return	13.6%	8.9%	-16.3%	2.1%	21.9%
Endowment per student	$ 265,467	$ 240,493	$ 234,338	$ 295,048	$ 300,531
Endowment payout (spending formula)	4.8%	5.2%	4.7%	3.8%	3.7%
Endowment payout (strategic initiatives)	0.0%	0.1%	0.1%	0.2%	0.3%
Total endowment payout	4.8%	5.3%	4.8%	4.0%	4.0%

Financial Overview

Fiscal 2011 results were among the best to date for Vanderbilt despite the increasingly challenging external economic environment. Through careful stewardship of the university's financial resources, prudent prioritization, double-digit endowment returns, measured spending, and positive operating results, we continue to enhance the financial health of the university to support our mission.

Vanderbilt's financial success is a direct reflection of the coordinated efforts and vision of our faculty and staff team along with the support of our Board of Trust. Vanderbilt restructured our debt portfolio to increase predictability and cost-effectiveness over the long term, made planned capital investments to continue the growth on campus, and continued to strengthen our liquidity position.

During fiscal 2011, Vanderbilt made great strides in enhancing our solid financial foundation. The university generated net operating results of $139 million, which bolstered the university's strong liquidity and cash positions. Vanderbilt's medical center continued to deliver superior financial results and remains widely recognized as one of the finest academic health centers in the world.

In addition to Vanderbilt's sound financial performance, our investments in student scholarships, faculty, and facilities have continued to enhance our strategic metrics. Vanderbilt remains committed to providing a unique student experience to attract top-quality students at all levels. The number of applications for the fall of 2010 grew 12.7% to a total of 21,811 with a selectivity rate of 17.9% compared to 20.1% in fall 2009—and the fall 2011 selectivity rate was at a record level of 16.4%.

Financial Position

As of June 30, 2011, Vanderbilt's financial position consisted of assets totaling $7,421 million and liabilities totaling $2,331 million, resulting in net assets of $5,090 million.

Summary of Financial Position
as of June 30, in millions

	2011	2010
ASSETS		
Working capital cash and investments	$ 1,185	$ 1,024
Endowment and other cash and investments	3,809	3,387
Accounts and contributions receivable	595	561
Property, plant, and equipment, net	1,754	1,807
Prepaid expenses and other assets	78	90
Total assets	**$ 7,421**	**$ 6,869**
LIABILITIES		
Payables and accrued liabilities	$ 627	$ 633
Deferred revenue	126	125
Interest rate exchange agreements	135	231
Taxable debt for liquidity	365	365
Project and equipment-related debt	1,078	1,142
Total liabilities	**2,331**	**2,496**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt University	2,603	2,242
Unrestricted net assets related to non-controlling interests	199	77
Temporarily restricted net assets	1,262	1,108
Permanently restricted net assets	1,026	946
Total net assets	**5,090**	**4,373**
Total liabilities and net assets	**$ 7,421**	**$ 6,869**

Total net assets include Vanderbilt's endowment, which totaled $3,375 million as of June 30, 2011. Net assets associated with capital investments totaled $676 million, which represents the university's property, plant, and equipment, net of accumulated depreciation and capital-related debt. Other net assets, which totaled $1,039 million as of June 30, 2011, include current assets and current liabilities, net of mark-to-market adjustments on interest rate exchange agreements and net assets related to non-controlling interests.

Vanderbilt's assets totaling $7,421 million as of June 30, 2011, reflect an 8.0% increase from the prior year. This increase is primarily attributable to net operating results, endowed donor gifts and pledges, and net appreciation of the endowment.

Total liabilities decreased by $165 million to $2,331 million as of June 30, 2011. This decline is largely attributable to a decrease in the mark-to-market liability associated with the university's interest rate exchange agreements as well as a decrease in long-term debt.

The summary of financial position shown on this page summarizes several asset and liability lines from the consolidated statements of financial position. The summary on this page also segregates the university's cash and investments into (a) working capital, which consists of operating accounts and proceeds from taxable liquidity borrowings, and (b) endowment and other cash and investments. Also, debt is segregated in the summary between taxable debt issued to enhance liquidity and capital-related debt.

Cash and Liquidity

Vanderbilt's working capital cash and investments, which include highly liquid operating accounts, amounts posted as collateral, primarily related to interest rate exchange agreements, and amounts invested alongside the endowment pool, totaled $1,185 million as of June 30, 2011. During fiscal 2011, working capital cash and investments increased by $161 million primarily due to strong operating results.

We continue to invest the university's operating assets in a conservative, diversified manner to ensure adequate liquidity under modeled stress scenarios. During the past year Vanderbilt's endowment also provided increased liquidity support, especially monthly liquidity, while still maintaining a long-term investment horizon. As of June 30, 2011, $1,107 million of operating and endowment assets were available on a same-day basis and an additional $728 million was available within 30 days. Based largely on this very strong liquidity position, Vanderbilt holds the highest short-term ratings by the major credit rating agencies.

To provide additional liquidity support, Vanderbilt maintains agreements with two banks to provide operating lines of credit with maximum available commitments totaling $200 million. In addition, Vanderbilt renewed $375 million of revolving credit facilities with two banks in March 2011 to provide dedicated self-liquidity support for the debt portfolio.

Debt

In accordance with our strategic capital plan, Vanderbilt did not issue incremental debt during fiscal 2011. Scheduled principal payments on long-term debt and elective reductions of commercial paper reduced total outstanding debt by $64 million to a balance of $1,443 million as of June 30, 2011. This amount consisted of $1,074 million of capital project-related debt, $365 million of taxable debt for liquidity support, and $4 million of capital leases.

Vanderbilt's debt portfolio includes fixed-rate debt, variable-rate debt, and commercial paper, along with interest rate exchange agreements that serve as synthetic hedges. As previously noted, to provide liquidity support for its debt portfolio, the university utilizes self-liquidity provided by working capital cash and investments, quasi-endowment assets, and lines of credit.

Statements of Activities

Vanderbilt's total operating and non-operating activity resulted in a $717 million increase in net assets in fiscal 2011, which follows a $295 million increase in fiscal 2010.

Summary of Statements of Activities
all net asset categories, in millions

	2011	2010
CONSOLIDATED REVENUES		
Tuition and educational fees, net of financial aid	$ 244	$ 238
Government grants and contracts and F&A costs recovery	545	492
Private grants and contracts	53	48
Private gifts	98	76
Endowment distributions	152	153
Investment income	34	26
Health care services	2,427	2,279
Room, board, and other auxiliary services, net of financial aid	104	100
Other sources	40	32
Total consolidated revenues	**3,697**	**3,444**
CONSOLIDATED EXPENSES		
Instruction, academic support, and student services	632	583
Research	441	402
Health care services	2,180	2,059
Public service	39	39
Institutional support	47	52
Room, board, and other auxiliary services	135	128
Total consolidated expenses	**3,474**	**3,263**
OTHER CHANGES IN NET ASSETS		
Changes in appreciation of endowments, net of distributions	256	94
Gains (losses) on interest rate exchange agreements	72	(77)
Increase in net assets related to non-controlling interests	122	77
Other non-operating activity	44	20
Total other changes in net assets	**494**	**114**
Increase in net assets	**$ 717**	**$ 295**

During fiscal 2011, the increase in net assets primarily resulted from strong net operating activity, endowed gifts and pledges, net gains in the endowment, and mark-to-market gains on interest rate exchange agreements. In comparison, the increase in fiscal 2010 primarily resulted from strong net operating activity, endowed gifts and pledges, and net gains in the endowment, offset by mark-to-market losses on interest rate exchange agreements.

Consolidated revenues and expenses, as presented on this page, include revenues and other support in all net asset categories. Operating activity specific to *unrestricted* net assets is discussed on the following pages. In addition to unrestricted operating activity, consolidated revenues include activity in *temporarily restricted* and *permanently restricted* net assets.

Consolidated Revenues

Consolidated revenues increased by 7.3% to $3,697 million in fiscal 2011, as compared to $3,444 million in fiscal 2010. This increase was primarily driven by a 6.5% increase in health care services revenue, a 10.8% increase in government grants and contracts revenue, including facilities and administrative (F&A) costs recovery, and a 28.9% increase in private gifts.

Health care services revenue increased by $148 million in fiscal 2011. This change was primarily driven by volume increases in the hospitals and clinics. Vanderbilt's health care services are discussed further in a subsequent section.

Government grants and contracts revenue, inclusive of F&A costs recovery, increased by $53 million during fiscal 2011. This increase is primarily due to additional funding from the National Institutes of Health (NIH).

Revenue from private gifts increased by $22 million during fiscal 2011. This increase is primarily attributed to additions in giving for endowed purposes, as well as increases in the values of split-interest agreements.

Consolidated Expenses

Consolidated expenses increased by 6.5% to $3,474 million in fiscal 2011, as compared to $3,263 million in fiscal 2010. This increase was primarily driven by a 5.9% increase in health care services expenses, an 8.4% increase in instruction, academic support, and student services expenses, and a 9.7% increase in research expenses.

Other Changes in Net Assets

Other changes in net assets included changes in appreciation of endowments, net of distributions, totaling $256 million in fiscal 2011 and $94 million in fiscal 2010. The fiscal 2011 net increase resulted from a 13.6% return offset by 4.8% of the endowment utilized for distributions.

In fiscal 2011, Vanderbilt experienced net unrealized gains totaling $72 million on interest rate exchange agreements. These gains are based on mark-to-market valuations of the university's interest rate exchange agreements, especially fixed-payer exchange contracts. Meanwhile, adjustments to annual interest expense occur for net cash settlements as Vanderbilt *pays* an average of 3.7% on its fixed-payer contracts and *receives* amounts based on a percentage of 1-month LIBOR rates. The unrealized mark-to-market valuation on these agreements primarily is driven by long-term LIBOR rates. During the past year, the 30-year LIBOR rate increased to 4.1% as of June 30, 2011—up from 3.7% as of June 30, 2010—which resulted in a decrease to the fair value of the liability for the agreement.

Net assets related to minority interests increased $122 million due primarily to the change in appreciation allocable to minority interests in addition to an increase in net capital contributions. Finally, other non-operating activity totaled $44 million in fiscal 2011 and $20 million in fiscal 2010. Fiscal 2011 activity included $16 million net gains related to the sale of an investment in the Windsor Health Plan as well as net investment gains related to assets set aside as a reserve for medical self-insurance. Additionally, other non-operating activity included gifts and contributions for plant in both years.

