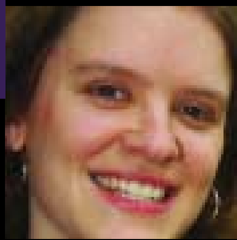
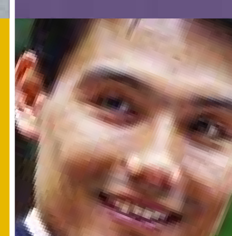


Vanderbilt University

Financial Report 2002



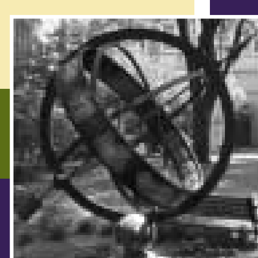
About the University

In 1873, Commodore Cornelius Vanderbilt gave one million dollars to build and endow a university in Nashville, Tennessee, that would "contribute to strengthening the ties which should exist between all sections of our common country." Today, Vanderbilt University is a comprehensive research institution with an international reputation. In addition to its strong commitment to undergraduate education, Vanderbilt's graduate and professional programs rank among the finest in the world. The University's 6,200 undergraduate students, 4,300 graduate and professional students, and almost 2,100 full-time faculty members come together for multidisciplinary study, research, and public service. The University also provides health care services through its medical center, which includes The Vanderbilt Clinic and Vanderbilt University Hospital.

Vanderbilt's academic enterprise comprises interdisciplinary programs and centers as well as ten schools and colleges—the College of Arts and Science, the Graduate School, the Blair School of Music, the Divinity School, the School of Engineering, the Law School, the School of Medicine, the School of Nursing, Owen Graduate School of Management, and Peabody College of education and human development.

For more information, please visit the Vanderbilt University Web site at *www.vanderbilt.edu*. A link to the 2002 Financial Report can be found on the Web at *www.vanderbilt.edu/divadm/finrprt*.

Contents



Letter from the Chairman of the Board of Trust

If ever there was a time for optimism about Vanderbilt's future, that time is now.

The results of the past year, both academic and financial, underscore our excitement. Today, the finest students in the country are, increasingly, making Vanderbilt their first choice for college and graduate school as illustrated by our positive trends in the number of applications, our matriculation rate, and the quality of incoming students. Faculty members continue to stretch beyond the traditional confines of their disciplines, resulting in an unprecedented culture of collaboration and discovery across campus. And at a time when many academic health centers are retreating in the face of insurmountable obstacles, our medical center continues to excel in patient care and research.

Vanderbilt University, simply put, is a remarkable place. Our strengths are secure, but we are not satisfied with peaceful stability. It is with this momentum in mind that we begin preparations for "Shape the Future"—a campaign for Vanderbilt. This most ambitious fundraising effort in our history, and one of the largest in private higher education, has the potential to substantially transform our University. It is a campaign that will focus on scholarships, the highest caliber teaching, enhancements to student life, and strategic investments in academic programs throughout the institution. Vanderbilt is determined, quite literally, to shape the future through the education we provide, the curiosity we inspire, the explorations we make, and the knowledge we create. Gathering the resources for this critical mission is what this campaign is all about.

An energetic Board of Trust, with great confidence in the leadership of Chancellor Gee and his team, is an important asset to Vanderbilt. The Board's unwavering commitment to the betterment of this place comes from a deep-seated sense of loyalty and of pride.

The good works of our faculty, staff, and students, and the accomplishments of our alumni give us much of which to be proud. These are most exciting days.

Martha R. Ingram
Chairman of the Board of Trust

Letter from the Chancellor

Vanderbilt University is among the most preeminent institutions of higher education in the world. Our reputation for teaching, learning, discovery, and service extends across the globe. And yet, this is not enough. We must become ever better; we must strive continuously towards greater excellence.

Our faculty is outstanding—in their work in classrooms and laboratories; in their publication of profound and respected books and journal articles; in the research they conduct; and in the manner in which they educate our students. And their enthusiasm for Vanderbilt's new emphasis on initiatives that cross traditional boundaries of disciplines, departments, and schools is nothing short of invigorating to the entire university and medical center community.

Our students are also world-class. Qualities of leadership, scholarship, and community engagement are at an all-time high, and we expect to continue on our current path to an increasingly diverse student body. It is essential to the very life of this place that qualified students—regardless of nationality, geographical birthplace, or family income—fill our classrooms and bring our campus to life.

The quality of our faculty and our students was confirmed by the findings of the University's Strategic Academic Planning Group, which worked for three years to assess and fully understand this institution's academic programs. More important than any external validation of our assumptions of excellence, their assessment served as a catalyst for a new strategic academic plan that maps our course for the coming years. Upon implementation, this forward-thinking strategic plan will be a measuring rod against which we judge our progress in such areas as interdisciplinary collaboration, faculty retention, and student recruitment.

I assure you that our commitment to the notion of collaboration is more than just a passing infatuation with the currently in-vogue pedagogy. We know that even the best of ideas flounder and fail when not properly funded or when vetted too often by too many people. Designed to help navigate such obstacles, a central funding mechanism has been established to ensure the launching of the types of major initiatives that will truly advance Vanderbilt.

Our goals for this University and our expectations for what we must become are admittedly grand. The work required to implement them will require a level of unprecedented commitment from every single member of the Vanderbilt community. I have no doubt of our success, though, for our faculty is strong and committed, our students are driven, and our staff is sincere and dedicated. We are disciplined, and we shall succeed.

Gordon Gee
Chancellor

The Year at a Glance

July 2001	August	September

■ Vanderbilt physicians perform the first fetal amniotic exchange for gastroschisis in the United States. Gastroschisis is a developmental abnormality that causes the intestines of a fetus to poke through a weakness in the abdominal wall and into the mother's uterus. The procedure exchanges the mother's amniotic fluid with a sterile saline solution to protect the fetus.

■ More than 100 rising eighth and ninth graders spend a week at Vanderbilt building parachutes for eggs, making and eating ice cream, and talking about movies—all in the name of science—as participants in "It's a GAS (Girls and Science)" camp. The weeklong day camp encourages women to advance in science. The GAS camp is a University-wide endeavor.

■ Wasif N. Khan, assistant professor of microbiology and immunology, receives one of the largest American Cancer Society research grants ever awarded to an individual investigator at Vanderbilt. With the $1 million grant, Khan will study the signaling pathways that control immune cell growth and what goes wrong to lead to immune cell cancers like Hodgkin's lymphoma.

▼ *U.S. News & World Report* lists Vanderbilt University Hospital and The Vanderbilt Clinic among the nation's best in 11 of the 17 specialty areas surveyed. The survey sifts data from 6,116 hospitals to arrive at "stellar" centers in 17 specialties.

▼ Former Vice President Al Gore and former Tennessee Governor Lamar Alexander conduct a bipartisan workshop for more than 100 young Democrats and Republicans from across the country. The "Young People's Political Leadership Workshop" is held in the Faye and Joe Wyatt Center for Education at Peabody College. The daylong event focuses on citizenship, political advocacy, and grassroots civic involvement. Chancellor Gordon Gee meets with participants at a reception following the sessions.

■ Local teachers train to serve as mentors to newly hired teachers as part of a pilot program co-sponsored by Metropolitan Nashville Public Schools and Vanderbilt University. Approximately 100 teachers from four high schools and their feeder elementary and middle schools are the first to participate in the mentoring program. Peabody College provides facilities, faculty support, materials, and graduate student assistance for the program.

■ The Maternal Infant Health Outreach Worker (MIHOW) project becomes the first American program to receive the prestigious Oscar van Leer Award, which is presented to one community organization worldwide by the Bernard van Leer Foundation every two years. Housed at Vanderbilt's Center for Health Services, MIHOW creates partnerships between the University and local community organizations to train community leaders in sharing prenatal and child development information with their neighbors.

■ Attorney General John Ashcroft announces at a press conference on campus that the U.S. Department of Justice has awarded more than $360,000 to Vanderbilt as part of its Grants to Reduce Violent Crimes Against Women on Campus Program.

