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Letter from the Chancellor

Every year during my administration I will be greeting you in Vanderbilt University's Financial Report. In coming years, I will be reporting on how far we have come, and on what we have left to do. This year I am afforded the opportunity of announcing to you the challenges I hope the University will be meeting during those years. However, I cannot begin to give you my blueprint for change without first acknowledging the accomplishments of Chancellor Joe B. Wyatt. The achievements of my predecessor equip us well for our advancement into the future. Chancellor Wyatt's prudent but aggressive economic strategy and his financial innovation have stimulated Vanderbilt's physical and intellectual landscapes, increasing Vanderbilt's academic presence on both national and international stages. Because of him, I am here, and my goals for change in the University build upon and refine the work he has done.

I have formulated five strategic goals for change at the University that I believe will help Vanderbilt to arrive at the next stage in its existence. Think of these goals as an architecture of change and as challenges for you, for myself, and for the University. These goals will initiate processes that will help us evolve.

1. We must renew our commitment to the undergraduate experience at Vanderbilt. We must make an undergraduate's career at Vanderbilt a total, immersed learning experience. We have to ensure that Vanderbilt is a dynamic, student-based learning community, with opportunities for learning that extend beyond the formal classroom, and support what students learn in the classroom. Students at Vanderbilt should be surrounded by an atmosphere of intellectual exhilaration. We must maintain excellent learning and living spaces that facilitate interaction among students, faculty, and staff, and serve students' academic, social, and recreational needs.

2. We must reinvent graduate education at Vanderbilt. We have to ask ourselves how we can attract the best graduate students and what new areas of support we can identify for graduate education. How do we recruit faculty that will attract the best graduate students? Exploring

these questions requires a vigorous review of our doctoral programs, and may demand fundamental changes in some of those programs.

3. We must reintegrate professional education with the intellectual life of the University. Vanderbilt's professional schools are the most direct reflection of Vanderbilt's presence within the community, and because of this they set high standards for the rest of the University. As leaders, they serve as useful models to the University's other schools, which would benefit from more cross-disciplinary work with professional programs. Conversely, the critical acumen of the professional schools would only be deepened through intellectual discourse with their fellow colleges.

4. We must reexamine and restructure economic models. Vanderbilt's current planning system can create barriers to intellectual life. Its creation of financial divisions between colleges can prohibit cross-disciplinary work. We need an open, transparent, integrated budget/planning process that builds confidence within the University community and places responsibility on managers, but is more flexible and does not require as much negotiation.

5. We must renew Vanderbilt's covenant with the community. Although we may be a private university, we serve Middle Tennessee, the nation, and the world. We must continue to reach out to this wider world to further our social mission. We have to assess what our obligations are to the communities that support us. We also have to make our good works visible to publicize the good we do. We should promote our positive influence through strategic outreach to local, national, and international communities. It is Vanderbilt's time to become a more engaged institution.

These goals will prove useful as markers with which to check our progress as an institution, so that we may ensure that Vanderbilt is growing into its fullest integration as an intellectual academic community. We will return to them again and again. I invite you to check me against them.

E. Gordon Gee
Chancellor



Letter from the Chairman of the Board of Trust

Vanderbilt's 127-year legacy of excellence continues today thanks to the outstanding quality of its administrators, faculty, staff, and students.

The ten undergraduate, graduate, and professional schools at Vanderbilt are consistently honored for their exceptional quality. The level of skill of its faculty and the ability of the University's student body only increase from one year to the next. These things, when coupled with the dedication of the Board members and the competence of the University staff, produce a university paramount in every respect. I am grateful to Chancellor Emeritus Joe B. Wyatt for his outstanding leadership over the past 18 years. In every way, Vanderbilt is a better, stronger, more diverse university.

Vanderbilt enters a new era this year as E. Gordon Gee joins the University as its seventh chancellor. Suggesting that Vanderbilt is an institution better than it realizes, he expects to lead this University with a sense of vision that will surely inspire us all.

Committed to creating an even better reputation for Vanderbilt, Chancellor Gee and I share the belief that Vanderbilt's best days are yet to come.

Martha R. Ingram
Chairman of the Board of Trust



Letter from the Chancellor Emeritus

The true measure of a university is not the condition of its campus, the size of its endowment, or the SAT scores of its entering freshmen. It is, rather, the cumulative impact that an institution has outside its borders by educating leaders, creating new knowledge, and serving the community and the world.

By those standards, the Vanderbilt University I was privileged to serve for 18 years as Chancellor is a truly remarkable place.

The financial health of the University as presented in this report represents my final year as Chancellor. It tells an important part, but *only* a part, of Vanderbilt's success in recent years. By successfully navigating the rapids of change in education, technology, and health care, Vanderbilt has a solid foundation for the future.

Indeed, each year for the past 18 has represented a foundation for the next, an endless continuum in which success in achieving the goals of a distant vision depends on dealing with the challenges of the present.

Our academic programs continue to grow in stature, thanks to a world-class faculty and an increasingly diverse student body. The campus is sprouting nearly a half-billion dollars in new and renovated space—a construction effort with few parallels at private universities of our size. And through the careful but entrepreneurial management of our resources, both financial and intellectual, the University is poised to make great leaps in all areas under the direction of Chancellor E. Gordon Gee.

Vanderbilt is indeed a great university. I value the leadership provided by our Board of Trust and the many members of the Vanderbilt community who can rightly claim credit for the University's successes over the past year and those before it.

Joe B. Wyatt
Chancellor Emeritus





The Year at a Glance

July 1999

■ The Medical Center joins Duke and Boston University Medical Centers as one of the initial three Genetic Epidemiology Centers in the world. Pharmaceutical giant Glaxo Wellcome will partially fund Vanderbilt's program in human genetics in an effort to identify the genes involved in common diseases and use the power of genetics to develop drugs to combat these ailments.

■ Law School students publish the *Vanderbilt Journal of Entertainment Law & Practice* to address issues of intellectual property and patent law on the Internet. The new journal is aimed at those affected by changing laws pertaining to technological advancement in the entertainment industry.



▲ Vanderbilt kicks off a new logo publicity campaign with the help of head football coach Woody Widenhofer. The campaign invites the Nashville community and Vanderbilt alumni worldwide to vote on which of the new logos should adorn the helmets of the football team and the 50-yard line of Dudley Field.

■ The Vanderbilt University Medical Center is listed on *U.S. News and World Report's* "America's Best Hospitals" in 10 of 16 specialty areas. Vanderbilt's first-time entrants on the list include cardiology and heart surgery (30th), digestive tract (48th), and orthopaedics (50th). The Vanderbilt-Ingram Cancer Center continues its rise in prominence, ranking 16th in cancer care, up from 21st last year and 35th the year before. Other specialties in which Vanderbilt is ranked among the best are respiratory care (12th); urology (30th); ear, nose, and throat (15th); gynecology (23rd); hormonal disorders (13th); and rheumatology (24th).

August



▲ Two hundred incoming freshmen attend the first Squirrel Camp, a three-day retreat sponsored by the Vucept Orientation Program at the Joe C. Davis Outdoor Recreation Center on Percy Priest Lake. Together with student orientation leaders and faculty and staff, the new students enjoy several team-building activities including a high ropes course.

■ Construction begins on a new 14-story, 362,000-square-foot office and retail building on University-owned property at 2525 West End Avenue. The first phase of the new development is scheduled to be completed in September 2000 and will include office space, several restaurants, and a bookstore. A subsequent phase will include a four-star hotel. The development, to be managed by international real estate firm Hines, will generate income to be used to fund merit scholarships for undergraduate students.

■ Vanderbilt University School of Nursing offers one of the first graduate programs in the nation focused on the growing field of correctional health. The School of Nursing partnered with the Federal Bureau of Prisons for this unique program of study. Students will serve in an area of need in the Federal Bureau of Prisons for two years.

■ Bill Purcell leaves his position as director of the Center for Child and Family Policy at the Vanderbilt Institute for Public Policy Studies to serve as Nashville's mayor. Meanwhile, Brenda Gilmore, director of Mail Services, is elected to a Metro Council seat in District 1.

September

■ Peabody College is one of 14 recipients in the nation to win a Department of Education Catalyst Grant. Catalyst is part of a federal program to connect children with computers and Internet access. Peabody's \$2 million grant will be used to develop curricula, teaching methods, instructional materials, and other models for teaching technology.