Summary of Changes in Net Assets
in millions

	2011	2010
Revenues and expenses:		
Unrestricted operating revenues	$ 3,613	$ 3,397
Unrestricted operating expenses	(3,474)	(3,263)
Unrestricted operating activity	139	134
Gift activity in temporarily restricted and permanently restricted net assets	55	35
Investment income and endowment distributions in temporarily restricted and permanently restricted net assets	29	12
Other changes in net assets:		
Change in appreciation of endowment, net of distributions	256	94
Gains (losses) on interest rate exchange agreements	72	(77)
Increase in net assets related to non-controlling interests	122	77
Other non-operating activity	44	20
Increase in net assets	**$ 717**	**$ 295**
Ending balance of net assets	**$ 5,090**	**$ 4,373**

Unrestricted Operating Activity

The change in unrestricted net assets from operating activity is the measure of the university's *operating results*. This unrestricted operating activity totaled $139 million in fiscal 2011 and $134 million in fiscal 2010.

Operating Revenues

Unrestricted operating revenues totaled $3,613 million in fiscal 2011, reflecting a 6.4% increase from the prior year.

Operating Revenues by Source
unrestricted net assets, in millions

	2011	2010
Tuition and educational fees, net of financial aid	$ 244	$ 238
Government grants and contracts and F&A costs recovery	545	492
Private grants and contracts	53	48
Private gifts, including net assets released from restrictions	43	42
Endowment distributions	142	147
Investment income	15	19
Health care services	2,427	2,279
Room, board, and other auxiliary services, net of financial aid	104	100
Other sources	40	32
Total operating revenues	**$ 3,613**	**$ 3,397**

Government grants and contracts revenue, including F&A costs recovery, predominantly for research activities, increased 10.8% from fiscal 2010 to fiscal 2011. Federal funding from the National Institutes of Health, the Department of Defense, NASA, and other federal agencies supported 84% and 81% of the research conducted at Vanderbilt in fiscal 2011 and fiscal 2010, respectively.

Vanderbilt's research support outlook remains strong. Sponsored research awards, which included multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled $587 million in fiscal 2011 and $615 million in fiscal 2010 as shown in the table below.

Sponsored Research Awards
in millions

	2011	2010
American Recovery and Reinvestment Act of 2009 (ARRA)	$ 125	$ 112
Other awards	462	503
Total sponsored research awards	**$ 587**	**$ 615**

Operating Expenses

Operating expenses totaled $3,474 million in fiscal 2011, reflecting a 6.5% increase from the prior year.

Operating Expenses by Function
unrestricted net assets, in millions

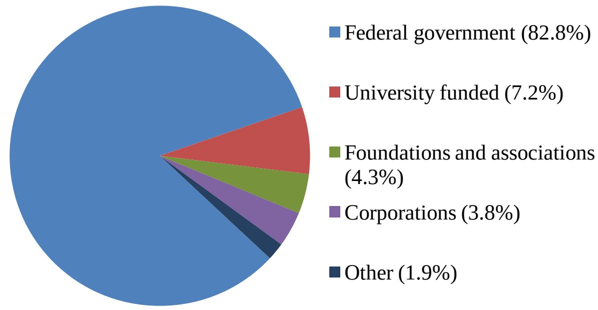
	2011	2010
Instruction, academic support, and student services	$ 632	$ 583
Research	441	402
Health care services	2,180	2,059
Public service	39	39
Institutional support	47	52
Room, board, and other auxiliary services	135	128
Total operating expenses	**$ 3,474**	**$ 3,263**

Expenses for instruction, academic support, and student services increased 8.4% in fiscal 2011. These expenses exceed net tuition revenues, which are noted on the preceding page. Therefore, Vanderbilt, like other major private research universities, relies upon operating gifts, endowment support, and other alternative sources of revenue—in addition to tuition—to meet its educational mission objectives.

Research expenses, which include research-related expenditures plus allocations of institutional and other support costs such as depreciation and interest on indebtedness, increased 9.7% to $441 million in fiscal 2011 from $402 million in fiscal 2010.

As illustrated below, the majority of Vanderbilt's $543.1 million of research expenditures (excluding allocations of institutional and other support costs but including research–related F&A costs recovery) in fiscal 2011 were funded by the federal government through grants and contracts.

Research Expenditures by Source
fiscal 2011, including research-related F&A costs recovery



Health care services expenses increased 5.9% to $2,180 million in fiscal 2011 from $2,059 million in fiscal 2010. This increase is attributable largely to an overall increase in patient volumes and contract pricing.

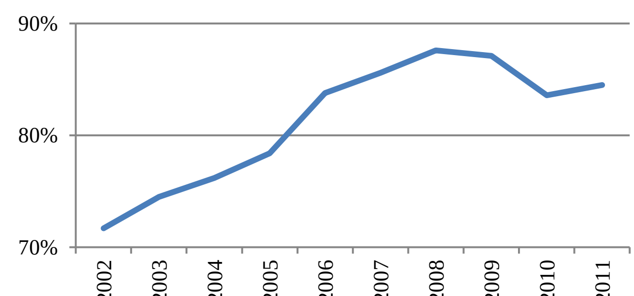
Health Care

Vanderbilt University Medical Center finished fiscal 2011 in the *U.S. News & World Report* annual ranking of America's Best Hospitals with a best-ever number 14 ranking on the national "Honor Roll," posting an all-time high of 11 ranked specialties out of a possible 16 categories. Specialty programs ranking among the top 50 in their respective fields include: urology, nephrology, diabetes and endocrinology, ear, nose, and throat, pulmonology, gastroenterology, cardiology and heart surgery, cancer, neurology and neurosurgery, orthopedics, and gynecology. In addition, the Monroe Carell Jr. Children's Hospital at Vanderbilt was included among the nation's leaders in pediatric health care in *U.S. News & World Report* magazine's Best Children's Hospital rankings. The hospital achieved rankings in a maximum 10 out of 10 specialties: urology, neonatology, cardiology and heart surgery, gastroenterology, diabetes and endocrinology, orthopedics, pulmonology, nephrology, neurology and neurosurgery, and cancer.

Successful volume growth in recent years continues to create increased occupancy rates in Vanderbilt's hospitals. Vanderbilt's overall hospital occupancy rates increased to 84.5% in fiscal 2011 compared to 83.6% in fiscal 2010.

To alleviate capacity constraints, Vanderbilt is constructing a 33-bed expansion to the children's hospital for occupancy during fiscal 2012. Until the expansion is complete, the children's hospital will continue to utilize 16 temporary pediatric beds in a former wing of the adult hospital. In addition to the children's hospital expansion, two of the remaining three shelled floors of the adult hospital critical care tower that opened in November 2009, are currently in the planning and design stage, and will provide an additional 68 beds. Construction will begin in the second quarter of fiscal 2012, with occupancy expected by the second quarter of fiscal 2013.

Percentage Occupancy
licensed beds



In the outpatient clinics, ambulatory visits increased 9.4% to total 1,586,395 in fiscal 2011 as Vanderbilt continued its expansion of health care services offered outside the medical center's main campus. During fiscal 2011, approximately 41% of outpatient visits occurred at off-campus locations. The largest new outpatient facility, Vanderbilt Health One Hundred Oaks, continues to be successful with more than 198,000 ambulatory visits. Growth in ambulatory visits also occurred as the result of physician practice expansions in cardiology, internal medicine, and orthopedics in nearby Williamson County and Rutherford County.

Responding to the strong growth in outpatient services in Williamson County, Vanderbilt purchased 22 acres of unimproved land in that area during fiscal 2011. Vanderbilt is evaluating the potential construction of a medical office building that would consolidate several existing physician practice locations, as well as provide space for growth.

The average length of stay for patients in Vanderbilt's hospitals increased slightly to 5.4 days in fiscal 2011 from 5.3 days in fiscal 2010. This change is due to an increase in patient acuity in the children's hospital, as well as the transition of low-length-of-stay admissions from inpatient to observation status.

The medical center's case mix index continues to remain strong at 1.93 for fiscal 2011, due in large part to our trauma, neonatal, orthopedics, and surgical programs. While having patient acuity levels that are among the highest quartile of teaching hospitals, Vanderbilt's mortality index measure is one of the best in the nation. This outcome is reflective of the high quality of care at our hospitals, with a continued focus on evidence-based medicine and clinical improvement.

The following table shows payor mix percentages based on gross patient revenues for Vanderbilt's hospitals and clinics in fiscal 2011 and 2006 (five years prior). Vanderbilt's medical center has experienced a decline in the percentage of TennCare (Medicaid) patients, primarily because TennCare organizations have developed broader physician and hospital provider networks that allow low-acuity health care services to be provided in the local communities. Further, due to high quality and favorable patient satisfaction scores, the community preference for Vanderbilt's hospitals and clinics continues to increase, resulting in market share growth in the managed care payor group.

Payor Mix
Vanderbilt hospitals and clinics (% of gross patient revenues)

	2011	**2006**
Managed care	44.7%	40.8%
Medicare	19.3	19.4
TennCare (Medicaid)	18.7	20.4
Commercial indemnity	9.0	9.8
Uninsured (self-pay) and other	8.3	9.6
Total payor mix	**100.0%**	**100.0%**

Vanderbilt's hospitals, clinics, and physician practices are responding to health care reform with innovations in quality of care, patient access, and efficiency of care delivery. Strategies include managing high-cost patient populations with the goal of enhancing patient care processes to reduce costs and improve outcomes, and a focus on initiatives to avoid hospital readmissions, health care acquired infections, and other adverse events. Vanderbilt has implemented significant improvements in clinical information systems resulting in increased leverage of electronic health information. The medical center also is developing affiliations with community providers to improve access to broader patient populations for our students, residents, and researchers, and we are exploring bundled payment models for certain episodes of care.