■ The Freedom Forum announces a gift of $2 million to Vanderbilt University to establish an ongoing scholarship program for students of color. Scholarship recipients will receive full tuition scholarships for four years, and will share the name of the nationally recognized journalist and civil rights activist John Seigenthaler by bearing the title "Seigenthaler Scholars."

■ A report released by *Newsweek*/Kaplan lists Vanderbilt along with eight other colleges and universities deemed to be "America's Hot Schools." While the primary consideration for being deemed "hot" was the number of students competing for admission, weight was also given to subjective criteria. Citing Nashville, the article says "it helps to be in or close to a vibrant city."

■ Vanderbilt welcomes the class of 2005 comprising 1,557 freshmen—86 fewer than in fall 2000. Targeted class size reductions, increased numbers of applications, and a greater matriculation rate allow Vanderbilt to become more selective. For the first time ever, the University accepted less than 50 percent of its applicants, resulting in an unusually talented freshman class.

■ Five students from Japan and Korea enroll in the Law School's new master of law degree program. The students, who have all earned law degrees at universities in their home countries, attend the Law School for two semesters of intensive study alongside a faculty adviser. Vanderbilt's program is designed to offer expertise in the U.S. legal system to the future leadership of other nations.

■ The Sixth Circuit U.S. Court of Appeals hears arguments in three cases in the newly completed Flynn Auditorium at Vanderbilt's Law School. It is very rare for the court to meet outside of its home base in Cincinnati, and the occasion draws hundreds of law students eager to see the proceedings. The three judges on the panel all have ties to Vanderbilt, and two are Vanderbilt University Law School graduates.

▶ Hours after the terrorist attacks of September 11th, the University's Division of Student Life sends an e-mail to students outlining University resources available to them, such as counselors and religious resources and a telephone bank with free outgoing long-distance service. Benton Chapel holds the largest of the on-campus religious services, which draws a standing-room-only crowd roughly 13 hours after the first of the strikes. More than 1,000 members of the Vanderbilt community gather on Alumni Lawn on September 13th to observe a moment of silence. University officials fully fund a chartered commercial bus to and from New York for 28 students to spend time with their families.

2001

October

The University announces more students returned to Vanderbilt for their sophomore year than ever before. The number of would-be sophomores who chose to return increased sharply from 89.7 percent in fall 1997 to 94.3 percent in fall 2001. Campus administrators credit this unprecedented increase to a recent upsurge in the matriculation rate, the implementation of comprehensive pre-orientation programs and freshman seminars, greater involvement of the Psychological and Counseling Center, and the availability of more lucrative financial aid packages.

John P. Wikswo, Jr., the A. B. Learned Professor of Living State Physics and professor of physics and astronomy, is named the inaugural holder of the Gordon A. Cain University Professorship at Vanderbilt. Wikswo holds faculty appointments in the College of Arts and Science, the School of Engineering, and the School of Medicine. Professors are selected for their record of outstanding accomplishments in research and teaching and their promise for continued contributions across multiple schools within Vanderbilt.

The Bill and Melinda Gates Foundation awards a three-year, $2.7 million grant to Peabody College to provide leadership and technology training to about 1,800 school principals and superintendents across the state of Tennessee. The award to Vanderbilt is part of the State Challenge Grants for Leadership Development program established by the Gates Foundation.

The National Cancer Institute awards a five-year, $22 million grant to the Vanderbilt-Ingram Cancer Center, Meharry Medical College, and the International Epidemiology Institute to fund the "Southern Community Cohort Study," a potentially landmark study to determine why African-Americans are more likely than other groups to develop cancer and to die from the disease. The grant will enroll and follow 105,000 people—two-thirds of them African-Americans—in six southeastern states. It will be the first study of its kind in the southern United States and the largest population-based health study of African-Americans ever conducted.

November

Vanderbilt recruits students for its new chemical and physical biology graduate program. Susan Desensi is the first and only student in the new program, which targets students who have earned undergraduate degrees in the quantitative sciences (chemistry, computer science, engineering, mathematics, or physics) for doctoral work in research areas that span the boundaries of the chemical, physical, and biological sciences. The program aims to recruit ten students per year beginning fall 2002.

Lawrence J. Marnett is named a Fellow of the American Association for the Advancement of Science. Marnett, Mary Geddes Stahlman Professor of Cancer Research and professor of biochemistry and chemistry, is honored for his contributions to the field of lipid oxidation—the chemical reactions involving oxygen and fatty molecules in cells.

The Blair School of Music opens a new era as several additions are unveiled, the most visible of which is the Martha Rivers Ingram Center for the Performing Arts. With seating for 620, the new Ingram Hall boasts facilities capable of supporting full-scale operatic and theatrical productions as well as an orchestra pit able to comfortably accommodate a full orchestra. Later in the year, critically-acclaimed rock guitarist Mark Knopfler launches the 2002 "Conversation Series" in Ingram Hall.

Important findings from a multi-center team including Vanderbilt's Program in Human Genetics are published in the *Journal of the American Medical Association*. The team's study was the first to search the entire human genome for regions linked to Parkinson's disease. The findings, which indicate that multiple genes may contribute to development of this devastating disease, will accelerate further studies of causes and potential treatments.

December

Vanderbilt Police Sergeant William L. Hood, graduate student Nikki Cheng, and Thomas P. Doyle, assistant professor of pediatrics, each carry the Olympic torch as it passes through Middle Tennessee on its way to the 2002 Winter Olympics in Salt Lake City.

Eighteen Peabody College undergraduate students complete the semester-long Peabody Reading Clinic as part of their special education studies. Now in its fifth year, the clinic pairs Peabody College undergraduate students with area elementary school students to hone the children's reading skills. By incorporating good literature, games, and goals, the tutors address students' problem areas and work with them individually to improve their skills.

A Vanderbilt professor and two visiting scholars at Vanderbilt are named recipients of Fulbright Scholar grants. Konstantin Kustanovich, Vanderbilt associate professor of Slavic languages and literatures, serves as a guest lecturer in Russian literature and culture at the Nevsky Institute of Language and Culture in St. Petersburg, Russia. Eimutis Juzeliunas, deputy director of the Institute of Chemistry in Vilnius, Lithuania, and Andrzej Kisielewicz, distinguished professor at the Institute of Mathematics at Wroclaw University in Poland, conduct research at Vanderbilt.

Twenty-nine students in senior lecturer Elena Olazagasti-Segovia's "Spoken Spanish" fall semester class each complete 28 hours working as bilingual volunteers within Nashville's burgeoning Hispanic community. Olazagasti-Segovia was inspired to teach the course after enrolling in the first "Service Learning Faculty Seminar" last year. The seminar was funded through a three-year, $175,000 grant awarded to Vanderbilt's Office of Volunteer Activities by the Corporation for National Service.

Bobby Johnson, former head coach of Furman University, is named head coach of the Commodore football team. Johnson is the 25th head coach in the University's 111-year football history. Johnson had a winning percentage of 62.5 percent (60-36) during his eight years as Furman's head coach. He was recognized three times as the American Football Coaches Association Region II Coach of the Year.

January 2002

The Tennessean, one of Nashville's daily newspapers, names Martha R. Ingram, chairman of the Vanderbilt University Board of Trust, Tennessean of the Year for 2001. The paper cited Ingram as "one of Nashville's most dedicated and giving citizens."

▲ The 2001 Vanderbilt Community Giving Campaign concludes with a record-setting $815,196 in contributions from faculty and staff. The campaign surpassed the $800,000 goal, increasing four percent over the prior year's total. Funds generated from the campaign directly benefit three local organizations: Community Shares, United Way of Metropolitan Nashville, and Community Health Charities of Tennessee.

Bill Ivey, former chairman of the National Endowment for the Arts, joins the Vanderbilt faculty as the Harvie Branscomb Distinguished University Visiting Scholar. He will teach, write, and conduct research on cultural policy and will also begin the planning and development of a proposed center to examine the complex relationship between the arts and public policy.

As Middle Tennessee's largest private employer, Vanderbilt announces that it generated a total economic impact of approximately $3.0 billion in the local community last year.