■ Doctors at Vanderbilt University Medical Center develop a new device to help people with paralyzed vocal folds breathe on their own and speak normally. The Implantable Pulse Generator, recently implanted in a patient for the first time in the United States, offers a new alternative to a tracheotomy.

■ Donna Hoffman and Thomas Novak, associate professors of management in marketing at the Owen Graduate School of Management, are voted the world's top two Internet scientists by more than 600 U.S. and European scientists and marketing managers. The survey was conducted by Prof-Net Institute for Internet-Marketing in Germany.



◀ Stevenson Professor of Chemistry Ned Porter receives one of the top honors in chemistry, the Cope Scholar Award from the American Chemical Society.

October

■ The Owen Graduate School of Management is recognized as one of the top M.B.A. schools in the country in addressing environmental issues. The award was presented by the World Resource Institute and the Aspen Institute's Initiative for Social Innovation through Business.

■ Vanderbilt is selected as the lead university for a \$10 million multi-institution grant to fund bioengineering education. The grant calls for the establishment of the Vanderbilt-Northwestern-Texas-Harvard-MIT Center for Bioengineering Educational Technologies. The center will combine the expertise of the Vanderbilt School of Engineering and the Peabody College Learning Technology Center to develop bioengineering educational technologies and curricula.

■ Vanderbilt is one of 21 universities in the nation to receive a Grant to Combat Violent Crimes Against Women on Campuses from the U.S. Department of Justice's Violence Against Women Office. The \$435,000 federal grant will help fund educational outreach, training, and research on violence against women through the efforts of the Margaret Cuninggim Women's Center and the Department of Police and Security.

■ Marshall Eakin, associate professor of history, is named the Tennessee Professor of the Year by the Carnegie Foundation for the Advancement of Teaching and the Council for Advancement and Support of Education in recognition of his dedication to teaching, commitment to students, and innovative teaching methods.

■ The Alternative Spring Break program and the Student Government Association sponsor the first-ever Weekend of Service. Approximately 100 students spend two days volunteering in small groups with various Nashville service organizations.

■ Vanderbilt and Metro school officials team up with the private sector to offer a program that guarantees college scholarships to inner-city students. Nashville's project GRAD (Graduation Really Achieves Dreams) will award its first scholarships in 2003 to students attending Pearl-Cohn High School. Project GRAD was brought to Nashville through the efforts of Vanderbilt junior Katie Dunwoody.

November

■ The Vanderbilt-Ingram Cancer Center and Meharry Medical College form a new partnership with the goal of improving educational, scientific, and clinical programs at both institutions. The alliance received more than \$1 million from the National Cancer Institute to collaborate on research, training, and patient care. One of the primary goals of the partnership will be to understand why African-Americans are more likely to develop and die from cancer.

■ Travis Thompson, director of the John F. Kennedy Center for Research on Human Development and a professor of psychology, psychiatry, and special education, receives the Earl Sutherland Prize for Achievement in Research, Vanderbilt's top research award. Thompson's work in the field of developmental disabilities studies has been applied to treatment programs for the mentally retarded nationwide.

▼ Walter Chazin, a renowned scientist from the Scripps Research Institute in California, joins the Vanderbilt faculty as professor of biochemistry. He will also serve as director of the new Structural Biology Program. The program joins several areas of the University in an effort to promote molecular research and brings computational biology expertise to Vanderbilt for the first time.



December

■ Dr. Harvey Bender, Jr., emeritus professor of cardiac and thoracic surgery, is named president-elect of the American College of Surgeons. Dr. Bender served as Vanderbilt's chair of the Department of Cardiac and Thoracic Surgery for 25 years, leading the program to national and international prominence. He will assume the presidency of the largest organization of surgeons in the world in October 2000.

■ Vanderbilt enters into a contractual relationship with Follett Higher Education Group to manage the Vanderbilt Bookstore and the Medical Bookstore. Follett manages more than 630 college and university bookstores and supports online textbook purchasing.



▲ Researchers at Vanderbilt's W. M. Keck Foundation Free-Electron Laser Center successfully complete the first-ever clinical operation on a human with a free-electron laser. The infrared laser was used to remove tissue from a brain tumor of a 78-year-old Missouri woman. First adopted by the Defense Department as part of the "Star Wars" missile defense program, the free-electron laser is now being applied to surgery due to its precise tissue cutting capabilities.

January 2000

■ The Vanderbilt University 1999 Community Giving Campaign raises \$755,320, surpassing last year's total by more than \$65,000. A record-high 4,830 Vanderbilt faculty and staff contribute to the effort, exceeding last year's total by 250 participants.

► Vanderbilt senior baseball player Hunter Bledsoe is named a recipient of Today's Top VIII award by the NCAA Honors Committee, making him Vanderbilt's first athlete to earn this award in its 26-year history. The award is given to eight student athletes who excel in athletics, academics, and leadership. Bledsoe graduated in 1999 with a dual degree from the School of Engineering and the College of Arts and Science. He was the 1999 Southeastern Conference Player of the Year and went on to sign with the Los Angeles Dodgers.



■ The Vanderbilt community mourns the loss of former president of the Board of Trust Sam M. Fleming. Fleming began serving on the board in 1951 and was named a life trustee in 1979. He served as vice-president from 1966 to 1970, during which time he led the University's \$55 million fund-raising campaign. He held the office of president from 1975 to 1981.

■ Surgeons at the Medical Center complete the first-ever triple organ transplant at Vanderbilt. The rare procedure consisted of removing an 18-year-old male cystic fibrosis patient's heart, lungs, and liver and replacing them with donor organs. The procedure took 11 hours and involved almost 100 Medical Center employees.

February

■ Board of Trust member Thomas M. Hudson tragically dies in an automobile accident. Hudson co-founded the Nashville branch of the Robinson-Humphrey investment firm and the Matteson-Hudson Construction Company. He also served in 1978 as president of the Board of Directors of the Vanderbilt Alumni Association.

▼ E. Gordon Gee, president of Brown University, is elected by a unanimous vote of the Board of Trust to become the seventh Chancellor of Vanderbilt effective July 31, 2000. He will also serve as a professor of law. Gee graduated from the University of Utah in 1968 and then earned a law degree and a doctorate in education at Columbia University. Before Brown, he served as president at Ohio State University, University of Colorado, and West Virginia University. His wife, Constance Gee, will join the faculty of Peabody College.



■ An economic impact analysis indicates Vanderbilt is the largest private employer in Middle Tennessee with approximately 15,000 faculty and staff. Estimates indicate that the University accounts for an annual economic impact of \$2.4 billion, while Vanderbilt's academic, health care, athletic, and cultural activities attract hundreds of thousands of people to campus and support an estimated 28,700 jobs in Middle Tennessee each year.

■ NAACP president and former U.S. congressman Kweisi Mfume addresses the Vanderbilt community at Langford Auditorium on racial reconciliation in the United States. Mfume was invited to campus by the Speakers Committee to give a speech titled "Race: Exploring America's Agenda," which examines how racial relations have changed.

■ The Board of Trust approves the naming of the soon to be completed Sarratt Student Center addition for Terence and Mary Beth Adderley in light of their substantial contribution to that project. The University also announces significant gifts toward the renovation from Board of Trust members Eugene H. Vaughan and Joanne Fleming Hayes.

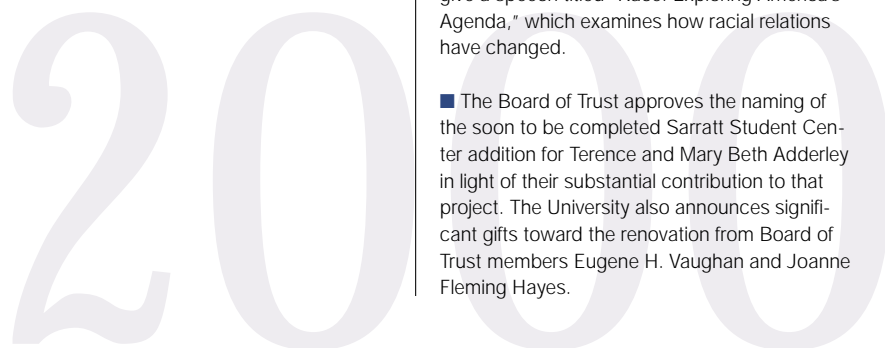
March

■ Commodore basketball's senior forward Dan Langhi is named Associated Press SEC Co-Player of the Year and Coaches SEC Player of the Year. Langhi is the fifth player in Vanderbilt basketball history to receive this honor. He averaged 22.4 points per game in his final season and went on to sign with the Houston Rockets.