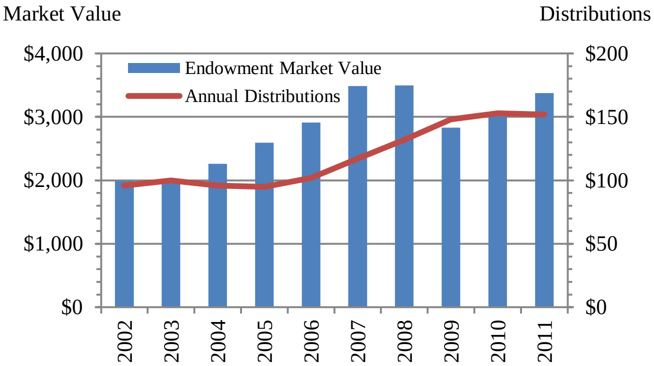
Endowment

For fiscal 2011, Vanderbilt's endowment portfolio gained 13.6%. This return provided $408 million in investment gains to support the university's research and education mission and marks a considerable recovery from losses incurred during fiscal year 2009 due to the global financial crisis, when the endowment finished the year at $2,834 million. The endowment ended fiscal 2011 with a $3,375 million total market value. This represents a 12.2% increase over the prior year's $3,008 million ending market value. The difference between the investment return and change in absolute value of the endowment reflects the net impact of new endowment gifts, additions to institutional endowments (quasi-endowments), investment returns, and the distribution of endowment funds to support university operations. Endowment distributions totaled $152 million in fiscal 2011 compared to $153 million in fiscal 2010.

All asset classes delivered positive returns during fiscal 2011, led by global equities, venture capital, and natural resources. Nevertheless, Vanderbilt's fiscal 2011 return—albeit in double digits—trailed our internal policy benchmark return of 18.6%. At the strategy level, developed market equities, technology-based venture funds, and credit-related strategies were top performers within the financial markets and the most favorable contributors to the endowment's fiscal 2011 performance. However, under allocations to global equities, up 30.1% during the period, muted returns. Conversely, in fiscal 2011, the portfolio had a higher allocation to private market investments, including private equity and venture capital investments. Although private market strategies performed favorably in absolute terms in fiscal 2011, they failed to keep pace during the fiscal year. Real estate and fixed income investments also failed to perform at levels exceeding the internal policy benchmark. While disappointed with the fiscal year's performance versus the internal policy benchmark, Vanderbilt remains confident in the wisdom of a long-term investing approach, noting that the endowment's three-year returns exceeded the policy benchmark by nearly 50 basis points.

Despite a strong fiscal 2011 recovery in the equity markets which resulted in an increase to the endowment's market value, Vanderbilt anticipates that challenges will remain going forward. Financial markets continue to show signs of vulnerability to continued high unemployment, sovereign debt risk, inflation in developing markets, and global political instability. Fortunately, Vanderbilt has implemented a number of strategic initiatives to enhance the university's ability to navigate through these external challenges. These measures include enhancing overall liquidity, solidifying strategic relationships with premier managers, expanding geographical breadth, and improving transparency and systems.

Endowment Market Value and Annual Distributions
in millions



Endowment Asset Allocation
June 2011 (% of portfolio)

	Actual	Target
Global equities	29.4%	35.0%
Absolute return	21.0	25.0
Fixed income	8.0	10.0
Cash and cash equivalents	0.2	-
Total marketable	**58.6**	**70.0**
Private equity markets	27.2	15.0
Real estate	6.7	7.5
Natural resources	7.1	7.5
Other	0.4	-
Total non-marketable	**41.4**	**30.0**
Total endowment	**100.0%**	**100.0%**

Conclusion

In the face of changing economic conditions, Vanderbilt strives to continuously implement strategies to promote growth and productivity. Vanderbilt's strong financial history and prudent management practices provide a solid foundation to further the university's commitment to our mission and goals.

Vanderbilt's financial position at the end of fiscal 2011 is strong and the future continues to be promising. We know there are significant challenges ahead with health care reform and anticipated declines in government funding. However, Vanderbilt remains focused on maintaining financial stability to tackle the challenges that lie ahead.

As reflected in this commentary and in the university's audited financial statements, fiscal 2011 was a successful year for Vanderbilt. The following page provides a summary of the university's financial ratios, which also demonstrate the resulting financial effects of the university's strategies. As reflected in the financial ratios and as noted in this financial overview, Vanderbilt's fiscal standing remains strong. Our ongoing investment in our students, faculty, staff, and the community demonstrates the university's continued devotion to excellence.

Financial Ratios

Expendable Net Assets to Debt

Expendable Net Assets /
Project Debt and Lease Commitments

2007	2008	2009	2010	2011
2.9x	2.7x	1.9x	2.1x	2.3x

Expendable net assets to debt measures the university's debt leverage. Debt used for calculating this ratio consists of all project-related debt, the net present value of lease commitments, and debt guarantees.

Vanderbilt's expendable net assets to debt improved in fiscal 2011 and fiscal 2010 as the result of positive endowment returns and operating results. Vanderbilt aims to maintain expendable net assets to debt of at least 2.0.

Debt Service Coverage Ratio

Unrestricted Operating Results before Interest and Depreciation /
Normalized Annual Debt Service

2007	2008	2009	2010	2011
4.4x	3.4x	3.2x	3.6x	4.0x

The *debt service coverage ratio* measures the university's ability to cover annual debt service from current year operating activity. In this context, annual debt service is normalized to calculate long-term (25 years), level principal and interest payments that would be required based on the portfolio's then-prevailing weighted average interest rates inclusive of the effects of interest rate exchange agreements. The scope for this ratio is all outstanding debt, except for any applicable taxable commercial paper used for short-term liquidity support.

Vanderbilt's debt service coverage ratio increased in fiscal 2011 as the result of strong net operating results and decreased debt service requirements. In fiscal 2011, debt service decreased due to a slight decline in the interest rate exchange-adjusted effective interest rate for the portfolio. In fiscal 2010, this ratio increased as the result of strong net operating results offset by increased debt service requirements. Vanderbilt aims to maintain a debt service coverage ratio of at least 2.0.

Debt Service Burden

Normalized Annual Debt Service /
Unrestricted Operating Expenses

2007	2008	2009	2010	2011
2.1%	2.4%	2.6%	3.2%	2.8%

The *debt service burden* measures the percent of the annual operating budget devoted to servicing outstanding debt.

Vanderbilt's debt service burden decreased in fiscal 2011 due to a decrease in required debt service and an increase in operating expenses. Vanderbilt's debt service burden increased in fiscal 2010 due to a rise in the interest rate exchange-adjusted portfolio interest rate and the first full year of debt service on the 10-year taxable notes issued for liquidity support. Vanderbilt aims to maintain a debt service burden below 5.0%.

Operating Cash Flow Margin

Unrestricted Operating Results before Interest and Depreciation /
Unrestricted Operating Revenues

2007	2008	2009	2010	2011
8.9%	7.9%	8.4%	11.0%	10.7%

The *operating cash flow margin* measures the cash flow generated from each dollar of operating revenue. The resulting net cash flows may occur in the current or future years depending on changes in receivables and payables.

In fiscal 2011, Vanderbilt's unrestricted operating results before interest and depreciation increased 3.2% to $387 million from $375 million in fiscal 2010. Fiscal 2011 unrestricted operating revenues, at $3,613 million, represent a 6.4% increase from $3,397 million in fiscal 2010.

Capital Intensiveness Ratio

Acquisitions of Property, Plant, and Equipment /
Unrestricted Operating Revenues

2007	2008	2009	2010	2011
10.0%	8.9%	8.2%	5.0%	3.4%

The *capital intensiveness ratio* measures the university's annual investments in property, plant, and equipment as a percentage of the university's annual operating revenues.

Vanderbilt's capital intensiveness ratio declined in fiscal 2011 as spending on major capital projects declined in accordance with the university's capital plan. During fiscal 2011, major capital projects included the planned bed-expansion of the Monroe Carell Jr. Children's Hospital at Vanderbilt, the critical care tower buildout, Central Library renovations, and the West Garage completion.

Average Age of Plant

Accumulated Depreciation /
Depreciation Expense

2007	2008	2009	2010	2011
9.2 yrs	9.4 yrs	9.5 yrs	10.0 yrs	10.2 yrs

The *average age of plant* metric provides a sense of the age of the university's facilities. A low average age of plant indicates that an institution has made significant recent investments in its plant. Generally, a strong level for this ratio is deemed to be 12 years or less for research institutions and 14 years or less for predominantly liberal arts institutions.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

Report of Independent Auditors

Board of Trust
Vanderbilt University:

We have audited the accompanying consolidated statement of financial position of Vanderbilt University and its subsidiaries (Vanderbilt) as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Vanderbilt's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Vanderbilt as of June 30, 2010, and for the year then ended, prior to the adjustment to retrospectively apply the change in accounting for noncontrolling interests, as described in Note 2, were audited by other auditors whose report, dated October 28, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanderbilt University and its subsidiaries at June 30, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, Vanderbilt adopted ASU 2010-07 "Not-for-Profit Entities: Mergers and Acquisitions" required for the presentation of noncontrolling interests, effective July 1, 2010.