David Williams II, the University's general counsel, secretary, and interim vice chancellor for student life, is named to the newly created position of vice chancellor for student life and university affairs. Nicholas Zeppos, a legal scholar who served for the past year as vice chancellor for institutional planning and advancement, is named to the newly expanded position of provost and vice chancellor for academic affairs.

February

The Owen Graduate School of Management and the biomedical informatics and clinical investigations programs at Vanderbilt's School of Medicine announce the creation of a customized program for clinical doctors and research professionals at pharmaceutical giant Bristol-Myers Squibb. The new program is aimed at fostering business skills for highly trained researchers without business backgrounds. Additional company-specific programs are planned for the future.

Retired U.S. Army General Norman Schwarzkopf is the keynote speaker at the Impact Symposium 2002, a student-run lecture series designed to stimulate intellectual thought and the debate of contemporary political issues.

▼ As part of the Day on Campus program, local area students tour the campus, learn about the history of Vanderbilt, and interact with University students while making slime with Vanderbilt Student Volunteers for Science. Led by the Office of Community, Neighborhood, and Government Relations, Day on Campus annually exposes more than 6,000 sixth-graders to the exciting atmosphere of college, helping inspire the youngsters to think about their future. The program, in existence for 12 years, is open to all sixth-graders enrolled in local public and private schools.

From creating a ten-step device that raises a miniature American flag to participating in a paper airplane competition, Vanderbilt School of Engineering students spend February's National Engineers Week flexing their problem-solving muscles. The theme of the week of competitions and events is "Without Engineers the World Stops." Engineers Week begins with a keynote speech by Vanderbilt civil engineering alumnus Ed Clark, the CEO and president of FedEx Trade Networks.

March

Vanderbilt and the Nashville Public Library begin a partnership to bring lunchtime learning to the new downtown Main Library through "Thinking Out of the 'Lunch' Box." The philosophically-flavored lectures feature presentations by Vanderbilt professors followed by audience-directed conversations. A free lunch is provided to those in attendance.

▼ The Law School celebrates the completion of its $24 million renovation and expansion during a two-day event featuring keynote speaker U.S. Senator Fred Thompson, a 1967 graduate of the school. The project added more than 65,000 square feet, significantly increasing the Law School's size and maximizing existing space.

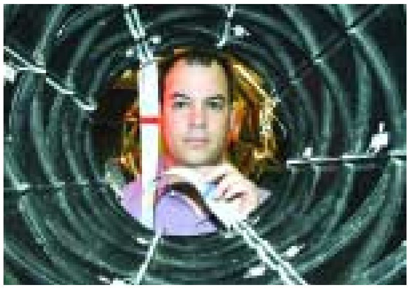
Years of collaboration between Vanderbilt University Medical Center and intravenous infusion pump maker Alaris Medical Systems result in a new IV pump that automatically checks drug and dosage information to alert nurses to any potential medication error. Vanderbilt becomes the second medical center in the world to use the new pump. Unlike conventional pumps, the new pump gives nurses a safety feature that alerts the user to any dosage that appears wrong. It is considered by some to be one of most powerful patient safety advances in modern medicine.

Michael Aurbach, professor of fine arts, is elected president of the College Art Association, which represents more than 14,000 art history professors and more than 1,000 institutions, including universities and museums across the United States. Through both the CAA and the Southeastern College Art Conference, Aurbach has been actively involved with the development of professional guidelines and standards for artists, art historians, and museum professionals for many years.

Vanderbilt Children's Hospital opens a pediatric comprehensive kidney stone clinic, the first in Tennessee and one of only a few in the nation. The clinic is a joint project between the divisions of pediatric urology and pediatric nephrology. Once a patient is referred to the clinic, doctors will meet with the patient, treat the stone if necessary, identify a cause of the kidney stone, and map out a long-term care plan.

April	May	June

▼ Kenneth D. Frampton, assistant professor of mechanical engineering, is awarded a National Science Foundation CAREER Award for his research on "smart structures," which are capable of sensing and responding to changes in their environment. The CAREER Award is considered the NSF's most prestigious honor for junior faculty.



■ A delegation of 37 professors, lecturers, and university staff members from South Africa travel to Vanderbilt to learn how to improve the higher-education system in their own country. They come here to see how the two systems differ, what the problems are in each, and how to address those problems. The delegation, from historically disadvantaged universities within South Africa, is part of an intensive program co-sponsored by Vanderbilt and the Institute of International Education.

■ John F. Nash, Jr., Nobel Prize–winning economist and visiting research collaborator in mathematics at Princeton University, speaks at Vanderbilt. Nash—upon whom the Oscar Award–winning motion picture, *A Beautiful Mind,* was loosely based—speaks at several campus events, including the McGee Lecture sponsored by the economics department.

■ In its annual rankings of graduate and professional schools, *U.S. News & World Report* ranks five Vanderbilt schools among the top 50 in their fields: Peabody College (7th), School of Medicine (16th), Law School (17th), Owen Graduate School of Management (29th), and School of Engineering (46th). A few months earlier, Vanderbilt's comprehensive undergraduate program was ranked 21st.

■ While in Nashville to receive the first Vanderbilt University Award for Moral Leadership, the first lady of the Republic of Korea, Lee Hee-ho, speaks of the years of struggles she and her husband, President Kim Dae-jung, endured before he took office. Lee, who delivered the Cal Turner Lecture in Moral Leadership, receives the award for her work with Korea's impoverished children, physically disabled individuals, unemployed single mothers, and poor working families.

▼ The Tennessee General Assembly passes a resolution in honor of the Vanderbilt women's basketball team. The joint resolution, sponsored by State Representative Edith Langster and Senator Douglas Henry, celebrates "those gifted student athletes who ... bring honor to Tennessee and serve as exceptional ambassadors of this state." The document focuses on the team's SEC tournament championship and accomplishments in advancing to the "Elite Eight" in the 2002 NCAA Women's Basketball Tournament.

■ James E. Shmerling, president of Le Bonheur Children's Medical Center in Memphis, is named chief executive officer of the Monroe Carell Jr. Children's Hospital at Vanderbilt. The newly created CEO position signals the anticipated 2003 completion of Middle Tennessee's first and only freestanding children's hospital.

■ Eleven thousand feet high in the Andes Mountains, 19 volunteers from Vanderbilt spend a week providing free medical, dental, and vision care to a community primarily inhabited by the Quechua Indians. Volunteers from Vanderbilt team up in an international effort with the regional medical school Universidad Nacional de San Antonio Abad del Cusco, the Ministry of Health, and the local Peruvian government to provide care to 2,369 patients. For most of the people in this rural region of Peru, it had been several years since they had seen a doctor, if ever.

■ Seven incoming freshmen accept "Top TENN" scholarships worth half of their tuition at Vanderbilt. The students, who come from across the state, qualify for the scholarship program by being ranked first or second in their graduating classes and applying to and being admitted to Vanderbilt. The program was started by Vanderbilt in 1991 and has since awarded half-tuition scholarships to about 90 Tennessee students.

■ Board of Trust member Guilford Dudley, Jr. dies June 13 at his home. Named a life trustee in 1977, his business and philanthropic leadership made lasting contributions to the Nashville community and beyond. Dudley was a former U.S. Ambassador to Denmark and retired chairman of Life and Casualty Insurance Company.

▶ Vanderbilt is awarded a $12.6 million National Institutes of Health contract to conduct clinical trials and test new vaccines, including a smallpox vaccine to help prepare the nation for a possible bioterrorism attack. Vanderbilt, whose research is led by Dr. Kathryn Edwards, is one of four research institutions conducting the trials on a stockpile of smallpox vaccine that has been frozen for the past 30 years to determine if it remains effective and safe to use. If shown to be effective at its weakest dilution, 750 million people could be vaccinated from this stockpile if a smallpox outbreak occurred.

■ The Owen Graduate School of Management Entrepreneurship Center enters into an alliance with BizTech, a technology incubator based in Huntsville, Alabama. Owen School faculty will teach a nine-part workshop series at the BizTech facility in Huntsville. The course of study was developed to educate entrepreneurs, professionals planning to become entrepreneurs, and corporate officers of existing start-up ventures on how to create an effective, successful, high-valuation company.