▲ U.S. Supreme Court Justice Sandra Day O'Connor, the first woman to serve on the court, visits Vanderbilt to participate in a moot court competition sponsored by the Law School and the First Amendment Center.

■ The School of Medicine is ranked 25th out of 123 medical schools based on grants received from the National Institutes of Health (NIH) last year. Among specialty departments, Pharmacology ranked first; Cell Biology, Molecular Physiology and Biophysics ranked fourth; Biochemistry ranked fifth; and the Clinical Research Center ranked seventh.



April

■ The \$11.4 million renovation of Sarratt Student Center is completed and the building re-opened with an additional 21,000 square feet. New features include a Munchi Mart, study space, and offices for various student groups. Re-opening festivities include food, music, performances by student groups, and an open house of the building.

■ In its annual rankings of graduate and professional schools, *U.S. News and World Report* ranks four Vanderbilt University schools among the top 25 in their fields: Owen Graduate School of Management (24th out of 325 accredited M.B.A. programs), Peabody College (6th out of 187 graduate education programs), the Law School (18th out of 174 American Bar Association-accredited law schools), and the School of Medicine (16th out of 125 schools of medicine). In addition, the School of Nursing ranks 27th and the School of Engineering's biomedical specialty ranks 18th.

■ Vanderbilt hosts the Millennial Gathering, bringing 46 writers of the New South to campus to celebrate this 70-year-old literary tradition. The Gathering, coordinated by associate professor of English and published Southern poet, Kate Daniels, includes various workshops, forums, panels, and readings.

■ The Office of Volunteer Activities, Interhall, the Student Government Association, and the Community Service Coalition sponsor a Community Service Outreach Day. Approximately 130 volunteers visit 18 sites in neighborhoods around Nashville. The Vucept student program sends another 200 volunteers to 13 other sites. Activities range from painting and cleaning to visiting with patients at area hospitals.

■ Vanderbilt Board of Trust member and motion picture director Delbert Mann receives the Vanderbilt Alumni Association's 1999 Distinguished Alumnus Award. After graduating from Vanderbilt University, Mann went on to direct such classic films as *All Quiet on the Western Front*, *The Dark at the Top of the Stairs*, and *David Copperfield*. He won an Academy Award for his debut film, *Marty*, in 1956. Mann has served on the Board of Trust since 1962.

■ The Social Religious Building on Peabody campus is renamed the Faye and Joe Wyatt Center for Education in honor of the retiring Chancellor and his wife. The Board of Trust voted to rename the 85-year-old building as a tribute to the Chancellor under whom it became one of the most advanced learning environments in the country.

May

■ Vanderbilt enters into a partnership with Celera Genomics, which gives the University access to vast resources of genomic data that were previously available only to industrial subscribers. As the first academic institution to gain access to Celera's library, Vanderbilt will use this information for the development of new therapeutic and diagnostic tools to facilitate biomedical research and advance patient care.

■ The Vanderbilt Children's Hospital celebrates the groundbreaking of a nine-story, 565,000-square-foot hospital, which will have 206 inpatient beds and 16 operating rooms. The hospital will be named the Monroe Carell Jr. Children's Hospital at Vanderbilt.



▲ A sculpture called "The Tree of Learning" by artist Greg Wyatt is unveiled on Library Lawn. The 20-foot-tall, 10,000 pound bronze sculpture is the centerpiece of Vanderbilt's "Garden of Great Ideas," a collection of eight sculptures placed on campus over the last three years.

■ The School of Engineering hosts a groundbreaking ceremony at Jacobs Hall to mark the beginning of a \$28 million project to improve the educational facilities and create a central gathering place for engineering faculty, students, and alumni. A portion of the new engineering facility is named after William W. Featheringill in honor of his significant financial commitment for the project.

■ The 2000 Black Graduates' Recognition ceremony is dedicated to the late Felix Boateng, former director of the Bishop Joseph Johnson Black Cultural Center, who died in April. Boateng developed many innovative programs aimed at helping the University community better appreciate and understand cultural diversity.

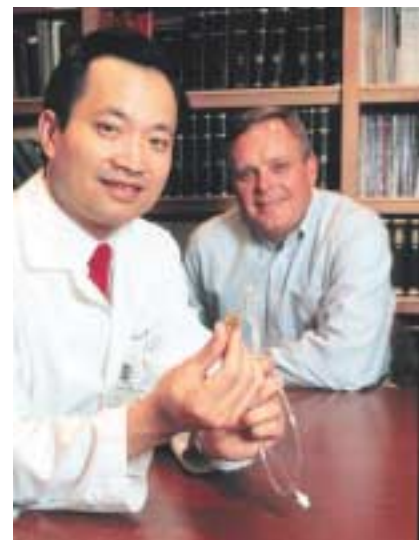
June

■ The University begins construction of a new brick and iron baseball stadium on the site of the current baseball diamond on McGugin Field. The stadium should be completed before the 2001 season. The \$5 million makeover is being funded by private donors, including an anonymous contributor of \$2 million.

■ Elizabeth Howard, an instructor in the practice of nursing, is one of 26 individuals selected to receive the 2000 Excellence in Teaching Award by the American College of Nurse-Midwives Foundation, Inc. The award honors educators who mentor and serve as role models for midwifery students.

■ The School of Medicine and the Owen Graduate School of Management create a joint M.D./M.B.A. degree program. The five-year program will require students to spend three semesters at Owen, taking courses that will prepare them to deal with economic and accounting issues in health care.

▼ The Medical Center becomes one of the first laser vision centers to use new LASIK technology to reduce post-operative infections. Dr. Ming Wang, director of the Vanderbilt Laser Sight Center and principal investigator, successfully performed the LASIK surgery. The new, safer instrument is expected to become a standard of care in vision correction surgery.



Statistical Highlights

	<u>1999/2000</u>	<u>1998/1999</u>	<u>1997/1998</u>	<u>1996/1997</u>
STUDENTS				
Undergraduate	5,885	5,818	5,927	5,877
Graduate and professional	<u>4,242</u>	<u>4,292</u>	<u>4,364</u>	<u>4,376</u>
Total fall enrollment	<u>10,127</u>	<u>10,110</u>	<u>10,291</u>	<u>10,253</u>
Undergraduate admissions				
Applied	8,499	9,211	9,487	8,667
Accepted	5,217	5,436	5,530	5,215
Enrolled	1,633	1,495	1,514	1,545
Selectivity ratio	61.4%	59.0%	58.3%	60.2%
Matriculation ratio	31.3%	27.5%	27.4%	29.6%
Degrees conferred				
Baccalaureate	1,370	1,417	1,399	1,322
Master's	1,016	967	980	880
M.D.	109	96	105	100
Other doctoral	<u>371</u>	<u>364</u>	<u>396</u>	<u>407</u>
Total degrees conferred	<u>2,866</u>	<u>2,844</u>	<u>2,880</u>	<u>2,709</u>
Undergraduate graduation rates	84.0%	81.2%	81.6%	81.2%
Undergraduate tuition rate	\$ 22,990	\$ 21,930	\$ 20,900	\$ 19,920
% increase over prior year	4.8%	4.9%	4.9%	5.6%
HOSPITAL AND CLINIC				
Licensed beds	658	658	658	658
Hospital admissions	32,151	31,349	30,011	28,496
Hospital patient days	167,764	165,426	161,847	152,671
Average daily census	458	453	443	418
Average length of stay (days)	5.2	5.3	5.4	5.4
Clinic outpatient visits	627,988	573,481	535,934	472,600
Emergency room visits	57,604	57,210	50,110	45,599
LifeFlight (helicopter) missions	1,657	1,558	1,279	889
FACULTY AND STAFF				
Full-time faculty	1,924	1,815	1,828	1,779
Full-time staff	11,131	11,292	10,417	9,799
Part-time faculty	380	318	317	329
Part-time staff	<u>1,440</u>	<u>1,617</u>	<u>1,685</u>	<u>1,369</u>
Total faculty and staff	14,875	15,042	14,247	13,276
MANAGED ENDOWMENT FUNDS				
Market value (\$000)	\$ 2,314,935	\$ 1,796,785	\$ 1,507,001	\$ 1,311,884
Total return on endowment	31.9%	19.8%	17.0%	20.8%
Endowment earnings utilized	3.5%	3.7%	3.7%	3.7%
Endowment per student	\$ 228,590	\$ 177,724	\$ 146,439	\$ 127,951
RESEARCH EXPENDITURES (\$000)				
Federal	\$ 92,342	\$ 85,545	\$ 76,564	\$ 70,914
Non-federal	44,689	39,590	34,330	32,961
Facilities and administrative costs recovery	<u>46,397</u>	<u>40,060</u>	<u>37,775</u>	<u>34,514</u>
Total research expenditures	\$ 183,428	\$ 165,195	\$ 148,669	\$ 138,389

Review of the Statistical Highlights

Students. Enrollment for the 1999/2000 academic year totaled 10,127 students. The matriculation rate increased significantly to 31.3% in fall 1999, resulting in Vanderbilt's largest-ever freshman class.