PricewaterhouseCoopers LLP

October 26, 2011

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Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2011 and 2010 (in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 1,129,804	$ 959,157
Accounts receivable, net	436,687	405,714
Prepaid expenses and other assets	78,756	90,235
Contributions receivable, net	78,572	77,039
Student loans and other notes receivable, net	40,207	41,640
Investments	3,664,182	3,374,127
Investments allocable to noncontrolling interests	199,249	77,695
Property, plant, and equipment, net	1,754,524	1,807,284
Interests in trusts held by others	39,362	36,393
Total assets	**$ 7,421,343**	**$ 6,869,284**
LIABILITIES		
Accounts payable and accrued liabilities	$ 236,428	$ 255,100
Accrued compensation and withholdings	225,360	225,049
Deferred revenue	125,458	124,650
Commercial paper	264,862	301,248
Actuarial liability for self-insurance	111,348	102,758
Actuarial liability for annuities payable	32,775	31,464
Government advances for student loans	21,036	18,868
Long-term debt and capital leases	1,178,531	1,206,134
Fair value of interest rate exchange agreements, net	135,026	230,776
Total liabilities	**2,330,824**	**2,496,047**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	2,603,397	2,241,335
Unrestricted net assets related to noncontrolling interests	199,249	77,695
Total unrestricted net assets	2,802,646	2,319,030
Temporarily restricted net assets	1,262,271	1,108,024
Permanently restricted net assets	1,025,602	946,183
Total net assets	**5,090,519**	**4,373,237**
Total liabilities and net assets	**$ 7,421,343**	**$ 6,869,284**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2011 (in thousands)

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 243,859	$ -	$ -	$ 243,859
Government grants and contracts	399,440	-	-	399,440
Facilities and administrative costs recovery	145,295	-	-	145,295
Private grants and contracts	53,494	-	-	53,494
Private gifts	23,564	22,621	51,314	97,499
Endowment distributions	142,252	7,450	2,556	152,258
Investment income	14,666	13,583	6,062	34,311
Health care services	2,426,661	-	-	2,426,661
Room, board, and other auxiliary services, net	103,769	-	-	103,769
Other sources	40,351	-	-	40,351
Net assets released from restrictions	19,160	(19,160)	-	-
Total revenues and other support	**3,612,511**	**24,494**	**59,932**	**3,696,937**
EXPENSES				
Instruction	464,313	-	-	464,313
Research	441,064	-	-	441,064
Health care services	2,180,188	-	-	2,180,188
Public service	39,262	-	-	39,262
Academic support	133,076	-	-	133,076
Student services	34,919	-	-	34,919
Institutional support	46,879	-	-	46,879
Room, board, and other auxiliary services	133,879	-	-	133,879
Total expenses	**3,473,580**	**-**	**-**	**3,473,580**
Change in unrestricted net assets from operating activity	**138,931**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	102,258	153,510	-	255,768
Change in appreciation of self-insurance assets	11,299	-	-	11,299
Change in appreciation of other investments	13,767	-	-	13,767
Change in appreciation of interest rate exchange agreements	72,070	-	-	72,070
Gifts and contributions for plant	3,430	560	-	3,990
Net assets released from restrictions for plant	16,689	(16,689)	-	-
Donor designation changes	(11,859)	(7,628)	19,487	-
Other	15,477	-	-	15,477
Total other changes in net assets	**223,131**	**129,753**	**19,487**	**372,371**
Increase in net assets controlled by Vanderbilt	**362,062**	**154,247**	**79,419**	**595,728**
Increase in net assets related to noncontrolling interests	**121,554**	**-**	**-**	**121,554**
Total increase in net assets	**$ 483,616**	**$ 154,247**	**$ 79,419**	**$ 717,282**
Net assets, June 30, 2010	**$ 2,319,030**	**$ 1,108,024**	**$ 946,183**	**$ 4,373,237**
Net assets, June 30, 2011	**$ 2,802,646**	**$ 1,262,271**	**$ 1,025,602**	**$ 5,090,519**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2010 (in thousands)

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 237,623	$ -	$ -	$ 237,623
Government grants and contracts	360,861	-	-	360,861
Facilities and administrative costs recovery	131,558	-	-	131,558
Private grants and contracts	48,450	-	-	48,450
Private gifts	29,649	8,988	37,215	75,852
Endowment distributions	146,749	4,717	1,607	153,073
Investment income	19,341	(1,928)	8,165	25,578
Health care services	2,279,232	-	-	2,279,232
Room, board, and other auxiliary services, net	99,874	-	-	99,874
Other sources	32,214	-	-	32,214
Net assets released from restrictions	11,116	(11,116)	-	-
Total revenues and other support	**3,396,667**	**661**	**46,987**	**3,444,315**
EXPENSES				
Instruction	430,172	-	-	430,172
Research	401,612	-	-	401,612
Health care services	2,058,702	-	-	2,058,702
Public service	39,489	-	-	39,489
Academic support	120,666	-	-	120,666
Student services	32,493	-	-	32,493
Institutional support	51,497	-	-	51,497
Room, board, and other auxiliary services	128,446	-	-	128,446
Total expenses	**3,263,077**	**-**	**-**	**3,263,077**
Change in unrestricted net assets from operating activity	**133,590**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	40,800	52,942	-	93,742
Change in appreciation of self-insurance assets	7,531	-	-	7,531
Change in appreciation of other investments	7,679	-	-	7,679
Change in appreciation of interest rate exchange agreements	(76,685)	-	-	(76,685)
Net gains on contributions receivable	-	229	-	229
Gifts and contributions for plant	4,351	-	-	4,351
Net assets released from restrictions for plant	7,007	(7,007)	-	-
Donor designation changes	(3,343)	(7,105)	10,448	-
Other	(102)	-	-	(102)
Total other changes in net assets	**(12,762)**	**39,059**	**10,448**	**36,745**
Increase in net assets controlled by Vanderbilt	**120,828**	**39,720**	**57,435**	**217,983**
Increase in net assets related to noncontrolling interests	**77,695**	**-**	**-**	**77,695**
Total increase in net assets	**$ 198,523**	**$ 39,720**	**$ 57,435**	**$ 295,678**
Net assets, June 30, 2009	**$ 2,120,507**	**$ 1,068,304**	**$ 888,748**	**$ 4,077,559**
Net assets, June 30, 2010	**$ 2,319,030**	**$ 1,108,024**	**$ 946,183**	**$ 4,373,237**

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2011 and 2010 (in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in total net assets	**$ 717,282**	**$ 295,678**
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Increase in net assets related to noncontrolling interests	(121,554)	(77,695)
Net realized (gains) losses on investments	(56,526)	20,305
Net increase in unrealized appreciation on investments	(305,940)	(265,203)
Gifts for plant and endowment	(78,032)	(71,252)
Gifts of securities other than for plant and endowment	(11,062)	(27,673)
Depreciation and amortization	173,195	162,530
Amortization of bond discounts and premiums	(2,355)	(4,384)
Payments to terminate interest rate exchange agreements	23,680	-
Net (increase) decrease in fair value of interest rate exchange agreements	(97,289)	71,179
Net decrease in fair value of option to execute interest rate exchange agreement	1,539	5,506
(Increase) decrease in:		
Accounts receivable, net of accrued investment income	(32,280)	(61,642)
Prepaid expenses and other assets	11,479	(10,045)
Contributions receivable	(1,533)	14,136
Interests in trusts held by others	(2,969)	(2,466)
Increase (decrease) in:		
Accounts payable and accrued liabilities, net of non-operating items	(15,531)	19,299
Accrued compensation and withholdings	311	6,338
Deferred revenue	808	7,394
Actuarial liability for self-insurance	8,590	4,828
Actuarial liability for annuities payable	1,311	4,889
Net cash provided by operating activities	**213,124**	**91,722**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,416,030)	(2,545,899)
Proceeds from sales of investments	2,499,503	2,772,849
Purchases of investments allocable to noncontrolling interests	(50,780)	(62,617)
Proceeds from sales of investments allocable to noncontrolling interests	47,179	38,778
Decrease in accrued investment income	1,307	631
Acquisitions of property, plant, and equipment	(124,411)	(170,388)
Proceeds from disposals of property, plant, and equipment	835	1,137
Student loans and other notes receivable disbursed	(3,091)	(2,515)
Principal collected on student loans and other notes receivable	4,524	4,200
Net cash (used in) provided by investing activities	**(40,964)**	**36,176**
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for plant and endowment	78,032	71,252
Increase in government advances for student loans	2,168	1,226
Proceeds from debt issuances	474,946	884,179
Payments to retire or defease debt	(536,580)	(901,634)
Payments to terminate interest rate exchange agreements	(23,680)	-
Proceeds from noncontrolling interests in investment partnerships	50,780	62,617
Payments to noncontrolling interests in investment partnerships	(47,179)	(38,778)
Net cash (used in) provided by financing activities	**(1,513)**	**78,862**
Net increase in cash and cash equivalents	**$ 170,647**	**$ 206,760**
Cash and cash equivalents at beginning of year	**$ 959,157**	**$ 752,397**
Cash and cash equivalents at end of year	**$ 1,129,804**	**$ 959,157**

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 patient care facilities. Vanderbilt provides educational services to approximately 6,900 undergraduate and 5,800 graduate and professional students enrolled in its 10 schools and colleges.

These 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; Vanderbilt Medical Group, a physician practice program; and Vanderbilt Health Services, Inc., which includes wholly owned and joint ventured businesses, radiation oncology centers, imaging services, outpatient surgery centers, and home health care services.

All significant intercompany accounts and transactions have been eliminated 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. 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. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported 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 are limited as to use by 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 which have not yet been appropriated by the Board of Trust for distribution.

Permanently restricted net assets are amounts required by donors to be held in perpetuity. 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.

Expirations of temporary restrictions on net assets, i.e., the passage of time along with the concomitant annual Board approval of the endowment spending rate, and/or fulfilling donor-imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Fair Value Measurements
Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosure* (ASC 820) defines fair value, requires expanded disclosures about fair value measurements, and 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. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 prioritizes the inputs to the valuation techniques used 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).

Furthermore, ASC 820 considers certain investment funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. ASC 820 allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

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. This latter group of assets, reported at fair value, is excluded from the investments category since Vanderbilt will not directly benefit from the investment return.

Investments
Investments are reported at fair value using the three-level hierarchy established under ASC 820. Fair values for certain alternative investments, mainly investments in limited partnerships where a ready market for the investments does not exist, are based primarily on estimates reported by fund managers. The estimated values are reviewed and evaluated by Vanderbilt.

Vanderbilt has exposure to a number of risks including liquidity, interest rate, counterparty, basis, tax, regulatory, market, and credit risks for both marketable and non-marketable 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. Derivatives, which consist of both internally managed transactions and those entered through external investment managers, are reported at fair value. The most common instruments utilized are futures contracts and hedges against currency translation risk for investments denominated in other than U.S. dollars. For internally managed transactions, Vanderbilt utilizes future contracts with durations of less than three months.

Purchases and sales of securities are recorded on the trade dates, and realized gains and losses are determined on the basis of the average historical cost of the securities sold. Net receivables and payables arising from unsettled trades are reported as a component of investments.

All endowment investments are managed as an investment pool, unless donor-restricted endowment gift agreements require that they be held separately.

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

For entities in which other organizations are minority equity participants to Vanderbilt's controlling interest, the respective assets are reported separately on the consolidated statements of financial position at fair value as investments allocable to minority interests.

Vanderbilt implemented the provisions of Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07) which specifies that noncontrolling interests be reported within unrestricted net assets on the consolidated statements of financial position. As a result, Vanderbilt also reclassified a June 30, 2010 balance of $77.7 million, which represented *minority interests in investment partnerships* previously reported as a liability, to *unrestricted net assets related to noncontrolling interests*.