2002

Statistical *Highlights*

	2001/2002	2000/2001	1999/2000	1998/1999	1997/1998
STUDENTS					
Undergraduate	6,235	6,037	5,885	5,818	5,927
Graduate and professional	4,261	4,157	4,242	4,292	4,364
Total fall enrollment	10,496	10,194	10,127	10,110	10,291
Undergraduate admissions					
Applied	9,754	8,890	8,490	9,199	9,487
Accepted	4,528	4,900	5,207	5,434	5,530
Enrolled	1,557	1,643	1,633	1,495	1,514
Selectivity ratio	46.4%	55.1%	61.3%	59.1%	58.3%
Matriculation ratio	34.4%	33.5%	31.4%	27.5%	27.4%
Degrees conferred					
Baccalaureate	1,392	1,302	1,370	1,417	1,399
Master’s	849	926	1,016	967	980
M.D.	104	104	109	96	105
Other doctoral	380	383	371	364	396
Total degrees conferred	2,725	2,715	2,866	2,844	2,880
Undergraduate graduation rates	84.1%	84.2%	84.0%	81.2%	81.6%
Undergraduate tuition rate	$ 25,190	$ 24,080	$ 22,990	$ 21,930	$ 20,900
% increase over prior year	4.6%	4.7%	4.8%	4.9%	4.9%
HOSPITAL AND CLINIC					
Licensed beds	746	658	658	658	658
Hospital admissions	36,452	31,852	32,151	31,349	30,011
Hospital patient days	200,434	170,377	167,764	165,426	161,847
Average daily census	549	467	458	453	443
Average length of stay (days)	5.5	5.3	5.2	5.3	5.4
Clinic outpatient visits	688,884	641,790	627,988	573,481	535,934
Emergency room visits	70,048	63,999	57,604	57,210	50,110
LifeFlight (helicopter) missions	1,803	1,709	1,657	1,558	1,279
FACULTY AND STAFF					
Full-time faculty	2,066	1,944	1,924	1,815	1,828
Full-time staff	12,513	11,594	11,131	11,292	10,417
Part-time faculty	329	329	330	318	317
Part-time staff	1,771	1,560	1,440	1,617	1,685
Total headcount	16,679	15,427	14,825	15,042	14,247
RESEARCH EXPENDITURES ($000)					
Federal	$ 124,384	$ 104,652	$ 92,342	$ 85,545	$ 76,564
Non-federal	48,410	42,192	44,689	39,590	34,330
Facilities and administrative costs recovery	58,506	48,051	46,397	40,060	37,775
Total research expenditures	$ 231,300	$ 194,895	$ 183,428	$ 165,195	$ 148,669
MANAGED ENDOWMENT					
Market value ($000)	$1,989,692	$2,159,614	$2,314,935	$1,796,785	$1,507,001
Total return on endowment	-5.8%	-4.7%	31.9%	19.8%	17.0%
Endowment earnings utilized	4.6%	3.9%	3.5%	3.7%	3.7%
Endowment per student	$ 189,567	$ 211,851	$ 228,590	$ 177,724	$ 146,439

Review *of Statistical Highlights*

Students

Enrollment for the 2001/2002 academic year totaled 10,496 students. The matriculation rate increased to 34.4% in fall 2001, an improvement of seven percentage points over fall 1997. Applications were at an all-time high of 9,754 for fall 2001 undergraduate admissions. As a result of increased applications and increased matriculation rates, Vanderbilt's selectivity improved significantly to 46.4%.

Undergraduate graduation rates decreased slightly to 84.1% (based on successful graduations within six years of initial enrollment). Undergraduate tuition increased only 4.6% to $25,190 for the 2001/2002 academic year. The University announced a tuition rate of $26,400 for the 2002/2003 academic year.

Hospital and Clinic

The Psychiatric Hospital at Vanderbilt was merged into Vanderbilt University Hospital (VUH) as of July 1, 2001. This increased VUH's licensed beds by 88. Without considering the addition of the psychiatric hospital, VUH experienced a 4.8% increase in patient days and a 3.5% increase in admissions over the prior year. Since 1998, outpatient and emergency room visits have increased an annualized average of 6.5% and 8.7% per year, respectively.

Meanwhile, the average inpatient length of stay increased from 5.3 days in fiscal 2001 to 5.5 days in fiscal 2002. This slight increase is primarily attributable to the inclusion of the psychiatric hospital, with an average length of stay of 6.4 days in fiscal 2002.

Faculty and Staff

The University employed 16,679 regular and temporary faculty and staff in 2002, including those employed in wholly-owned affiliated entities. This figure excludes more than 1,200 clinical and adjunct faculty not paid directly by Vanderbilt.

In fiscal 2002, most of the headcount increases occurred in the medical center. Increased patient care volumes in the hospital and clinic, combined with additional faculty and staff to meet the growth of research in the School of Medicine, drove a majority of the headcount increases.

Research Expenditures

Research expenditures have increased an annualized average of 11.7% per year since 1998 due primarily to growth in federal research awards. Sponsored research and project awards, including multiple-year grants and contracts, increased notably to $285.7 million in fiscal 2002.

Managed Endowment

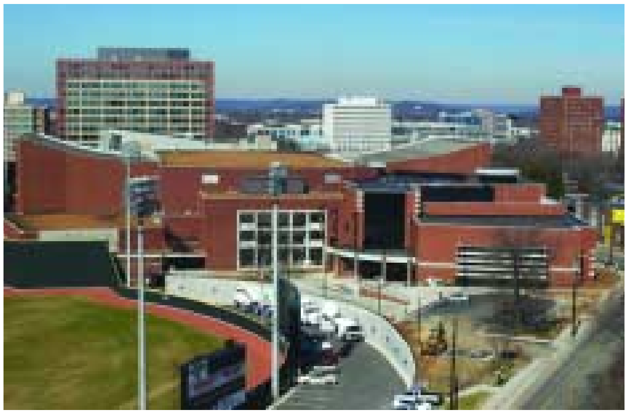
The market value of Vanderbilt's endowment totaled approximately $2.0 billion as of June 30, 2002. The endowment had a negative return of 5.8% for the fiscal year; however, the endowment outperformed an appropriate blend of market indices by more than 2%. Endowment distributions are based on 4.5% of the previous three years' average year-end market values. In fiscal 2002, this payout formula resulted in the utilization of 4.6% of the current year's average market value to fund operations, scholarships, and other defined endowment purposes. The Endowment Review section on page 20 of this *Financial Report* discusses the endowment in greater detail.

Building a Great University

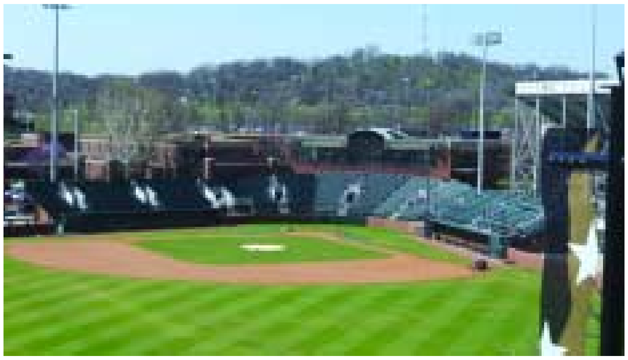
One cannot visit Vanderbilt's beautiful campus without noticing the flurry of construction and renovation projects. Our planning efforts include the process of defining capital budgets, with funding sources and expenditures by year, for all major projects under consideration as part of our strategic plans. This most recent review resulted in Vanderbilt approving almost $230 million in new projects, partially funded by the issuance of $100 million in debt during June 2002. Based on strong levels of financial resources, manageable debt levels, steadily improving student demand, sustained operating improvement by the medical center, and solid debt service coverage, Moody's Investors Service upgraded Vanderbilt's credit rating to an Aa2 and Standard & Poor's affirmed our AA credit rating.

Major Projects (completed during fiscal 2002 or currently underway)

▼ The Blair School of Music Phase II project, with a total cost of $16.6 million, was completed in fall 2001. It included 61,000 square feet of new construction and 5,300 square feet of renovations to the existing facility. The construction included a 620-seat performance hall with an orchestra pit, dressing rooms, full staging capabilities, and new rehearsal, studio, and library space.