Although applications decreased to 8,499 last year, they rebounded to over 8,900 for fall 2000 undergraduate admissions. As a result of increased applications, Vanderbilt's selectivity improved significantly in fall 2000.

Undergraduate graduation rates increased to 84.0% (based on successful graduations within six years of initial enrollment).

Undergraduate tuition increased only 4.8% to \$22,990 for the 1999/2000 academic year. The University announced a tuition rate of \$24,080 for the 2000/2001 academic year, resulting in the smallest percentage increase in nearly 35 years.

Hospital and Clinic. In fiscal 2000, Vanderbilt admitted 32,151 hospital patients, served 627,988 outpatient visits, and cared for 57,604 patients in its emergency room. Inpatient admissions have increased an average of 4.1% per year since 1997, while outpatient and emergency room visits increased an annualized average of 9.9% and 8.1% per year, respectively, during that same period.

Meanwhile, the average inpatient length of stay continues to decrease as technology advances, patient care practices improve, and more procedures are performed on an outpatient basis. Managed care also contributes to decreasing lengths of stay. The average length of stay for an inpatient visit decreased to 5.2 days in fiscal 2000, compared to 7.2 days ten years ago.

Faculty and Staff. The University employed 14,875 regular and temporary faculty and staff in 2000, including those employed in wholly-owned affiliated entities. This figure excludes employees of joint ventures and over 1,100 clinical and adjunct faculty not paid directly by Vanderbilt.

In fiscal 2000, the faculty headcount increased in the School of Medicine and other areas to support efforts in teaching, research, and patient care. The staff headcount decreased, partially because of a decision to outsource the University Bookstores in fiscal 2000. Additionally, position eliminations in the hospital and Vanderbilt Health Plans, Inc. contributed to the overall reduction in the staff headcount.

Managed Endowment Funds. The market value of Vanderbilt's endowment totaled over \$2.3 billion as of June 30, 2000. This amount does not include six million shares of Ingram Micro, Inc. stock held for Vanderbilt by the Ingram Charitable Fund. The University benefited from outstanding endowment returns that have averaged more than 21% per year over the last five years. Vanderbilt's conservative spending policy also contributes to growth in the endowment. In fiscal 2000, the endowment returns totaled 31.9%, of which 3.5% were utilized to fund operations, scholarships, and other defined endowment spending. The Endowment Review section on page 24 of this *Financial Report* discusses the endowment in greater detail.

Research Expenditures. Research expenditures have increased a total of 32.5% since 1997. Sponsored research and project awards, including multiple-year grants and contracts, totaled \$202.8 million in fiscal 2000.



A Blueprint for Academic Excellence

Vanderbilt has embarked on the largest building campaign in its history. A coordinated plan between the academic, health care, and administrative areas allowed the University to identify capital projects in support of the mission and priorities of the University. This plan also helped to determine prudent funding strategies using a combination of debt, reserves, and philanthropy. The outcome was that almost \$500 million in new projects were approved, partially funded by the issuance of \$225 million in debt. Even with the increased debt level, Vanderbilt maintained its Aa3 and AA credit ratings by Moody's Investors Service and Standard & Poor's, respectively.

Significant projects currently underway are described below.

▼ The Law School expansion, with an estimated cost of \$22.6 million, will include the addition of 57,000 square feet and the renovation of a significant portion of the existing 105,000 square feet. The expansion and renovation will create modern classroom spaces and a new practice trial courtroom, expand and improve the library facilities, and enhance common areas such as student lounges.



■ The Blair School of Music will undergo two phases of expansion with an estimated cost of \$23.5 million. Phase I, recently completed, consisted of the addition of 40,700 square feet of instructional and rehearsal space including classrooms, teaching studios, student practice rooms, and a large rehearsal hall. Phase II will consist of 61,000 square feet of new construction and 5,300 square feet of renovations to the existing facility. Phase II will include construction of a 620-seat performance hall with an orchestra pit, dressing rooms, full staging capabilities, and new rehearsal, studio, and library space.



▲ The Biological Sciences Building/Medical Research Building III (MRB III) project, with an estimated cost of \$95 million, includes new construction of approximately 300,000 square feet and renovation of 83,400 square feet of the adjoining Learned Lab Building. The new research building is part of an interdisciplinary initiative involving neuroscience, structural biology, genetics, and developmental biology. The building will contain faculty research laboratories, teaching laboratories, and a shared lecture hall.



▲ The Jacobs Hall (School of Engineering) renovation, with an estimated cost of \$28 million, includes the demolition of a middle wing and connecting corridors, and construction of a new three-story, 92,400-square-foot building. The project also includes renovations of over 76,100 square feet of space in Jacobs Hall east and west wings.

▼ The Sarratt Student Center project, completed in April 2000 at an estimated cost of \$11.4 million, consisted of the renovation of approximately 59,000 square feet and the addition of 21,000 square feet. The renovation and expansion provided additional space for over 50 student organizations, a significant amount of social gathering space, study spaces, and meeting rooms.



▼ The Monroe Carell Jr. Children's Hospital at Vanderbilt project, with an estimated cost of \$150 million, consists of the construction of a new freestanding 565,000-square-foot children's hospital inpatient facility with 206 beds and 16 operating rooms. The Children's Hospital is being designed from the ground up as a child-oriented setting with a focus on "family-centered care." The new Children's Hospital will provide easy access to all services for children and their parents.



■ The Research Support Facility project, with an estimated cost of \$14 million, consists of a two-story addition to the top of Medical Center North's Werthan Building. The construction will create 35,000 square feet of space to supplement the Medical Center's growing research programs in the MRB III facility to be located nearby.



▲ The Vanderbilt-Ingram Cancer Center project, with an estimated cost of \$14 million, consists of an eight-story, 59,800-square-foot addition to the existing Frances Williams Preston Cancer Research Building. The new building will provide a focal point for cancer research, patient care, and education.

■ Memorial Gym will undergo two phases of renovation and construction with an estimated cost of \$21.3 million. Phase I, now complete, consisted of renovations that upgraded life-safety features; enhancements to seating, lighting, sound, and interior surfaces; and the addition of suites, graphics, and other aesthetic improvements. Phase II will add a new practice gym with three courts and new office space for men's and women's basketball.

■ The Steam Plant and Transformer project, with an estimated cost of \$25.2 million, consists of the expansion of the central steam and electric utility infrastructure. The expansion will support the growth and renovation of facilities planned by the University over the next several years.

Vanderbilt has over 200 buildings spread across its 323-acre campus. The University constantly looks to improve the quality of its education, research, and patient care through strategic investments in existing and new facilities. Rather than taking a project-by-project approach, Vanderbilt develops its capital funding strategies through a consolidated assessment of the University's debt capacity, operating results, endowment returns, available resources, and fund-raising opportunities. By combining the academic and health care program facility needs with a comprehensive capital strategic plan, Vanderbilt is developing a blueprint for academic excellence.