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. Assets held in these trusts are included in investments at fair value. Contribution revenue is recognized at the dates the trusts are established, net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Annually, Vanderbilt records the change in value of split-interest agreements according to the fair value of the assets that are associated with each trust and recalculates the liability for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

Vanderbilt is also the beneficiary of certain trusts held and administered by others. Vanderbilt's share of these trust assets is recorded at fair value as interests in trusts held by others with carrying values adjusted annually for changes in fair value.

Property, Plant, and Equipment

Purchased property, plant, and equipment are recorded at cost, including, where appropriate, capitalized interest. Donated assets are recorded at fair value at the date of donation. Repairs and maintenance costs are expensed as incurred. Additions to the library collection are expensed at the time of purchase.
Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Property, plant, and equipment are removed 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. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

Debt Portfolio Financial Instruments

Long-term debt and capital leases are reported at carrying value. Vanderbilt employs derivatives, primarily interest rate exchange agreements, to help manage interest rate risks associated with variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as a non-operating item in the consolidated statements of activities. Periodic net cash settlement amounts with counterparties are accounted for 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—Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by Vanderbilt for tuition and educational fees is reflected as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services provided to Vanderbilt.

Government grants and contracts—Revenues from government grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Facilities and administrative (F&A) costs recovery—F&A costs recovery is recognized as revenue and 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 55.0% in fiscal 2011 and fiscal 2010. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2011 and 2010.

Private grants and contracts—Revenues from private grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Health care services—Health care services revenue is reported at established rates, net of contractual adjustments and charity assistance services. Third party contractual revenue adjustments under governmental reimbursement programs are accrued on an estimated basis in the period the related services are rendered. The estimated amounts are adjusted as final settlements are determined by the fiscal intermediary for each program.

Contributions

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to Vanderbilt in future periods are recorded 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. Allowance is made for uncollectible contributions receivable based upon Vanderbilt's analysis of past collection experience and other judgmental factors.

Contributions with donor-imposed restrictions are recorded as unrestricted revenue if those restrictions are met in the same reporting period. Otherwise, contributions with donor-imposed restrictions are recorded as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction.

Contributions recorded as temporarily restricted net assets are released from restrictions and recognized as unrestricted net assets after any donor stipulations are met. Gifts for plant facilities are released from restrictions and recognized as a non-operating item only after resources are expended for the applicable plant facilities.

Contributions receivable of pledged securities are stated at the fair value of the underlying securities. Net changes on shares pledged in prior years due to fair value changes for the underlying securities are reported separately as non-operating gains or losses on contributions receivable in the consolidated statements of activities.

In contrast to unconditional promises as described above, conditional promises (primarily bequest intentions) are not recorded until donor contingencies are substantially met.

Operating Results

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 non-operating activity related to endowment and other investments, changes in the fair value of derivative financial instruments, gifts for plant facilities, and certain other non-recurring items.

Endowment distributions reported as operating revenue consist of endowment returns (regardless of when such income or returns arose) distributed to support current operational needs. Vanderbilt's Board of Trust approves the amount to be distributed 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, non-endowed 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 non-operating activity. Operating investment income also excludes investment returns on segregated gift funds and funds set aside for non-operating purposes such as segregated assets for self-insurance relative to malpractice and professional liability and assets on deposit with trustees.

Management and administrative support costs attributable to divisions that primarily provide health care or auxiliary services are allocated 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.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon facility usage. Additionally, interest expense is allocated 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 is generally 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.

Subsequent Events

Vanderbilt evaluated events subsequent to June 30, 2011, and through the date on which the consolidated financial statements were issued, October 26, 2011. No material subsequent events were identified for recognition or disclosure.

Redesignations

When donors amend or clarify intent for applicable gifts and contributions reported in a previous fiscal year, revisions are separately reflected as donor designation changes within the consolidated statements of activities.

3. Accounts Receivable

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

	2011	2010
Patient care	$ 448,013	$ 416,132
Students, grants, and other	102,876	101,612
Accrued investment income	1,771	3,078
Accounts receivable, gross	552,660	520,822
Less: Allowance for bad debts	115,973	115,108
Accounts receivable, net	**$ 436,687**	**$ 405,714**
Days receivable	*43.1*	*43.0*

Gross patient care receivables represented 81.1% and 79.9% of total gross receivables as of June 30, 2011 and 2010, respectively. The largest portion of patient care receivables relates to Vanderbilt University Hospitals and Clinics (the Hospital). The Hospital grants credit to patients and generally does not require collateral or other security in extending credit; however, it 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, and commercial insurance policies).

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

	2011	2010
Medicare	$ 31,375	$ 46,758
TennCare/Medicaid	50,925	50,135
Blue Cross	91,840	82,277
Various commercial carriers	147,275	131,322
Total from third party payors	**$ 321,415**	**$ 310,492**

4. Contributions Receivable

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

	2011	2010
Unconditional promises expected to be collected:		
in one year or less	$ 30,052	$ 28,149
between one year and five years	60,509	58,081
in more than five years	2,165	4,811
Contributions receivable	92,726	91,041
Less: Unamortized discount	2,308	2,322
Allowance for uncollectible promises	11,846	11,680
Contributions receivable, net	**$ 78,572**	**$ 77,039**

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2011 and June 30, 2010, generally were discounted at rates ranging from 0.5% to 2.0%.

The methodology for calculating an allowance for uncollectible promises is based upon Vanderbilt's analysis of the aging of payment schedules for all outstanding pledges.

In addition to pledges reported as contributions receivable, Vanderbilt received bequest intentions of approximately $241.6 million and $221.9 million as of June 30, 2011 and 2010, respectively. These intentions to give are not recognized as assets due to their conditional nature.

Contributions receivable, net as of June 30, 2011, are classified as follows *(in thousands)*:

	2011	2010
Contributions receivable, net:		
Temporarily restricted	$ 27,334	$ 28,021
Permanently restricted	51,238	49,018
Total	**$ 78,572**	**$ 77,039**

5. Student Loans and Other Notes Receivable

Student loans and other notes receivable, net, as of June 30 along with related allowances for doubtful accounts were as follows *(in thousands)*:

	2011		2010	
	Net Receivable	Related Allowance	Net Receivable	Related Allowance
Federal loans	$ 17,766	$ 1,725	$ 17,440	$ 1,621
Institutional loans	15,353	2,732	16,685	2,683
Faculty mortgages	7,088	-	7,515	-
Student loans and other notes receivable, net	**$ 40,207**		**$ 41,640**	

Vanderbilt is fulfilling a recent "no-loan" commitment made to undergraduate students. For other groups, e.g., graduate students, participation in several federal revolving loan programs, including the Perkins program has continued. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Allowances for doubtful accounts are established 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. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

As part of Vanderbilt's efforts to retain excellent faculty, Vanderbilt provides home mortgage financing assistance. Notes receivable amounting to $7.1 million were outstanding at June 30, 2011. These notes are collateralized by deeds of trust on properties concentrated in the surrounding region. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

6. Investments

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

	2011	2010
Short-term securities and derivative contract collateral	$ 82,938	$ 132,303
Bonds	293,525	216,919
Stocks	488,487	575,277
Partnerships	2,515,842	2,218,972
Loans	3,290	3,941
Real estate	240,941	202,349
Equity method securities, trusts, and other	31,221	35,099
Net (payables) receivables for unsettled trades by investment managers	7,938	(10,733)
Total fair value	**$ 3,664,182**	**$ 3,374,127**
Total cost	**$ 3,249,598**	**$ 3,265,482**

In addition to investments reported in the table above, Vanderbilt has investments allocable to noncontrolling interests (i.e., the minority limited partners) reported at fair value. During fiscal 2011, the minority limited partners funded capital commitments totaling $50.8 million. Additionally, Vanderbilt made payments to the minority limited partners of $47.2 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2011, the minority limited partners' interests in the results of the underlying returns from the private fund assets were $171.8 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $199.2 million as of June 30, 2011.

Investments, along with cash and cash equivalents, provide liquidity support for the university's operations. Of these combined amounts, based on prevailing market conditions as of June 30, 2011, $1,107.3 million was available on a same-day basis and an additional $727.5 million was available within 30 days.

Excluding derivative instruments that may be held by investment managers as part of their respective investment strategies, Vanderbilt held financial futures derivative contracts with notional values of $575.7 million and $201.6 million as of June 30, 2011 and 2010, respectively. The fair market value of such contracts is settled daily between counterparties.

7. Endowment

The endowment represents only those related net assets that are under the control of Vanderbilt. Endowment-related assets include donor-restricted endowments and institutional endowments (quasi-endowments). Gift annuities, interests in trusts held by others, contributions pending donor designation, and permanently restricted contributions receivable are not considered components of the endowment.

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 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. Assets are invested 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 gifts restricted as permanent endowments plus the original value of subsequent gifts 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 2011 and 2010, Vanderbilt's Board of Trust approved endowment distributions based on 4.5% of the average of the previous three calendar year-end market values. Actual realized endowment return earned in excess of distributions is reinvested as part of Vanderbilt's endowment. For years where actual endowment return is less than the distribution, the shortfall is covered by the endowment pool's cumulative returns from prior years.

Board-appropriated endowment distributions may not be fully expended during a particular fiscal year. In some cases, endowment distributions may be approved for reinvestment into the endowment.