▲ The Memorial Gym Phase II expansion and renovation, with a total cost of $15.4 million, was completed in spring 2002 and added a new practice gym with three courts and new office space for men's and women's basketball.



▲ The Baseball Field Phase II project, with a total cost of $3.2 million, was completed in spring 2002 and consisted of seating for 2,300 spectators and a 2,600-square-foot press box. The stadium façade is made of brick and glass, with a brick pier and wrought iron fence identifying the stadium edge along Jess Neely Drive.

▼ The Medical Center North (MCN) Vivarium project, with a total cost of $14.0 million, was completed in spring 2002 and consisted of a two-story addition to the top of MCN's Werthan Building. The construction created 35,000 square feet of space to supplement the medical center's growing research programs.

▼ The Law School expansion, with a cost of $24.0 million, was completed in spring 2002 and included the addition of 65,000 square feet and the renovation of a significant portion of the existing 105,000 square feet. The expansion and renovation created modern classroom spaces and a new practice trial courtroom, expanded and improved the library facilities, and enhanced common areas such as student lounges.

▲ The Schulman Center for Jewish Life, with a cost of $2.2 million, was completed in spring 2002 and provides a central focus for Jewish life at Vanderbilt. The 9,900-square-foot building serves as a place for Jewish religious and cultural programming, social gatherings, and various interfaith and intercultural events. It also provides an opportunity to introduce aspects of Jewish culture and religion to members of the campus community, thereby broadening the overall educational experience for all Vanderbilt students.

▲ The Jacobs Hall (School of Engineering) addition and renovation, with an estimated cost of $29.3 million, includes the demolition of a middle wing and connecting corridors, and construction of a new three-story, 85,000-square-foot building around a three-story atrium to serve as a central gathering space for the school. The project, which also includes renovations of over 65,000 square feet of space in Jacobs Hall east and west wings, will be completed in fall 2002.

▼ The Biological Sciences Building/Medical Research Building III (MRB III) project, with an estimated cost of $95.0 million, includes new construction of approximately 300,000 square feet. The new construction phase of the project is complete and ready for use. The project also includes the renovation of 83,400 square feet of the adjoining Learned Lab Building (anticipated summer 2003 completion). The new research building is part of an interdisciplinary initiative involving the departments of neuroscience, structural biology, genetics/ genomics, and cell and developmental biology. The building contains faculty research labs, teaching laboratories, and a shared lecture hall.

▼ The Monroe Carell Jr. Children's Hospital at Vanderbilt project, with an estimated cost of $203.2 million and an estimated completion date of fall 2003, consists of the construction of a freestanding, comprehensive inpatient and outpatient pediatric center to serve Middle Tennessee and the surrounding areas. The hospital will contain 628,000 square feet of state-of-the-art space with a patient and patient family focus. It will ultimately house 206 beds, 16 operating rooms, a complete emergency department, and full radiology services.

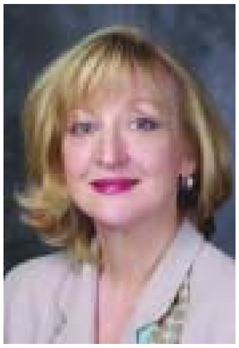
▲ The Bill Wilkerson Center/Musculoskeletal Institute project, with an estimated cost of $60.9 million and an estimated completion date of fall 2003, will combine programs for the Vanderbilt Bill Wilkerson Center for Otolaryngology and Communication Sciences (VBWCOCS) and the Musculoskeletal Institute (MSI). VBWCOCS is currently housed in four separate buildings on the Medical Center campus. The MSI encompasses the growing programs of orthopedics and rehabilitation, sports medicine, and a portion of the radiology program. This new facility will allow both VBWCOCS and MSI to improve patient access to multiple services, increase staff and patient productivity, and allow program synergy to reach new levels in a central location.

■ The Science and Engineering project, with an estimated cost of $10.1 million and an estimated completion date of fall 2003, will renovate Building Five of the Stevenson Center for the College of Arts and Science to provide modern teaching laboratories for introductory courses in chemistry on the first, second, and fourth floors of the building. The project will also include the modernization of the two large lecture halls in Building Four of the Stevenson Center and the construction of a new underground vault for the chemistry department's nuclear magnetic resonance machines.

Summary

Vanderbilt currently has over 200 buildings spread across its approximately 330-acre campus. Over the past year, Vanderbilt has worked with Sasaki Associates, Inc. to develop a land use and development plan. The plan recommends a location strategy for the accommodation of a facilities development program encompassing academic, support, medical, residential, recreation/ athletic, parking, and other ancillary needs envisioned over the next ten years. The University constantly strives to improve the quality of its teaching, research, and patient care through strategic investments in existing and new facilities. All potential projects are evaluated for consistency with and support of the academic plan and patient care needs. 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 fundraising opportunities. By combining the academic and health care program facility needs with a comprehensive capital strategic plan, Vanderbilt continues to "build" a great university.

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



Betty L. Price
Associate Vice Chancellor for Finance and Controller







Discussion *of Financial Results*

Through visionary leadership and sound fiscal management, combined with the extraordinary efforts of faculty and staff, Vanderbilt continues to reach new heights while maintaining solid financial performance. Despite recessionary times and a difficult marketplace for health care institutions, Vanderbilt continued its expansion and improvements while still reporting positive operating results of $31.4 million in fiscal 2002.

While management cannot control capital market fluctuations affecting non-operating results, the University's consistently positive operating results indicate that management can ably manage through challenging times. By ensuring structurally efficient and focused operations, Vanderbilt can continue aggressively targeting excellence for its teaching, research, patient care, and public service mission without becoming quiescent due to the turmoil of the stock market.

Operating Revenues and Expenses

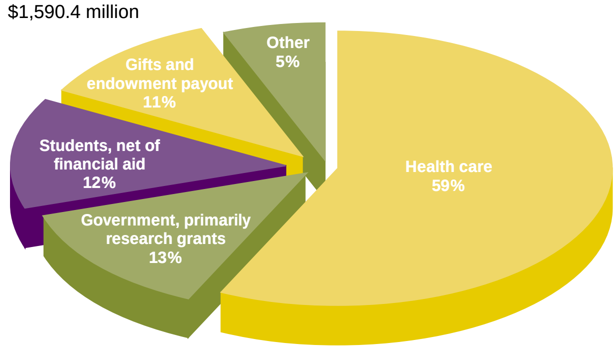
In fiscal 2002, Vanderbilt generated operating revenues of $1,590.4 million and incurred operating expenses totaling $1,559.0 million—resulting in an operating surplus of $31.4 million. While still healthy, these net results were less than the prior year's operating surplus of $38.9 million due to a handful of planned factors. In its strategic efforts to attract the top students and improve the educational experience, the University continued to implement increases in student financial aid at a rate faster than the growth in gross tuition. Also, a reduction in operating investment income occurred primarily due to the conversion of invested bond proceeds into buildings and improvements. Further, newly capitalized buildings and improvements resulted in an expected increase in depreciation expense.

Another year of positive health care net revenues, as discussed later, and stable operating results for the schools were the primary contributors to the University's ability to maintain a strong operating surplus. The following graphs illustrate the proportional revenues and expenses contributing to the University's overall financial performance.

Vanderbilt University Hospital and The Vanderbilt Clinic increased their lead in Middle Tennessee consumer preferences, which translates to an increasing market share, growth in patient admissions, and more emergency room and outpatient visits. These factors led to significant growth in health care revenues, which constituted 59% of the University's total operating revenues.