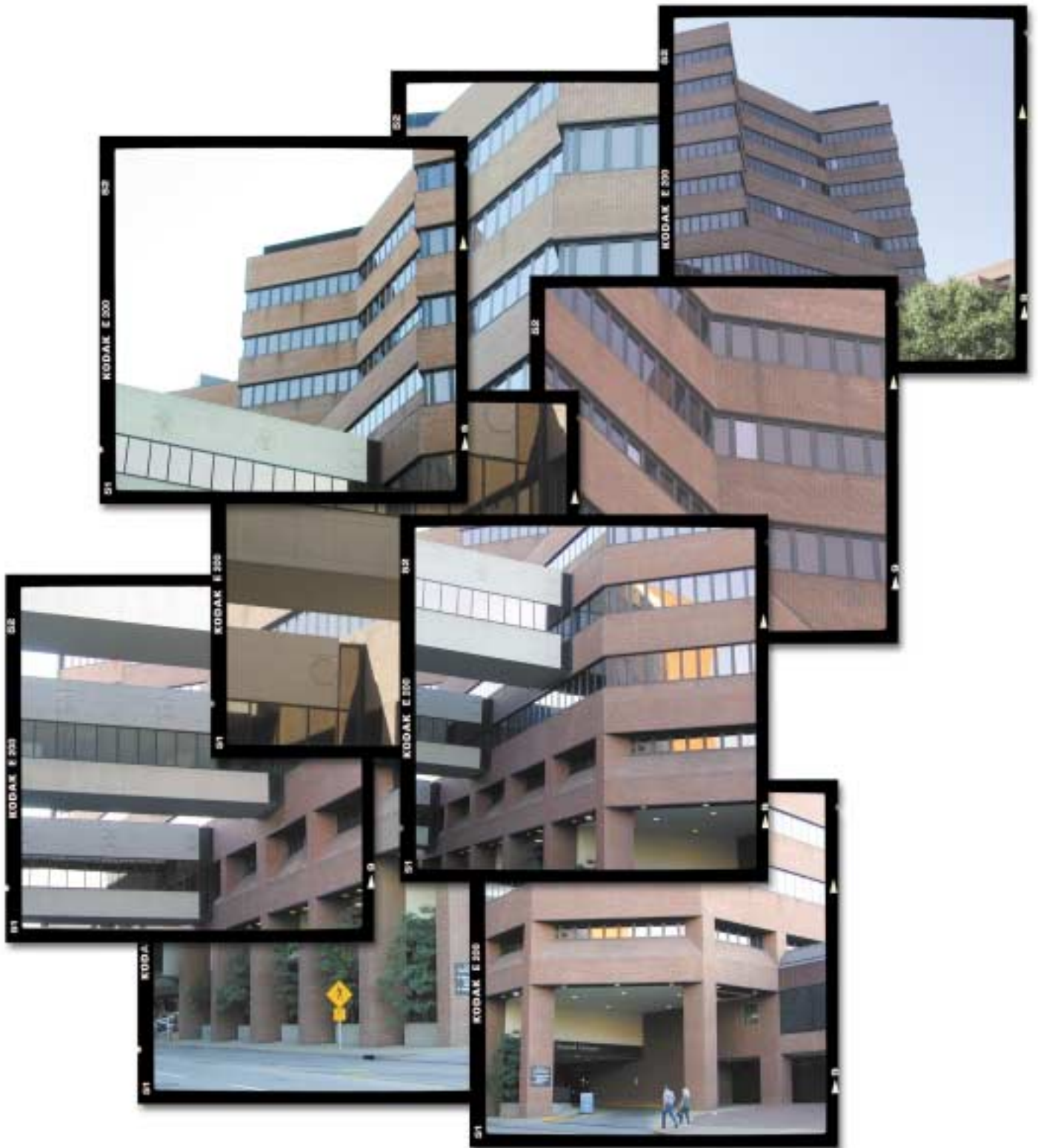
JUDSON NEWBERN

Associate Vice Chancellor for Campus Planning & Construction and Environmental Health & Safety



BETTY PRICE

Controller and Assistant Vice Chancellor for Finance



Discussion of Financial Results

Vanderbilt University has nearly \$500 million in new building and renovation projects recently completed or currently underway. These capital projects will greatly benefit the faculty and students of the University, as well as the people of Middle Tennessee who come to Vanderbilt for health care, cultural events, and athletics. However, the University added more than just bricks and mortar to its solid foundation. The University's outstanding investment returns drove a net asset increase of more than one-half billion dollars in fiscal 2000, as Vanderbilt ended the year with a record \$3.3 billion in net assets.

Endowment returns reinvested and unrealized investment gains of \$488.3 million were the major contributors to net asset growth of \$527.5 million in 2000. Vanderbilt's endowment investments generated an outstanding 31.9% return rate—a sixth consecutive year of returns at or above 17%. As of June 30, 2000, the managed endowment exceeded \$2.3 billion. The Endowment Review section, beginning on page 24 of this report, contains detailed information on the investment strategies that resulted in this spectacular growth.

The University reported operating results of \$20.5 million in fiscal 2000, with all major operating divisions achieving planned financial targets. This Discussion of Financial Results will review the changes in total net assets and the operating results in more detail.

Overview of Financial Position

During fiscal 2000, total assets increased by \$756.8 million to \$4.3 billion. This increase was driven by managed endowment growth of \$518.1 million and the inclusion of approximately \$165 million of unspent bond proceeds in investments.

Total liabilities increased by \$229.3 million to \$962.2 million. This increase primarily resulted from the issuance

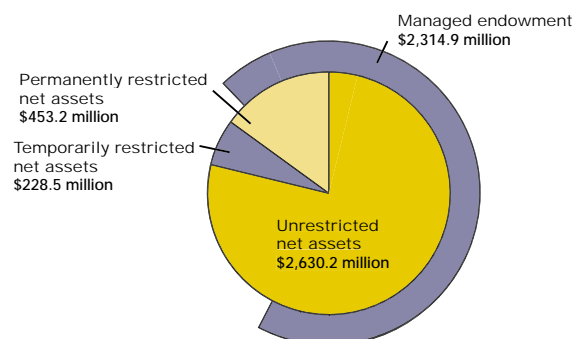
of \$225.0 million of variable-rate bonds during May 2000. The bond proceeds will fund major facility projects outlined on pages 13–15 of this report. Of the proceeds from this new debt issuance, almost \$60 million were expended in fiscal 2000 to fund new facilities, additions, renovations, and capital equipment.

Net Assets

Vanderbilt's net assets totaled \$3,311.9 million as of June 30, 2000, compared to \$2,784.4 million in the prior year. The University classifies all net assets and activities as unrestricted, temporarily restricted, or permanently restricted in accordance with generally accepted accounting principles (GAAP). These net asset classifications recognize the *legal* availability of funds. Although the University considers all managed endowment to be “permanent,” only those funds specified by donors as permanently restricted are in fact permanently restricted from a *legal* and GAAP perspective. As illustrated in the graph below, a large portion of Vanderbilt's managed endowment is “unrestricted” from a legal perspective, even though the University operates *as if* all managed endowment funds are permanently restricted.

Unrestricted net assets, which are not subject to donor-imposed restrictions, totaled \$2,630.2 million as of

Total Net Assets
\$3,311.9 million



June 30, 2000. These net assets include funds functioning as endowment (quasi-endowment funds), returns on investments, and all plant facilities and operating funds.

Temporarily restricted net assets are subject to donor-imposed restrictions that will be met by actions of the University or the passage of time. These consist primarily of gift pledges and life income funds. As of June 30, 2000, temporarily restricted net assets totaled \$228.5 million, including \$134.5 million remaining from a gift pledged by Martha R. Ingram and her family in fiscal 1999. The remaining amount of the 1999 Ingram gift includes six million undistributed shares of Ingram Micro, Inc. stock valued at \$104.6 million in contributions receivable. Portions of the 1999 Ingram gift distributed to Vanderbilt were expended for new projects or recognized separately as permanently restricted net assets for scholarships and professorships.

Permanently restricted net assets totaling \$453.2 million as of June 30, 2000, are subject to permanent donor-imposed restrictions. These include gifts in which the donors stipulate that the corpus must be held in perpetuity and only the income can be made available for operations.

Managed endowment assets totaling \$2,314.9 million consisted of a) \$1,930.3 million of unrestricted funds functioning as endowment and unrealized gains on investments; and b) \$384.6 million of permanently restricted

endowment funds designated as such by specific donors. As of June 30, 2000, the managed endowment did not include the temporarily restricted portion of the 1999 Ingram gift described above.