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

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 26,564	$ 910,750	$ 937,314
Accumulated net appreciation of donor-restricted endowments	-	1,102,607	-	1,102,607
Reinvested distributions of donor-restricted endowments				
At historical value	129,010	1,727	-	130,737
Accumulated net appreciation	177,185	2,178	-	179,363
Institutional endowments				
At historical value	177,826	-	-	177,826
Accumulated net appreciation	847,306	-	-	847,306
Endowment net assets as of June 30, 2011	**$ 1,331,327**	**$ 1,133,076**	**$ 910,750**	**$ 3,375,153**

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 19,304	$ 841,527	$ 860,831
Accumulated net appreciation of donor-restricted endowments	-	951,275	-	951,275
Reinvested distributions of donor-restricted endowments				
At historical value	130,192	-	-	130,192
Accumulated net appreciation	155,664	-	-	155,664
Institutional endowments				
At historical value	135,849	-	-	135,849
Accumulated net appreciation	773,796	-	-	773,796
Endowment net assets as of June 30, 2010	**$ 1,195,501**	**$ 970,579**	**$ 841,527**	**$ 3,007,607**

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

	2011	2010
Net realized appreciation less endowment distributions	$ 1,712,298	$ 1,732,076
Net unrealized appreciation	416,978	148,659
Total	**$ 2,129,276**	**$ 1,880,735**

In striving to meet the overarching objectives for the endowment, over the past 20 years, there has been a 11.0% annualized standard deviation in Vanderbilt's returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components, each of which is designed to serve a specific role in establishing the right balance between risk and return. Global public and private equity investments are expected to produce favorable returns in environments of accelerated growth and economic expansion. Absolute return and fixed income investments are expected to generate stable returns and preserve capital during periods of poor equity performance. Real estate and natural resources allocations are designed 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, 2011 and 2010, Vanderbilt had deficiencies of this nature of approximately $7 million and $18 million, 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*):

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2010	$ 1,195,501	$ 970,579	$ 841,527	$ 3,007,607
Endowment investment return:				
Investment income, net of fees	4,405	6,972	-	11,377
Net appreciation (realized and unrealized)	153,571	243,078	-	396,649
Total endowment investment return	157,976	250,050	-	408,026
Gifts and additions to endowment, net	38,845	8,992	69,223	117,060
Endowment distributions	(58,950)	(93,308)	-	(152,258)
Transfers for internal management costs	(2,045)	(3,237)	-	(5,282)
Endowment net assets as of June 30, 2011	**$ 1,331,327**	**$ 1,133,076**	**$ 910,750**	**$ 3,375,153**

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2009	$ 1,133,736	$ 914,022	$ 785,856	$ 2,833,614
Endowment investment return:				
Investment income, net of fees	2,054	2,938	-	4,992
Net appreciation (realized and unrealized)	99,500	142,323	-	241,823
Total endowment investment return	101,554	145,261	-	246,815
Gifts and additions to endowment, net	28,251	3,610	55,671	87,532
Endowment distributions	(64,665)	(88,408)	-	(153,073)
Transfers for internal management costs	(2,737)	(3,916)	-	(6,653)
Other	(638)	10	-	(628)
Endowment net assets as of June 30, 2010	**$ 1,195,501**	**$ 970,579**	**$ 841,527**	**$ 3,007,607**

8. Investment Return

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

		2011		2010
OPERATING				
Unrestricted:				
Endowment distributions	$	142,252	$	146,749
Investment income		14,666		19,341
Total operating return		**156,918**		**166,090**
NON-OPERATING				
Unrestricted:				
Change in appreciation of institutioinal endowments, net of distributions		102,258		40,800
Net gains on self-insurance assets		11,299		7,531
Net gains on other investments		13,767		7,679
Temporarily restricted:				
Endowment distributions		7,450		4,717
Investment income		13,583		(1,928)
Change in appreciation of donor-restricted endowments, net of distributions		153,510		52,942
Permanently restricted:				
Endowment distributions		2,556		1,607
Investment income		6,062		8,165
Total non-operating return		**310,485**		**121,513**
Total investment return	**$**	**467,403**	**$**	**287,603**

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

		2011		2010
Net interest, dividend, and partnership income	$	100,614	$	39,552
Net realized gains (losses) from original cost		56,526		(20,305)
Increase in unrealized appreciation		310,263		268,356
Total investment return	**$**	**467,403**	**$**	**287,603**

In addition to a core group of investment professionals dedicated to the management of Vanderbilt's endowment, Vanderbilt also 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 frequently are subject to substantial adjustments based on cumulative future returns for a number of years hence.

Investment returns are reported net of returns attributed to limited partners on investments allocable to minority interests. Investment returns are also reported net of internal management costs of $5.3 million in fiscal 2011 and $6.6 million in fiscal 2010.

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $10.7 million and $7.9 million in fiscal 2011 and 2010, respectively.

9. Property, Plant, and Equipment

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

		2011		2010
Land	$	71,494	$	66,978
Buildings and improvements		2,587,239		2,485,343
Moveable equipment		830,102		795,152
Construction in progress		38,161		86,948
Property, plant, and equipment		3,526,996		3,434,421
Less: Accumulated depreciation		1,772,472		1,627,137
Property, plant, and equipment, net	**$**	**1,754,524**	**$**	**1,807,284**

Purchases for the library collection are not included in the amounts above since they are expensed at the time of purchase. As of June 30, 2011, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled about $280 million.

Capitalized interest of $0.8 million and $2.8 million in fiscal 2011 and 2010, respectively, was added to construction in progress and/or buildings and improvements.

Internally developed software costs of $5.4 million and $3.3 million were capitalized in fiscal 2011 and 2010, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $19.3 million and $18.6 million as of June 30, 2011 and 2010, respectively. These liabilities, which are estimated using an inflation rate of 4.0% and a discount rate of 5.0% based on relevant factors at origination, are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

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 are reflected in the financial statements at carrying value and, as of June 30, were as follows *(in thousands)*:

	Years to Nominal Maturity	Outstanding Fixed Coupon Interest Rates as of June 30, 2011	Fiscal 2011 Effective Interest Rate	Outstanding Principal 2011	2010
FIXED-RATE DEBT					
Series 1998B	18	5.00%	5.0%	$ 29,705	$ 30,710
Series 1998C[1]	4	5.00%	5.0%	8,850	10,805
Series 2001A	5	5.00%	5.1%	7,660	8,970
Series 2001B[1]	12	5.25%	5.1%	42,585	45,085
Series 2008A	8	4.50%-5.00%	4.0%	127,600	133,600
Series 2008B[1]	8	4.00%-5.00%	3.9%	111,400	115,950
Series 2009A	29	4.00%-5.50%	4.9%	97,100	97,100
Series 2009B[1]	29	5.00%-5.50%	5.0%	232,900	232,900
Series 2009A Taxable	8	5.25%	5.3%	250,000	250,000
Fixed-rate debt				**907,800**	**925,120**
VARIABLE-RATE DEBT					
Series 2000A	20		0.3%	54,900	56,500
Series 2000B	20		0.3%	54,900	56,500
Series 2002A	22		0.3%	19,260	19,725
Series 2003A[1]	8		0.3%	20,900	24,280
Series 2005A	34		0.3%	113,300	113,300
Variable-rate debt				**263,260**	**270,305**
Par amount of long-term debt				1,171,060	1,195,425
Net unamortized premium				3,768	6,123
Total long-term debt				1,174,828	1,201,548
Capital leases	1 to 4		5.0%	3,703	4,586
Total long-term debt and capital leases				**1,178,531**	**1,206,134**
Tax-exempt commercial paper	<1		0.4%	150,000	177,740
Taxable commercial paper	<1		0.4%	114,862	123,508
Total commercial paper				**264,862**	**301,248**
Total long-term debt, capital leases, and commercial paper				**$ 1,443,393**	**$ 1,507,382**

[1] Issued under Master Trust Indenture structure.

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements. Such agreements are covered in more detail in a successive note.

Tax-exempt CP and all of the aforementioned bonds (with the exception of the Series 2009A Taxable notes) have been issued by the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (HEFB). As a conduit issuer, the HEFB 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. No assets are pledged as collateral for such debt.

Included in the foregoing table are hospital and clinic (patient care) bonds, with a principal balance outstanding of $416.6 million as of June 30, 2011, 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 (as defined in the MTI). All outstanding MTI bonds are also supplemented by a Vanderbilt guarantee of debt service.

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 liquidity facilities. Vanderbilt was in compliance with such covenants and restrictions as of June 30, 2011.

Selected information for debt, CP, and interest rate exchange agreements follows *(in thousands)*:

	2011	2010
Payments for interest costs	$ 79,126	$ 88,863
Accrued interest expense	$ 74,794	$ 78,788
Assets held by trustees for subsequent debt service as of June 30	$ -	$ 3,431

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. Accrued interest expense is based on applicable interest rates for Vanderbilt's debt, CP, and interest rate exchange agreements 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)*:

2012	$ 25,075
2013	30,215
2014	37,790
2015	46,585
2016	59,175
Thereafter	972,220
Total long-term debt principal retirements	**$ 1,171,060**

In addition to principal and interest payments on long-term debt obligations, Vanderbilt's capital lease agreements outstanding as of June 30, 2011, will require payments of $1.8 million during fiscal 2012. Of those payments, $1.7 million will be allocated toward amortizing the $3.7 million capital lease obligation.

Vanderbilt's long-term debt is reported at carrying value (par) along with the net unamortized amount of premiums and discounts. As of June 30, 2011, the carrying value and estimated fair value of Vanderbilt's long-term debt totaled $1,174.8 million and $1,237.6 million, respectively. The estimated fair value of Vanderbilt's long-term debt is based on market conditions. Vanderbilt's capital leases and commercial paper are also reported 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 dates. The following series may be called at par by Vanderbilt: Series 1998B, 1998C, 2001A, and 2001B. The Series 2008A and 2008B bonds include amortizing principal amounts each year; but these bonds are non-callable before their October 2018 final maturity date. The Series 2009A and 2009B bonds include amortizing principal amounts each year beginning fiscal 2016; and these bonds may be called at par beginning October 2019. The Series 2009A Taxable notes do not amortize and are callable before the April 2019 maturity date only if Vanderbilt pays a make-whole call provision to the bondholders.

Vanderbilt had $263.3 million of variable-rate bonds outstanding as of June 30, 2011. During fiscal 2011, fiscal 2010, and as of the date of this report, all of Vanderbilt's variable-rate bonds exist in weekly interest rate reset modes. In the event that Vanderbilt receives notice of an optional tender on its variable-rate bonds, the purchase price of the bonds will be paid from the remarketing of such bonds. If the remarketing proceeds are insufficient, Vanderbilt will have a current obligation to purchase the bonds tendered.

As of June 30, 2011, Vanderbilt had $150.0 million of tax-exempt CP outstanding and $114.9 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, 2011, would require approval by Vanderbilt's Board of Trust, and issuance of incremental tax-exempt CP would require approval by both Vanderbilt's Board of Trust and the HEFB as conduit issuer.

The weighted average duration of Vanderbilt's CP portfolio totaled 96 days as of June 30, 2011, and 51 days as of June 30, 2010.