OPERATING REVENUES BY SOURCE

$1,590.4 million

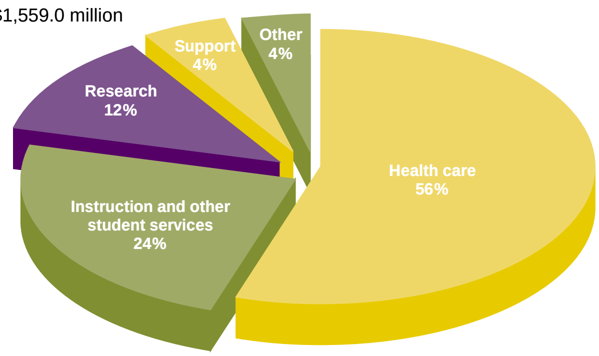


Government grants and contracts revenue and government-related indirect cost recovery, which made up 13% of total operating revenues, increased by 18.9% from the prior year. The U.S. Department of Health and Human Services, including the National Institutes of Health, provides over 60% of Vanderbilt's total federal research funding.

Students, net of financial aid, accounted for 12% of total operating revenues. The undergraduate tuition rate totaled $25,190 per student, which was a 4.6% increase over the prior year. In tandem with increasing applications and higher matriculation rates of those students who are accepted, increased financial aid has greatly improved the University's ability to attract and enroll outstanding freshman classes. Still, the University targets even greater increases of endowed scholarships as part of its fundraising efforts.

OPERATING EXPENSES BY FUNCTION

$1,559.0 million



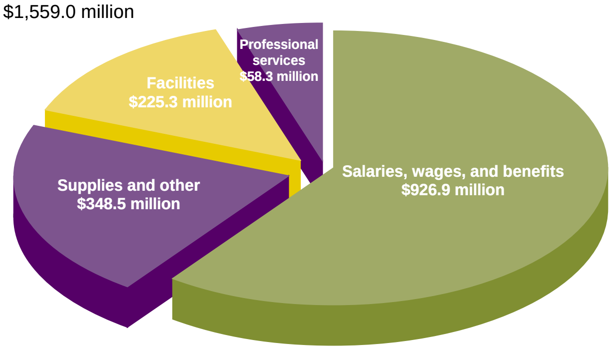
Operating expenses by function are shown above. Well-managed health care expenses contributed to positive operating results for the hospital and clinic. Each year, expenditures for instruction and other student services are proportionally more than net tuition, which indicates the importance of operating gifts and endowment payouts for supporting the educational mission.

Operating Expenses by Type

The fiscal 2002 operating expenses of $1,559.0 million are shown by natural classification type on the chart below. Vanderbilt's salaries, wages, and fringe benefits totaled $926.9 million and constituted 60% of total operating expenses. Although operating expenses increased 13.0% over the prior year, the predominant share of the expense growth occurred to support the expansion of health care services and the progress in research funded by government grants and contracts. Additionally, the University made strategic investments to enhance the academic experience for students and faculty.

OPERATING EXPENSES BY TYPE

$1,559.0 million



Summary of Changes in Net Assets

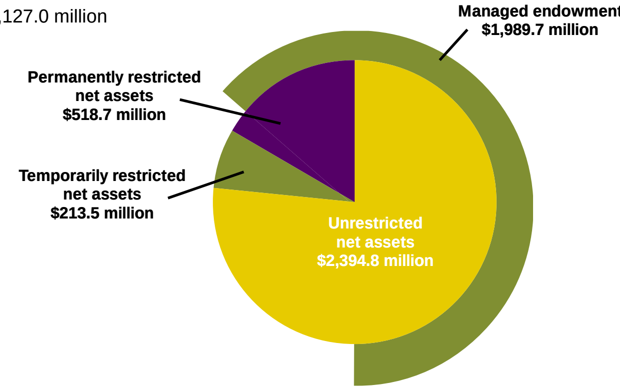
As noted earlier, the University reported an operating surplus of $31.4 million in fiscal 2002. However, the University could not escape the impact of an economic recession on market returns as non-operating endowment and investment losses equaled $225.4 million. Restricted gifts and other non-operating activities totaled a positive $142.1 million thanks in large part to $121.4 million of new donations and pledges from the Ingram family. Driven by the investment losses, these factors combined for a total decrease in net assets of $51.9 million as presented in the Summary of Changes in Net Assets below.

Vanderbilt's decrease in total net assets, like that occurring at a great number of universities with large endowments, resulted in net assets totaling $3.1 billion as of June 30, 2002. The managed endowment encompasses $2.0 billion of that total—with $0.4 billion considered as permanently restricted "corpus" and $1.6 billion of cumulative growth in endowment funds classified as unrestricted net assets.

While adverse economic conditions have affected the endowment market value, management remains confident in the University's long-term health based upon remarkable student

TOTAL NET ASSETS

$3,127.0 million



application and enrollment trends, strong consumer preference for the University's hospital and clinic, increasing research support, extraordinarily generous donors, consistently solid operating results, and endowment returns that exceed composite benchmarks in both bull and bear markets.

Health Care

Vanderbilt University Medical Center (VUMC) managed improvements in its operations through volume growth, rate increases, and cost controls in fiscal 2002. The Psychiatric Hospital at Vanderbilt, previously consolidated through its ownership by University affiliates, merged into Vanderbilt University Hospital (VUH) in July 2001, which contributed to increases in reported hospital service volumes. Even without considering the growth attributable to the psychiatric hospital merger, VUH experienced notable growth in gross patient revenues resulting from increases in patient days, admissions, outpatient visits, and emergency room visits. Further, management negotiated favorable rate increases on many commercial managed care contracts by leveraging the medical center's strength as a prominent tertiary care provider with a wide service area.

Offsetting the increases in gross patient revenue was the continuing impact of Medicare reimbursement reductions imple-

SUMMARY OF CHANGES IN NET ASSETS (in millions)

	2002	2001
Unrestricted operating results	$ 31.4	$ 38.9
Non-operating endowment and investment losses	(225.4)	(197.5)
Restricted gifts and other non-operating results	142.1	25.6
TOTAL DECREASE IN NET ASSETS	**(51.9)**	**(133.0)**
ENDING BALANCE OF NET ASSETS	**$ 3,127.0**	**$ 3,178.9**

mented as part of the Balanced Budget Act of 1997, and the failure of TennCare to increase reimbursements commensurate with health care cost inflation. Vanderbilt leads the state in the provision of health care services under TennCare, Tennessee's state-managed health care program designed for Medicaid-eligible residents and those who lack access to health insurance. Due in part to a statewide reduction in the number of TennCare providers, the mix of Vanderbilt's hospital inpatients covered under TennCare/Medicaid programs increased by five percentage points in fiscal 2002, adversely affecting net patient revenue per discharge.

Health care operating expenses increased as the result of a new primary care clinic, a new six-bed patient transition unit, service level growth, pharmaceutical and medical supply cost inflation, rising liability insurance rates, and the effects of the national nursing shortage on market wages for nurses. Efforts to limit expense growth are focused primarily on staffing levels and resource utilization. Management will persist in its constant pursuit of opportunities for improved operational efficiency.

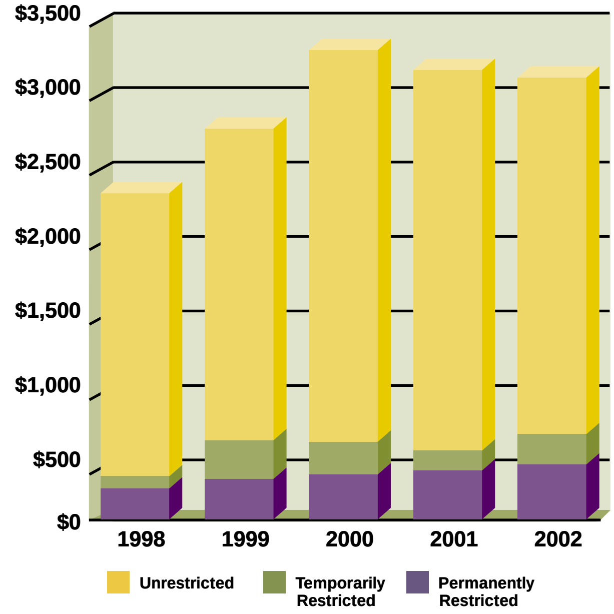
An exciting new revenue source has developed from an agreement with McKesson Corporation, a provider of health care management products and services. McKesson contracted with the University to commercialize informatics software, to be known as Horizon Expert Orders, developed at VUMC into an advanced clinical decision support and order entry system. The net contribution of this agreement to Vanderbilt's operating results totaled over $6 million in fiscal 2002.