Gifts, trusts, and pledges totaling \$433.1 million include pledges receivable, gift annuities, and gifts that may be expended solely along lines designated by the donors. Once a pledge has been collected, the net assets resulting from that gift generally are reflected separately as managed endowment, plant facilities, or amounts designated for operations.

Net assets designated for plant facilities totaled \$464.9 million based on the historical costs of plant facilities less depreciation and related outstanding debt. Net assets of \$99.0 million designated for operations consist of departmental operating funds and amounts reserved for future facility and equipment renewals.

Summary of Increase in Net Assets

Vanderbilt's total net assets increased by \$527.5 million in fiscal 2000. As noted in the chart to the right, the increase in net assets can be attributed primarily to endowment return reinvested and net unrealized gains on investments. The operating results, gifts, and discontinued operations are discussed further within this Discussion of Financial Results.

Net Assets as of June 30 (in millions)					
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2000</u>	<u>Total 1999</u>
Managed Endowment	\$ 1,930.3	\$ —	\$ 384.6	\$ 2,314.9	\$ 1,796.8
Gifts, Trusts, and Pledges	136.0	228.5	68.6	433.1	467.5
Designated for Plant Facilities	464.9	—	—	464.9	447.3
Designated for Operations	99.0	—	—	99.0	72.8
Total Net Assets	\$ 2,630.2	\$ 228.5	\$ 453.2	\$ 3,311.9	\$ 2,784.4

Summary of Increase in Net Assets (in millions)		
	2000	1999
Operating results	\$ 20.5	\$ 2.0
Restricted gifts and non-operating activities	18.7	270.0
Endowment return reinvested	393.2	122.0
Net unrealized gains on investments	95.1	103.3
Actual and estimated future losses from discontinued operations	—	(63.4)
Total Increase in Net Assets	527.5	433.9
Ending Balance of Net Assets	\$ 3,311.9	\$ 2,784.4

Summary of Revenues and Expenses

The Summary of Revenues and Expenses (see right) combines operating *and* non-operating revenues and expenses in a consolidated format. This summary also combines all activity from the unrestricted, temporarily restricted, *and* permanently restricted net asset categories.

Health care services revenues increased 12.3% from the prior year, while health care services expenses increased only 10.7%—resulting in a positive impact to operating results.

Gifts and contributions decreased from the prior year due to \$236.5 million of the 1999 Ingram gift being recognized in fiscal 1999, while a \$49.9 million unrealized loss in the value of the six million undistributed shares of Ingram Micro, Inc. stock was recognized in fiscal 2000.

Operating Revenues and Expenses

As noted above, the Summary of Revenues and Expenses *combines* operating and non-operating revenues and expenses. However, the Statements of Activities on page 29 *separate* operating and non-operating activities. Only the operating activities are discussed below.

Out of \$1,786.6 million in total revenues, \$1,279.6 million are considered operating revenues. Operating expenses totaled \$1,259.1 million—*resulting in an operating surplus of \$20.5 million.*

The fiscal 2000 operating surplus of \$20.5 million

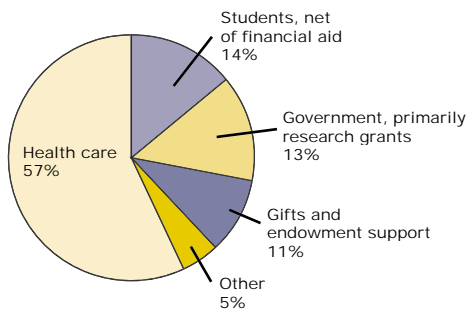
Summary of Revenues and Expenses <i>operating and non-operating activity in all net asset categories</i> (in millions)		
	2000	1999
REVENUES		
Net tuition, fees, room, and board	\$ 177.7	\$ 170.0
Government grants and contracts	168.3	151.6
Gifts, private grants, and contributions	81.2	334.2
Investment income and realized gains	484.4	209.0
Net unrealized gains on investments	95.1	103.3
Health care services	723.9	644.5
Auxiliary services and other	56.0	63.9
Total Revenues	1,786.6	1,676.5
EXPENSES		
Instruction, departmental research, and other related programs	199.4	196.6
Sponsored research	149.8	139.9
Health care services	679.1	613.5
Academic support	69.6	64.9
Institutional support	59.0	53.5
Student support services	20.8	19.6
Auxiliary services and other	81.4	91.2
Total Expenses	1,259.1	1,179.2
Actual and estimated future losses from discontinued operations	—	(63.4)
Total Increase in Net Assets	\$ 527.5	\$ 433.9

compares favorably to the prior year operating results of \$2.0 million. Most of this increase can be attributed to aggressive cost-cutting and revenue enhancement strategies at the Medical Center as described in more detail on page 20.

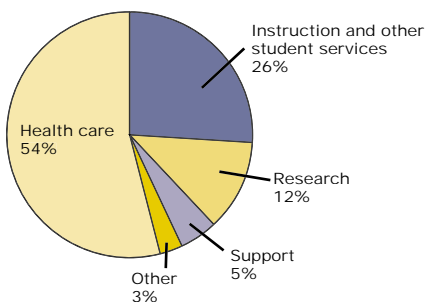
The following graphs illustrate that 57% of the University's operating revenues and 54% of the University's operating expenses result from health care activities.

Another component on the revenue graph, "Government, primarily research grants," includes revenue for the reimbursement of direct and facilities and administrative (F&A) costs on research grants. The federal F&A cost recovery rate for on-campus research was 52.0% in fiscal 2000. The University negotiated F&A cost recovery rates of 51.5% for fiscal years 2001 and 2002, and 51.0% for fiscal years 2003 and 2004.

Operating Revenues by Source
\$1,279.6 million



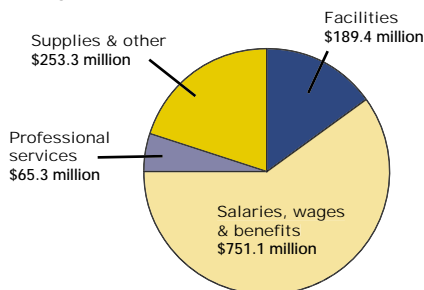
Operating Expenses by Function
\$1,259.1 million



Operating Expenses by Type

The University constantly evaluates expenses in light of its primary goal and purpose—achieving excellence in teaching, research, patient care, and public service. Operating expenses grew by a modest 6.8% from the prior year to total \$1,259.1 million. Growth in salaries and wages, as well as other operating expenses, was fueled by volume and cost increases in patient care, increased research activity, and technology investments. Vanderbilt’s salaries, wages, and fringe benefits totaled \$751.1 million and constituted 59.7% of total operating expenses.

Operating Expenses by Type
\$1,259.1 million



Medical Center

“Cuts by government and private insurers have created a crisis for many of the nation’s 300 major academic medical centers, traditionally home to the best medical researchers and specialists in the U.S. Forty percent of teaching hospitals will be losing money on patient-care activities by 2005...” according to a recent front page article in the *Wall Street Journal*.

Losses incurred from serving TennCare patients at Vanderbilt have ranged from \$15 to \$20 million each year since 1997. Likewise, the 1997 Budget Reconciliation Act costs Vanderbilt millions of dollars each year in reduced Medicare reimbursements. Although the Balanced Budget Relief Act of 1999 will offset some of the 1997 Medicare reimbursement cuts, the estimated negative impact of the Medicare reductions at Vanderbilt will still total over \$35 million for the five-year period from 1999 to 2003.

Fortunately, Vanderbilt has thus far withstood the maelstrom facing the nation’s academic medical centers. Through proactive management and creative strategies, Vanderbilt’s medical center generated positive operating results in fiscal 2000.

As part of ongoing financial improvement efforts, the Medical Center implemented initiatives to enhance revenues and reduce costs. The University opened new facilities for the Vanderbilt Heart Institute and a new ambulatory surgical suite primarily for orthopaedic surgery. The new Monroe Carell Jr. Children’s Hospital at Vanderbilt, scheduled to open in 2003, will provide increased capacity for inpatient, outpatient, and intensive care patients, as well as expanded education and playroom capabilities.

Meanwhile, over 100 positions were eliminated in other targeted areas. Expense reductions will not have a negative impact on research, education, or patient care activities. Rather, an increased focus on core missions of the Medical Center will enhance overall effectiveness over the long term.