Liquidity support for short-term debt within the portfolio (variable-rate bonds and CP totaling $528.1 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2011, Vanderbilt estimates that $1,107.3 million of liquid assets were available on a same-day basis and an additional $727.5 million was available within 30 days.

A second tier of liquidity support consists of two bank revolving credit facilities with maximum available commitments totaling $375.0 million as of June 30, 2011, dedicated solely to Vanderbilt's debt portfolio liquidity support. These commitments expire in March 2013 and March 2014. Maximum repayment periods, which may extend beyond the expiration dates, range from 90 days to three years. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has also entered into agreements with two banks to provide general use lines of credit with maximum available commitments totaling $200.0 million as of June 30, 2011. These lines of credit, which may be drawn upon for general operating purposes, expire in May 2012 and May 2013. No amounts were drawn on these credit facilities as of June 30, 2011 or June 30, 2010.

11. Interest Rate Exchange Agreements

Vanderbilt has 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. Net settlements due to counterparties totaled $29.9 million and $31.6 million in fiscal 2011 and 2010, respectively, and were reflected as adjustments to interest expense.

The fair value of interest rate exchange agreements is based on the present value sum of anticipated future net cash settlements and equals the estimated amount that Vanderbilt would pay, or receive, to terminate the contracts as of the report date. The estimated fair value of Vanderbilt's outstanding interest rate exchange agreements was negative $135.0 million and negative $230.8 million as of June 30, 2011 and 2010, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2011 or 2010. Vanderbilt allowed a $500.0 million fixed-receiver interest rate exchange contract option to expire. This option had zero intrinsic value on the expiration date of December 1, 2010.

During fiscal 2011, Vanderbilt terminated $280.0 million of fixed-payer interest rate exchange agreements at a net cost of $23.7 million to reduce collateral exposure and eliminate ongoing settlement costs as reported in the non-operating section of the consolidated statements of activities.

Gains and losses from changes in the fair value of interest rate exchange agreements are reported in the non-operating section of the consolidated statements of activities. These changes resulted in net gains of $72.1 million in fiscal 2011 and net losses of $76.7 million in fiscal 2010.

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, 2011 and 2010, totaled $81.4 million and $122.7 million, respectively. Vanderbilt estimates that a decline in long-term LIBOR rates to approximately 2% would reduce the fair value of the portfolio to approximately negative $400 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $310 million. As of June 30, 2011, 30-year LIBOR was 4.1%.

As of June 30, 2011, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was approximately 114% fixed.

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**	**2011**	**2010**
Fixed-payer interest rate exchange agreements[1]	Avg fixed rate of 3.72%	Avg of 68.3% of one-month LIBOR[2]	20 to 34 years (including $149,800 of notional amortization matched to principal retirements for the Series 2000A and 2000B bonds and part of the Series 2005A bonds)	$ 724,800	$ 1,008,000
Basis interest rate exchange agreements	SIFMA[3]	Avg of 81.5% of one-month LIBOR[2]	24 to 25 years	$ 500,000	$ 500,000

[1] For one amortizing fixed-payer interest rate exchange agreement that will have a notional balance of $51.6 million in October 2012, the counterparty may exercise an option to terminate the contract, in whole or in part and at no cost, at any time from that date until the final maturity in October 2030.
[2] 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.
[3] 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 are internally designated into the following groups:

Designated for operations represents the cumulative operating activity of Vanderbilt and routine capital replacement reserves.

Designated gifts and grants are composed of 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 represent the net investment in property, plant, and equipment, as well as funds designated for future acquisitions of plant facilities and retirement of debt. These net assets also reflect the realized losses of derivative financing activities presented in the consolidated statements of cash flows.

Reinvested distributions of donor-restricted endowments are amounts related to donor restricted endowments that are 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) 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 such contracts. Because these agreements are intended to manage interest rate risks within the debt portfolio, segregation from other designations is maintained.

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 as follows *(in thousands)*:

	2011	2010
Designated for operations	$ 642,293	$ 435,735
Designated gifts and grants	164,683	178,703
Designated for student loans	25,851	31,346
Designated for plant facilities	574,269	630,826
Reinvested distributions of donor-restricted endowments at historical value	129,010	130,192
Accumulated net appreciation of reinvested distributions	177,185	155,664
Institutional endowments at historical value	177,826	135,849
Accumulated net appreciation of institutional endowments	847,306	773,796
Fair value of interest rate exchange agreements, net	(135,026)	(230,776)
Net assets related to noncontrolling interests	199,249	77,695
Total unrestricted net assets	**$ 2,802,646**	**$ 2,319,030**

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

	2011	2010
Donor-restricted endowments at historical value	$ 26,564	$ 19,304
Accumulated net appreciation of donor-restricted endowments	1,102,607	951,275
Reinvested distributions of Donor-restricted endowments at historical value	1,727	-
Accumulated net appreciation of reinvested distributions	2,178	-
Gifts and pledges	102,749	115,211
Interests in trusts held by others	6,991	6,189
Life income and gift annuities	19,455	16,045
Total temporarily restricted net assets	**$ 1,262,271**	**$ 1,108,024**

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

	2011	2010
Student scholarships	$ 301,756	$ 268,324
Instruction	518,648	491,086
Capital improvements	11,831	12,584
Subsequent period operations and other	430,036	336,030
Total temporarily restricted net assets	**$ 1,262,271**	**$ 1,108,024**

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

	2011	2010
Donor-restricted endowments at historical value	$ 910,750	$ 841,527
Gifts and pledges	53,125	50,904
Interests in trusts held by others	32,370	30,204
Life income and gift annuities	29,357	23,548
Total permanently restricted net assets	**$ 1,025,602**	**$ 946,183**

Based on relative fair values as of June 30, 2011, approximately 27% of donor-restricted endowments support scholarships, 22% support endowed chairs, 24% support operations, and 27% were for other purposes.

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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. The classification of a financial instrument within level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

All net realized and unrealized gains and losses on level 3 investments are reflected in the consolidated statements of activities as changes in endowment appreciation or non-operating gains and losses on other investments. Gains and losses on investments allocable to minority interests are reported as a component of net endowment appreciation in the consolidated statements of activities. Net realized and unrealized gains and losses on interests in trusts held by others are reported as non-operating gains and losses on other investments in the consolidated statements of activities.

The following table presents a rollforward of amounts for level 3 financial instruments for the year ended June 30, 2011 *(in thousands)*:

	June 30, 2010	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers Into and (Out) of Level 3	June 30, 2011	Change in Unrealized Gains (Losses) for Investments Still Held at June 30, 2011
LEVEL 3 ASSETS							
Bonds	$ 20,644	$ 228	$ 2,519	$ (3,335)	$ -	$ 20,056	$ -
Stocks	111,421	(376)	6,266	(64,913)	(29,201)	23,197	(11,668)
Partnerships	2,097,579	381,646	344,791	(442,609)	8,481	2,389,888	243,049
Loans	3,941	(627)	-	(24)	-	3,290	-
Real estate	218,690	19,190	47,335	(16,017)	355	269,553	19,803
Equity method securities, trusts, and other	34,438	10,445	154	(11,171)	(2,823)	31,043	-
Interests in trusts held by others	36,393	2,969	-	-	-	39,362	-
Total Level 3	**$ 2,523,106**	**$ 413,475**	**$ 401,065**	**$ (538,069)**	**$ (23,188)**	**$ 2,776,389**	**$ 251,184**

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

As a measure of liquidity, the frequencies that investments may be redeemed or liquidated are also noted in the following tables, along with the numbers of days notice required to liquidate investments.

As of June 30, 2011, 98% of cash and cash equivalents were available on a same-day basis.

Level 1 investments have been classified based on the frequency and availability of market pricing and the ability to directly control the investment. Most investments that have been classified as levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings. Since the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the university's interest therein, its classification within the fair value hierarchy as level 2 or level 3 is based on the university's ability to redeem its interest at or near the financial statement date. The university defines near term as within 90 days of the financial statement date.

Short-term securities and derivative contract collateral are comprised primarily of amounts posted as collateral in accordance with interest rate exchange agreements and unspent bond proceeds with trustees. Vanderbilt does not recognize a redemption or liquidation frequency for these amounts.

Bonds and stocks provide varying levels of liquidity as defined in the following tables. As of June 30, 2011, 77% and 74% of bond values and stock values, respectively, were available for daily redemption requests with liquidity within 30 days.

Partnerships include hedge funds, which comprise the predominant share of partnerships with monthly, quarterly, and annual redemption frequencies. Notice may be provided to the fund managers to exit from the respective funds in the time periods noted.

As of June 30, 2011, 8% of partnerships are comprised of hedge funds in "lock up" periods of up to 18 months, during which redemptions or liquidations are not allowed per terms of the respective agreements with fund managers. Additionally, 4% of partnerships are in "soft lock up" periods of up to 18 months, during which redemptions or liquidations may occur but are subject to withdrawal penalties of up to 4.75%. These "soft lock up" partnerships are included in the allocations to redemption frequencies of monthly, quarterly, and annually in the tables on the following page.

Of the total fair values for partnerships and real estate, 54% and 100%, respectively, are illiquid and are reported as having a redemption or liquidation frequency of greater than one year as of June 30, 2011. These amounts predominantly consist of limited partnerships, which include partnerships in private equity venture capital and natural resources. 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 for the timing of 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.