Integrated Financial Planning

One of Chancellor Gee's goals upon arriving at Vanderbilt was to reexamine and restructure economic models to enhance the academic mission. Last year, an Integrated Financial Planning (IFP) Council was established to construct a resource allocation model that maintained decentralized responsibilities and created a central funding mechanism. One such funding mechanism is the Academic Venture Capital Fund (AVCF), a fund created specifically for strategic academic initiatives. Part of the funding for the AVCF will come from the use of accumulated operating funds that had been designated as "funds functioning as endowment" several years ago. The goal of the AVCF is to support interdisciplinary efforts within the University that may not have been funded via departmental budgets alone.

In 2002, the IFP Council approved AVCF funding of several academic initiatives, all of which hold great potential for transformative research discoveries and educational accomplishments.

NET ASSETS (in millions)



These initiatives include a research program in proteomics and functional biology; a center for integrative and cognitive neuroscience; an institute for nanoscale science and engineering; an institute for integrative biosystems research and education; a program in law and business; and a learning sciences institute.

Strengths, Trends, and Challenges

Vanderbilt's financial strength was validated in June 2002, when Moody's Investors Service upgraded Vanderbilt's long-term credit rating from Aa3 to Aa2. This upgrade was based on:

- strong levels of financial resources that provide long-term flexibility;
- debt levels that are expected to remain manageable despite major capital projects;
- very good and steadily improving student market position driven by geographic and program diversity;
- sustained improvement in health care operations, despite industry challenges; and
- consistent annual operating performance generating good debt service coverage.

A recent staff survey also serves as a notable indicator of the operational effectiveness of the University's organizational structure and leadership team. Of 45 staff satisfaction factors, Vanderbilt scored above the national average in 38 factors. Most notably, 86% of staff at Vanderbilt agreed with the statements that "the University is committed to excellence" and "members of my work group produce quality work," while only 5% disagreed with those statements.

Applications for fall 2002 incoming freshmen approached 10,000 for the second record-setting year in a row. Increased applications, combined with a higher matriculation rate of students enrolling at Vanderbilt once selected, allowed the University to become more selective by accepting less than 47% of its applicants for the second year in a row. These factors have resulted in all-time-high SAT scores for incoming freshmen. Further, the University has experienced pronounced improvements in student retention rates.

The most recent rankings of Vanderbilt's undergraduate and graduate programs highlight the University's achievements and positive trends. In addition, Vanderbilt is widely recognized as a national leader in several medical specialties, and the medical center is consistently identified as one of the premier health care organizations in the country. Demand for Vanderbilt's medical services has never been higher. Most importantly, though, patient satisfaction remains strong in the midst of such activity.

Despite our successes, one must note that Vanderbilt is not shielded from the many challenges that face universities and academic medical centers. Soaring insurance costs are affecting many aspects of the University's operations. In the medical center, market forces affecting nursing wages, pharmaceutical costs, supply expenses, and liability insurance rates present obstacles to sustained advancement.

The capital markets present another challenge. University management is already implementing cost-controlling steps in response to anticipated lower endowment payout rates resulting from an endowment that has returned to its level of late 1999. The University is committed to the perpetuity of the endowment and will not maintain peak endowment payout rates if the total endowment market value remains depressed.

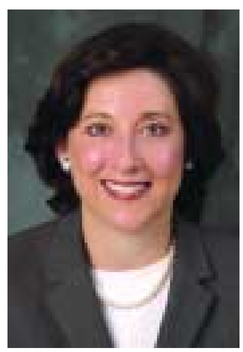
Even while the capital markets are weak—more importantly, because many families are impacted by economic doubt—we must meet the steadily growing demand for financial aid to students. We must continue to attract and retain students and faculty of the highest caliber. To do this, the University needs to generate more operating funds for student support and identify donors to create and enhance endowed scholarships and faculty chairs. Challenges will always arise. The key is to embrace them.

Summary

In summary, key points from this Discussion of Financial Results include the following:

- positive operating results of $31.4 million;
- $51.9 million decrease in total net assets primarily due to non-operating endowment and investment losses;
- total net assets of $3.1 billion as of June 30, 2002;
- healthy operating results and volume trends in the hospital and clinic;
- financial stability in the schools;
- positive trends in student selectivity, matriculation rates, retention, and quality; and
- national recognition in undergraduate education, graduate programs, and medical specialties.

The University's clarity of vision derives, in part, from the highly collaborative nature of our planning efforts. Outstanding Board leadership, management that respects its fiduciary responsibilities, creative strategic planning, dedicated faculty and staff, and supportive alumni and friends are collectively leading Vanderbilt to once thought unreachable heights.



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

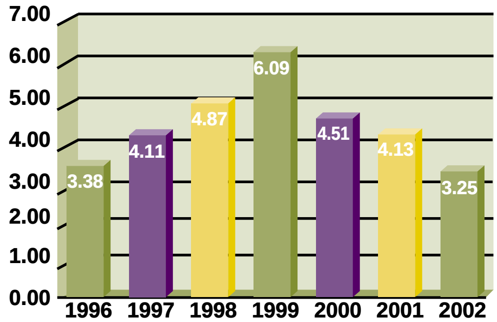
Financial *Ratios*

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 is a measure of clear financial health: the availability of expendable net assets to cover debt should the University need to settle its obligations as of the fiscal year-end. "Expendable Net Assets" are all unrestricted and temporarily restricted net assets other than those designated for plant facilities. Designated for plant facilities is defined as the net investment in property, plant, and equipment, as well as funds designated for future acquisitions of plant facilities and retirement of debt. A ratio of 1.00 or greater indicates an institution has sufficient expendable net assets to satisfy debt requirements.

***At Vanderbilt:** The decline in this ratio in 2000 resulted from the issuance of $225 million in debt in May 2000. The decline in this ratio in fiscal 2002 resulted from the decreased value of investments and the issuance of $100 million in debt in June 2002. This ratio is still considered strong, as expendable net assets exceed long-term debt by $1.4 billion as of June 30, 2002.*

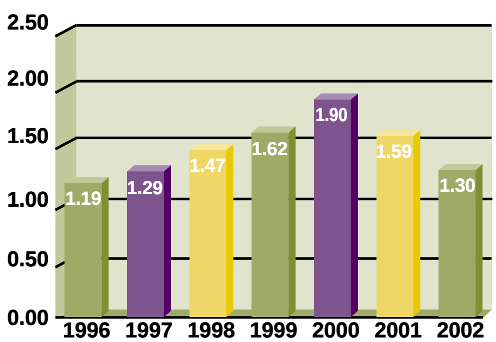


Expendable Net Assets
Long-term Debt

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:** In 2000, an extraordinary endowment return bolstered this ratio. As with the viability ratio, the decreased value of investments effected a decline in the primary reserve ratio in fiscal 2002. The University reported moderate growth of operating expenses. Vanderbilt has the ability to maintain its existing level of continuing operations for well over one year without generating additional revenues.*

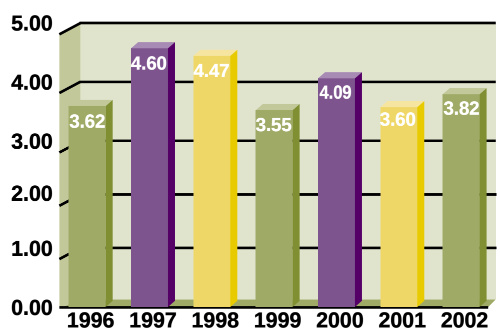


Expendable Net Assets
Total Operating Expenses

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 increased slightly in fiscal 2002 primarily due to lower interest rates that reduced interest expense and the fact that the issuance of $100 million in debt did not occur until June 2002. The University has sufficient unrestricted operating resources available to meet its debt burden should economic conditions change.*



Unrestricted Operating Surplus
Required Debt Service

The End of the Golden Age?