As part of the effort to focus on Vanderbilt's core missions, negotiations are underway to divest the University's interest in Vanderbilt Health Plans, Inc. (VHP), which had operating losses of \$28.9 million in fiscal 1999 and \$9.8 million in fiscal 2000. The fiscal 2000 and estimated future losses were recognized in fiscal 1999 with the establishment of a reserve for discontinued operations. In July 2000, VHP announced that it would discontinue its Health 1-2-3 Platinum health care plan as of December 31, 2000. Also, in September 2000, VHP signed letters of intent to transition its Health 1-2-3 commercial group participants to large managed-care provider United-Healthcare and sell the TennCare component through a management-led buyout.

Such proactive strategies combined with strong management and exceptional faculty and staff have contributed to impressive positive operating results at Vanderbilt in a challenging health care environment where multi-million dollar losses elsewhere are common.

Vanderbilt's Strengths and Challenges

The University's financial well-being depends upon its core strengths. A superlative spirit of interdisciplinary cooperation among faculty, students, staff, and administration drives Vanderbilt's competitive advantage. The University benefits from prudent administrative and financial management aligned with the academic and health care missions.

Vanderbilt's wide-ranging research, patient care specialties, and academic programs are among the best in the country. These many dynamic programs result in diverse revenue sources. This revenue diversity allows Vanderbilt to target specific market opportunities in some areas while withstanding challenges in others. As a result, research-funding awards continue to increase at a rate greater than the growth in federal research budgets.

Meanwhile, the composition of the student body shows

great diversity. Of a total enrollment exceeding 10,000, all 50 states and 91 countries are represented. Furthermore, minority enrollment has risen to 18%.

These factors help Vanderbilt distinguish itself as one of the nation's elite universities, as illustrated by the many highly ranked programs in the most recent *U.S. News & World Report* top 25 listings. These rankings include the undergraduate program (22nd), and the graduate schools in education (6th), medicine (16th), law (18th), and business (24th).

In addition, Vanderbilt's medical center was listed in July 2000 among the nation's top 50 hospitals and medical centers in 11 specialty areas: kidney disease; ear, nose, and throat; hormonal disorders; respiratory disorders; urology; orthopaedics; gynecology; heart; cancer; neurology; and digestive disorders.

Vanderbilt has many strengths, but is not immune to the challenges that face universities and academic medical centers. Several key health care challenges are noted above. Meanwhile, private universities are faced with the challenge of containing rising tuition costs to attract and retain the best students. Further, Vanderbilt must find ways to quickly and effectively integrate new technologies into traditional learning environments.

For Vanderbilt to continue its move into the highest echelon of colleges and universities, additional gifts for endowed scholarships and faculty chairs will be essential. Vanderbilt's endowment ranks well behind most of the top private universities despite several years of strong endowment returns.

Summary

Vanderbilt had another notable financial year. We earned an outstanding 31.9% return on the endowment—truly remarkable given the volatility of the stock market in early 2000. We successfully implemented strategic and tactical changes to better position ourselves in a difficult health

care market. As a result, Vanderbilt experienced an increase in operating results in fiscal 2000—an indication of sound financial management.

In May 2000, Moody's Investors Service and Standard & Poor's re-affirmed our healthy credit ratings of Aa3 and AA, respectively. These ratings are based on strong levels of financial resources that provide long-term flexibility; national name recognition and healthy student demand; manageable debt levels; and proven management efforts to enhance revenues and reduce expenses.

At Vanderbilt, we are building upon a strong foundation laid by the extraordinary efforts of faculty, staff, students, and donors. We anticipate even greater achievements under the leadership of our new Chancellor, E. Gordon Gee, in the coming years.



Lauren J. Brisky
*Vice Chancellor for Administration
and Chief Financial Officer*



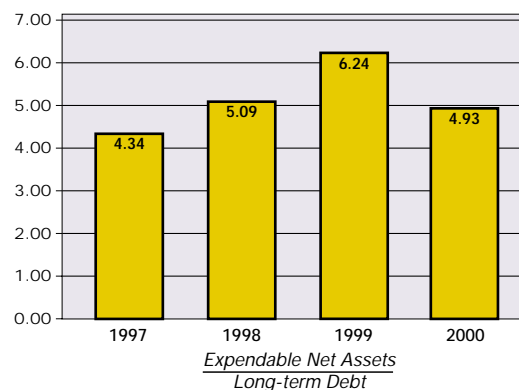
Financial Ratios

The following ratio analysis supplements the Discussion of Financial Results by providing additional measures of the University's financial health and flexibility.

Viability Ratio

The viability ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the University need to settle its obligations as of June 30, 2000. "Expendable Net Assets" are all unrestricted and temporarily restricted net assets other than plant equity. Plant equity is defined as all property, plant, and equipment, net of total outstanding associated debt. A ratio of 1.00 or greater indicates an institution has sufficient expendable net assets to satisfy debt requirements.

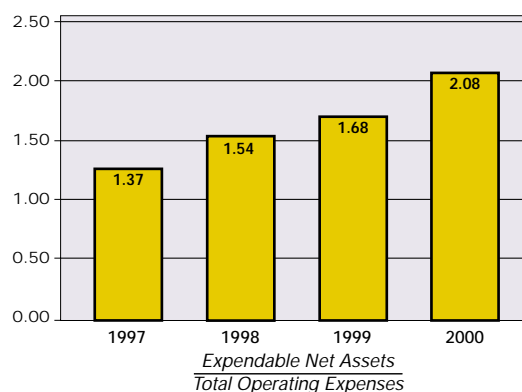
At Vanderbilt: The drop in this ratio resulted from the issuance of \$225 million in new debt during May 2000. This ratio is still considered strong, as only about one-fifth of Vanderbilt's expendable net assets would be used if all long-term debts were required to be satisfied on June 30, 2000.



Primary Reserve Ratio

The primary reserve ratio measures financial strength and flexibility by indicating how many years the University could operate using its expendable resources without relying on additional net assets generated by operations. A ratio of 1.00 denotes that an institution would have the ability to cover its expenses for one year without a revenue stream.

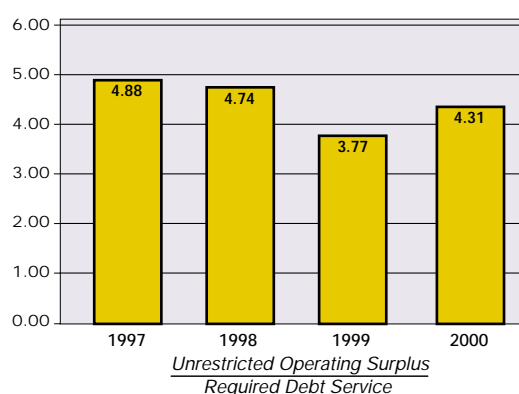
At Vanderbilt: Significant growth in unrestricted net assets has been driven by reinvested endowment returns. This, combined with limited growth in operating expenses, contributed to improvement in the primary reserve ratio. Vanderbilt has the ability to maintain its existing level of continuing operations for over two years without generating additional revenues.



Debt Coverage Ratio

The debt coverage ratio measures the ability to cover debt service requirements from continuing operations. The change in unrestricted net assets from operating activities is adjusted for depreciation and interest expense. This adjustment results in the "Unrestricted Operating Surplus" that is available to make required principal and interest payments.

At Vanderbilt: This ratio benefited from improved operating results and the fact that the issuance of new debt did not occur until May 2000. The University has sufficient unrestricted operating resources available to meet its debt burden should economic conditions change.



Endowment Review

Revenge of the Nerds

In recent years, it has become fashionable to question the wisdom of holding diversified portfolios since most of the action has been in large capitalization U.S. growth stocks. As is always the case, the pressure to abandon a sensible investment strategy hit its peak just at the time that diversification was about to pay off. For the five-year period ending in June 1999, the annual return on the S&P 500 Index was 27.9% and the technology-laden NASDAQ earned 30.6%. In comparison, the Russell 2000 Index of smaller stocks earned 15.3% while the EAFE Index of stocks in the developed markets outside the U.S. managed only an 8.6% return. U.S. bonds inhabited the cellar with a paltry return of 7.8% per annum. No wonder some endowments and many individual investors chose to cut back or abandon their exposure to small cap stocks, non-U.S. equities, bonds, and some other categories!