Vanderbilt cannot anticipate such changes because they are based on unforeseen events. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related market values are reported as 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)*:

2011

	Fair Value Measurements Level 1	Level 2	Level 3	Total	Group %	Redemption or Liquidation Frequency	Days Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 1,129,804	$ -	$ -	$ 1,129,804	98%	Daily	same-day
					2%	Daily	2-90 days
Short-term securities and derivative contract collateral	82,938	-	-	82,938	100%	n/a	n/a
Bonds	273,469	-	20,056	293,525	48%	Daily	next-day
					29%	Daily	2-30 days
					23%	Daily	>30 days
Stocks	428,853	36,437	23,197	488,487	74%	Daily	2-30 days
					6%	Bi-Weekly	2-30 days
					13%	Daily	>30 days
					6%	Quarterly	>30 days
					1%	Annually	>30 days
Partnerships	178,490	118,100	2,389,888	2,686,478	3%	Daily	next-day
					6%	Monthly	>30 days
					24%	Quarterly	>30 days
					5%	Annually	>30 days
					8%	Lock up	>30 days
					54%	> 1 yr	n/a
Loans	-	-	3,290	3,290	100%	> 1 yr	n/a
Real estate	-	-	269,553	269,553	100%	> 1 yr	n/a
Equity method securities, trusts, and other	178	-	31,043	31,221	100%	n/a	n/a
Net receivables for unsettled trades by investment managers	7,938	-	-	7,938	17%	Daily	next-day
					83%	n/a	n/a
Interests in trusts held by others	-	-	39,362	39,362	100%	n/a	n/a
Total assets reported at fair value	**$ 2,101,670**	**$ 154,537**	**$ 2,776,389**	**$ 5,032,596**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ -**	**$ 135,026**	**$ -**	**$ 135,026**			

2010

	Fair Value Measurements Level 1	Level 2	Level 3	Total	Group %	Redemption or Liquidation Frequency	Days Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 959,157	$ -	$ -	$ 959,157	97%	Daily	same-day
					3%	Daily	2-90 days
Short-term securities and derivative contract collateral	132,303	-	-	132,303	100%	n/a	n/a
Bonds	196,275	-	20,644	216,919	59%	Daily	next-day
					9%	Daily	2-30 days
					32%	Daily	>30 days
Stocks	356,254	107,602	111,421	575,277	50%	Daily	2-30 days
					18%	Bi-Weekly	2-30 days
					15%	Daily	>30 days
					17%	Annually	>30 days
Partnerships	31,708	151,039	2,097,579	2,280,326	5%	Monthly	>30 days
					31%	Quarterly	>30 days
					6%	Annually	>30 days
					10%	Lock up	>30 days
					48%	> 1 yr	n/a
Loans	-	-	3,941	3,941	100%	> 1 yr	n/a
Real estate	-	-	218,690	218,690	100%	> 1 yr	n/a
Equity method securities, trusts, and other	661	-	34,438	35,099	100%	n/a	n/a
Net payables for unsettled trades by investment managers	(10,733)	-	-	(10,733)	100%	n/a	n/a
Interests in trusts held by others	-	-	36,393	36,393	100%	n/a	n/a
Total assets reported at fair value	**$ 1,665,625**	**$ 258,641**	**$ 2,523,106**	**$ 4,447,372**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ -**	**$ 230,776**	**$ -**	**$ 230,776**			

14. Natural Classification of Expenses and Allocations

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

	2011	2010
Salaries, wages, and benefits	$ 2,056,804	$ 1,935,164
Services	188,372	170,218
General expenses and supplies	665,207	642,907
Depreciation and amortization	173,195	162,530
Interest	74,794	78,788
Provision for bad debts	134,020	119,907
Utilities, operating leases, and other	181,188	153,563
Total operating expenses	**$ 3,473,580**	**$ 3,263,077**

Certain allocations of institutional and other support costs were made 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 as shown below *(in thousands)*:

2011

	Depreciation	Interest
Instruction	$ 19,056	$ 5,233
Research	25,067	7,319
Health care services	79,167	41,496
Public service	1,101	300
Academic support	9,410	2,314
Student services	1,404	593
Institutional support	15,174	2,705
Room, board, and other auxiliary services	22,816	14,834
Total	**$ 173,195**	**$ 74,794**

2010

	Depreciation	Interest
Instruction	$ 19,114	$ 5,884
Research	25,087	8,463
Health care services	70,201	42,660
Public service	1,149	375
Academic support	8,780	2,696
Student services	907	444
Institutional support	14,682	3,234
Room, board, and other auxiliary services	22,610	15,032
Total	**$ 162,530**	**$ 78,788**

15. 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. Such contributions immediately fully vest with the employee.

Vanderbilt's obligations under these plans are fully funded by monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2011 and 2010 were $56.2 million and $53.1 million, respectively.

16. Student Financial Aid

Vanderbilt provides financial aid to students based upon need and merit. This financial assistance is funded by institutional resources, gifts, endowment distributions, and externally sponsored programs.

In fiscal 2011 and 2010, financial aid for tuition and educational fees of $193.5 million and $177.8 million was applied to gross tuition and educational fees of $437.4 million and $415.4 million, respectively. In fiscal 2011 and 2010, financial aid for room and board of $27.2 million and $25.8 million was applied to gross room and board of $67.1 million and $63.4 million, respectively.

Loans to students from Vanderbilt funds are carried at cost, which, based on secondary market information, approximates the fair value of educational loans with similar interest rates and payment terms. Loans to qualified students historically have been funded principally with government advances to Vanderbilt under the Perkins, Nursing, and Health Professions Student Loan Programs. Loans receivable from students under governmental loan programs, also carried at cost, can only be assigned to the federal government or its designees. Student loan receivables are reported net of allowances for estimated uncollectible accounts of $4.5 million and $4.3 million as of June 30, 2011 and 2010, respectively.

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

Consistent with Vanderbilt's mission, the university's medical center (including hospitals, clinics and physician practice units) maintains a policy which sets forth the criteria pursuant to those health care services that are provided without expectation of payment, or, at a reduced payment rate to patients who have minimal financial resources to pay for their medical care. These services represent charity care and are not reported 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 charges forgone for services furnished under its charity care policy and the estimated cost of those services. Charity care assistance is offered on a tiered grid, which is based on federal poverty guidelines. In addition to charity care assistance, all uninsured patients are eligible for a discount from billed charges for medically necessary services that is mandated under state of Tennessee law. For those patients with a major catastrophic medical event that does not qualify for full charity assistance, additional discounts are given based on the income level of the patient household using a sliding scale.

The cost of charity care provided by the medical center was $104.2 million and $92.1 million in fiscal 2011 and 2010, respectively. Of the total uncompensated care provided by the medical center (comprising charity care not reported as revenue and expense reported as provision for bad debts), 75% and 74% of the total in fiscal 2011 and 2010, respectively, was charity care. Charity care services represent 5.4% and 5.1%, respectively, of total patient services at the medical center in 2011 and 2010.

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 little or no payment is received. 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 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.

In addition to charity care assistance and community benefits previously noted, Vanderbilt provides substantial community benefit in the form of clinical and laboratory research support. This activity is primarily conducted by the schools of medicine and nursing and includes direct and indirect costs of research funded by other tax-exempt organizations, government entities, and internal funding sources.

The estimated total costs of charity care, community benefits, and other unrecovered costs at June 30, presented in accordance with the reporting framework for Schedule H (Hospitals) of the Internal Revenue Service's Form 990 (Return of Organization Exempt from Income Tax), were as follows *(in thousands)*:

	2011	2010
Charity care and community benefits		
Unreimbursed cost of charity care	$ 104,221	$ 92,143
Resident and Allied Health education	76,258	76,124
Unreimbursed cost of TennCare/ Medicaid	48,837	45,782
Other community health programs	5,583	5,755
Behavioral health hospital services	2,607	3,800
Clinical and laboratory research support	493,244	440,717
Total costs of charity care and community benefits	730,750	664,321
Other unrecovered costs using IRS Form 990 Schedule H guidelines but not includable as community benefits		
Unreimbursed cost of Medicare	59,164	43,755
Cost of bad debts	34,559	33,215
Unreimbursed cost of TRICARE	10,797	8,637
Total other unrecovered cost	104,520	85,607
Total cost of charity care, community benefits, and other unrecovered costs	**$ 835,270**	**$ 749,928**

18. Lease Obligations

Vanderbilt leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms of up to 15 years. Total operating lease expense in fiscal 2011 and 2010 was $65.3 million and $59.0 million, respectively.

As of June 30, 2011, future committed minimum rentals by fiscal year on non-cancelable operating leases with initial or remaining lease terms in excess of one year were as follows *(in thousands)*:

2012	$ 37,759
2013	31,773
2014	27,095
2015	23,467
2016	18,279
Thereafter	46,131
Total future minimum rentals	**$ 184,504**

Vanderbilt leases over 50% of the space in the approximately 850,000-square-foot One Hundred Oaks facility, located within five miles of the main campus, primarily for medical clinic and office uses. This operating lease commenced in fiscal 2008 with an initial lease term of 12 years. Minimum aggregate rental payments of $45.0 million related to this space are included in the preceding table.

19. 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 potentially could be perceived to conflict with Vanderbilt's best interests.

When situations exist relative to the conflict of interest policy, active measures are taken to appropriately manage 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.

20. Commitments and Contingencies

(A) *Construction.* As of June 30, 2011, approximately $32.7 million was contractually committed for projects under construction and equipment purchases.

(B) *Litigation.* Vanderbilt is a defendant in several legal actions. Vanderbilt believes that the outcome of these actions will not have a significant effect on Vanderbilt's consolidated financial position.

(C) *Regulations*. Vanderbilt's compliance with regulations and laws is subject to future government review and interpretations, as well as regulatory actions unknown or unasserted 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. For this self-insured retention, investments have been segregated. The funding for these segregated assets is based upon studies performed by an actuarial firm. 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's estimated liabilities are recorded based upon studies conducted by independent actuarial firms.

(F) *Federal and State Contracts and Other Requirements.* Expenditures and F&A costs related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. The amounts, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although management expects they will not have a significant effect on Vanderbilt's consolidated financial position.

(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. Any differences between estimated year-end settlements and actual final settlements are reported in the year final settlements are known. Substantially all final settlements have been determined through the year ended June 30, 2007.

(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 continues to refine policies, procedures, and organizational structures to enforce and monitor compliance with HIPAA, as well as other government statutes and regulations.

(I) *Partnership Investment Commitments.* There were $726.5 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2011. These funds may be drawn down over the next several years upon request by the general partners. 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 $72.8 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

(J) *McKendree Village, Inc. Debt Guaranty.* In July 1998, Vanderbilt and McKendree Village, Inc. (McKendree), a not-for-profit retirement community, entered into an affiliation agreement, including a guarantee of certain McKendree debt by the university, largely secured by asset liens on McKendree property. As of June 30, 2011, the balance of McKendree's guaranteed debt outstanding was $15.4 million and the university has recorded a loss reserve estimate. As of June 30, 2011, McKendree was not in compliance with certain debt covenants. On September 30, 2011, McKendree's assets were purchased by another organization. As part of this transaction, funds were deposited with a trustee sufficient to retire the debt outstanding, scheduled to occur on November 1, 2011.

Vanderbilt University
Office of the Vice Chancellor for Finance and Chief Financial Officer
October 2011