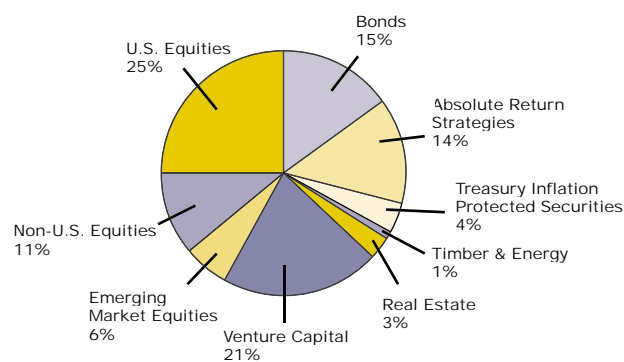
Not surprisingly, many plausible rationalizations were developed to justify concentration in large cap U.S. stocks. “The U.S. is the world’s growth engine, so why bother to invest elsewhere?” “In a global economy, only large companies will be competitive, so why own small cap stocks?” “Bonds always produce inferior returns, so why should an endowment hold them?” “As a perpetual fund, shouldn’t we be able to take more risk?”

The winds shifted dramatically in fiscal 2000 as the S&P 500 underperformed small cap stocks, foreign stocks, real estate, timber, and many other categories. In other words, diversification finally was rewarded. More importantly, both financial theory and empirical evidence demonstrate that diversified portfolios provide a superior balance between risk and return over time. Because of our balanced approach to investing, the Vanderbilt Endowment has not suffered a negative annual return since fiscal 1974. Additionally, our fund has enjoyed an average annualized return during the past ten years of 15.7% with a standard deviation of 10.6%. In comparison, a plain vanilla portfolio consisting of 75% U.S. stocks and 25% U.S.

bonds earned 15.1% with a standard deviation of 11.3%. In other words, our fund earned a higher rate of return with less risk. Now that is a great combination!

As depicted in the pie chart below, the endowment is highly diversified with significant allocations to non-marketable investments such as venture capital and to inflation hedges such as real estate, timber, energy, and

Endowment Asset Allocations
as of June 2000



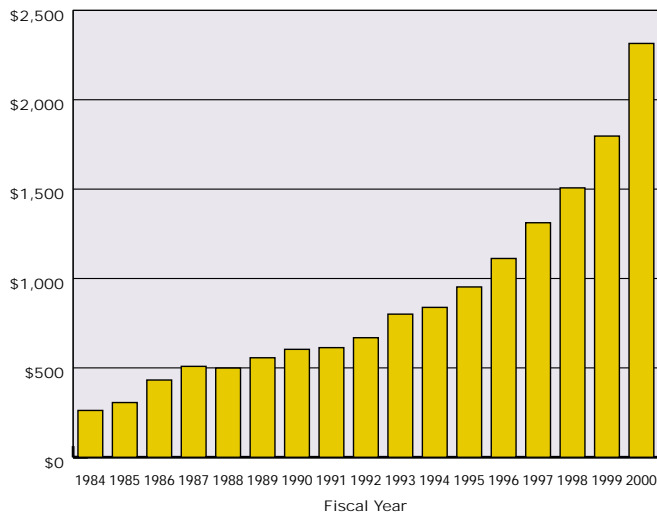
Treasury Inflation Protected Securities. Computer simulations suggest that this mix should generate a long-term real or after-inflation return of approximately 7.7% with a standard deviation of 11.0%. Given annual spending of approximately 4.5%, this return should allow the real value of the corpus to grow by at least 3% per year with a risk/return relationship that is vastly superior to traditional stock/bond structures. While our balanced approach may be “nerdy,” we have long believed that you win in the investment business by earning reasonable returns while avoiding disasters.

Fiscal 2000 in Review

Fiscal 2000 was a terrific year for diversified endowment funds with significant allocations to “non-traditional” investments such as small capitalization stocks, international stocks, and venture capital. U.S. stocks and bonds provided positive but unexciting returns of 7.5% and 4.6%, respectively. In contrast, the Russell 2000 Index of smaller stocks returned 14.3% while stocks in developed coun-

tries outside the U.S. earned 17.2%. But, the real story of the year was venture capital, which was a significant beneficiary of the technology boom. Fiscal year return data on venture partnerships will not be available for some time, but a good indication is the return on the Venture Economics Index for calendar 1999 that was 146.2%.

Total Endowment Market Value
(in millions)

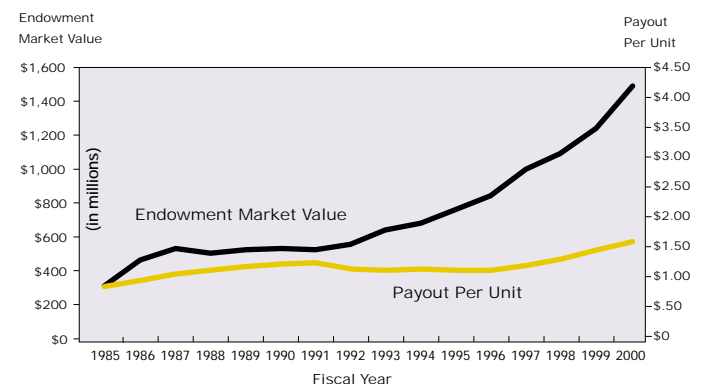


The Vanderbilt Endowment enjoyed a strong year in both absolute and relative terms ending with a market value exceeding \$2.3 billion. We earned a total return on the fund of 31.9% which compares with the 11.8% return on a blend of market indices designed to mirror the structure of our portfolio. In other words, we outperformed the indices by 20.1%, which represents approximately \$355 million. We also compare our return to a Cambridge Associates universe of endowments and foundations with assets in excess of \$1 billion. Fiscal-year data on this universe is not yet available, but our returns for the 1, 3, 5, and 7 years ending in March 2000 were in the top quartile of this universe of 50 institutions. This is a very competitive universe as illustrated by the fact that the mean annual return earned by these institutions over the past five years is 2% greater than the average of Cambridge's much broader universe of 270 endowment funds.

As is always the case, several components of the fund performed very well while others lagged their respective benchmarks. This year, U.S. equities, global equities, emerging market equities, and our non-marketable portfolio beat their benchmarks by amounts ranging from 1.7% to 116%. On the other hand, international equities, absolute return, and bonds lagged by 3.1%, 19.1%, and 1.7%, respectively. The underperformance of our international equity and bond portfolios is not of concern because we have outperformed the indices over longer periods. However, as a result of consistent underperformance in the absolute return segment, we restructured this category in the first quarter of calendar 2000. Our return of 3.4% for the June quarter as compared to the 3.7% return on the benchmark gives us hope that we are on the right track.

The annual payout to the University's operating budget for fiscal 2000 was \$2.452 per unit, a 14.7% increase over the prior year. For fiscal 2001, the payout will be \$2.923 per unit, which represents a further increase of 19.2%.

Endowment Market Value vs. Payout Per Unit
(in constant 1985 dollars)



The Private Equity Dilemma

In last year's Endowment Review, I expressed concern that the U.S. was in the midst of a stock mania. That has now been replaced by a venture capital mania as demonstrated by the fact that investors committed more than \$46 billion to venture capital firms in 1999 as compared

to \$28 billion the prior year. Even more astonishing is the fact that commitments totaled more than \$49 billion in the first *half* of 2000. As recently as 1990, annual commitments were less than \$4 billion. Another indicator of the popularity of this asset class is the fact that venture capital invested in the U.S. currently equals 1% of the gross domestic product (GDP) versus 0.5% only two years ago. In Germany, the comparable figure is 0.1%, while investment in the U.K. is more similar to the U.S. level at 0.55%. Finally, there are currently more than 200 private equity funds in the marketplace attempting to raise money from institutional investors.

Typically, a surge of interest in a particular investment category is an omen of poor future returns. On the other hand, our venture capital partners tell us that they have never seen as many exciting opportunities. And, while val-

uations have increased, private market multiples have not risen as fast as those of public securities.

We are coping with this dilemma in the same way that we always deal with uncertainty, by sticking to our knitting. We are generally not establishing new relationships with private equity firms since our excellent returns have resulted in an increase in our current weighting beyond the target allocation. Instead, we are reinvesting with our current partners and harvesting the gains that we have enjoyed. While returns will certainly moderate in the private equity world, we are invested with elite firms that should continue to outperform other firms and provide returns that exceed those on marketable securities.



William T. Spitz
*Vice Chancellor for Investments
and Treasurer*