Endowment funds have enjoyed extraordinary growth during the last twenty years as a result of favorable capital markets and the generosity of alumni and friends. From 1982 to 2000, Vanderbilt's endowment grew from $184 million to $2.3 billion, an annual growth rate of more than 15%. During this period, the value of an existing unit of our endowment grew by 10.7% per year, while also providing annual income to the operating budget averaging 4.8% of current market value. This internal growth was supplemented by gifts and other additions averaging 4.3% of market value per year.

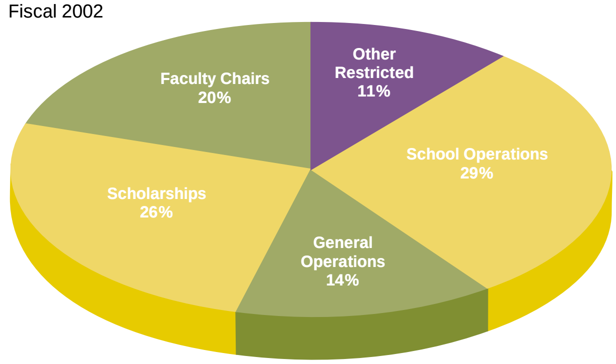
Vanderbilt continues to enjoy great success in the fundraising arena, but I am afraid that the other driver of endowment growth, the capital markets, may not be as cooperative for some time. During the period cited above, annual U.S. stock and bond returns averaged 18.5% and 12.1%, respectively. Unfortunately, that Golden Age came to an end in 2000 as the endowment experienced negative returns in both fiscal 2001 and fiscal 2002. Fiscal 2003 also began on a sour note as the world's stock markets fell by 7.5% in July and August. The cumulative decline in the U.S. market of more than 40% from the peak in 2000 has resulted in more sensible valuations, which hopefully set the stage for an eventual recovery. But, we also believe it is prudent to expect that recovery to be somewhat muted, thereby producing only moderate returns from current levels.

The best predictor of future returns on bonds is the current yield to maturity, which is approximately 5% for long-term U.S. Treasuries. The return on stocks is a function of three variables: the beginning dividend yield, growth, and any changes in the price/earnings (P/E) ratio. Without boring you with a lot of detail, the first two factors point to stock returns of 7% or so. What about changes in the P/E ratio, which is currently about 23 based on core operating earnings? In order to generate an annual return of 10% over the next ten years, the P/E ratio would have to increase to 31, which approximates the level at the peak of the "Bubble" in 2000. More bearish observers argue that valuation bubbles are always followed by a return to historical norms, and values frequently overshoot on the down side. Migration over ten years to the long-term average P/E of 15 would imply a return of 3% per year, while a terminal P/E of 11 would result in a rate of return of zero. While I personally lean toward a cautious stance, our planning is based on a "middle of the road" position that calls for the P/E to reach its equilibrium at about 20 implying a return of 6%. Some other investment categories may generate modestly higher returns than the 5-6% indicated for stocks and bonds, but it still seems prudent to forecast overall endowment returns of 7% or so.

What do these potential returns mean for Vanderbilt and for the investment strategy that we employ? The main implication for Vanderbilt's operations is that the annual transfer from the endowment will experience little growth over the next few years. In fact, the annual payout is scheduled to decrease in fiscal 2004 and 2005 due to the negative returns experienced in 2001 and 2002. One can hope that it will resume growth thereafter, but the annual rate of increase will likely average about 2-3%. Since the overall budget has been growing at a much faster rate, this will place additional pressure on management to continue to control costs, engage in careful program assessment and prioritization, and to pursue other sources of revenue.

ENDOWMENT PAYOUT BY PURPOSE

Fiscal 2002



We have also made moderate shifts in our investment strategy. Specifically, we have cut our exposure to several of the equity categories and increased our allocation to bonds, real estate, and absolute return strategies. These changes are not likely to

VANDERBILT UNIVERSITY ENDOWMENT FUND
% OF TOTAL PORTFOLIO

Category	New Target %	Previous Target %
U.S. Equities	20	23
Global Equities	10	10
International Equities	6	6
Emerging Market Equities	6	6
Private Equity	15	20
Total Equity	**57**	**65**
Real Estate	8	6
Timber and Energy	3	3
Inflation Hedges	**11**	**9**
Absolute Return Strategies	**15**	**12**
U.S. Treasury Securities	14	13
Opportunistic Fixed Income	2	-
Faculty Mortgages	1	1
Total Fixed Income	**17**	**14**
Total Endowment	**100**	**100**

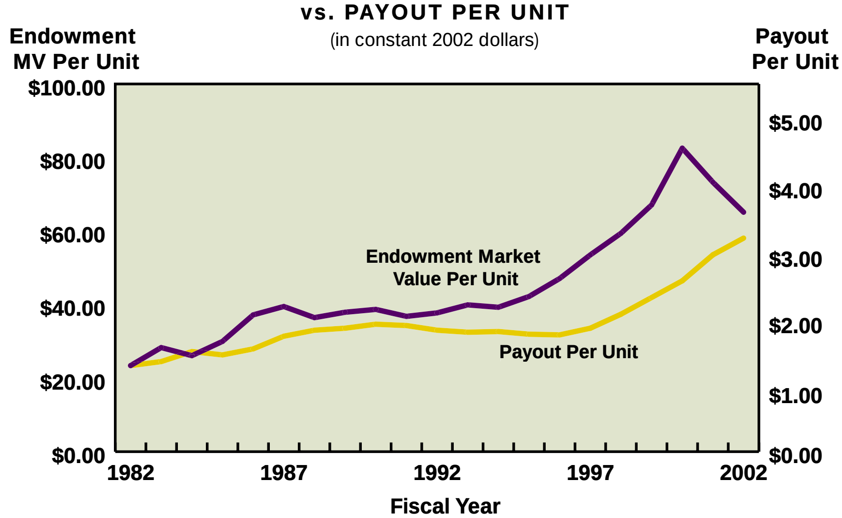
significantly impact the overall return on the endowment but are designed to lower the level of risk in the portfolio in a highly uncertain environment. Our current and former allocation targets are depicted in the accompanying table.

The Fiscal Year in Review

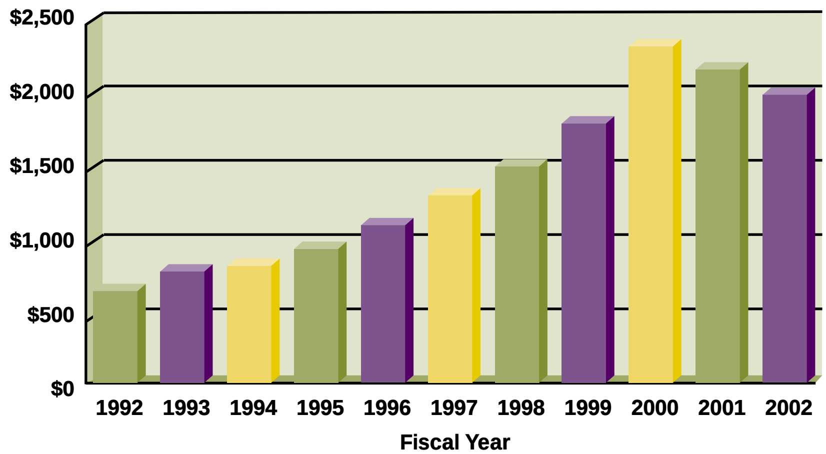
For the second fiscal year in a row, the capital markets provided significant challenges due to recession, corporate accounting scandals, the September 11th attacks, questions regarding the credibility and ethics of Wall Street, and stretched valuations. The U.S. stock market declined by 16.6% and markets in industrialized countries outside the U.S. fell by 9.5%. While complete data will not be available for some months, we estimate that private equity values fell by more than 20% on top of similar declines in the previous fiscal year. Despite this grim environment, there were a few bright spots. Emerging market equities, real estate, and a number of absolute return strategies yielded modest positive returns. But, the big winner for the year was good old long-term U.S. Treasury Bonds that provided a return of 9%. Against this backdrop, the endowment declined 5.82% resulting in a value at June 30, 2002, of $1.9897 billion. On a per-unit basis, the endowment was valued at $65.13 on June 30 and the payout for fiscal 2002 was $3.20.

We compare our return to a blended benchmark that is calculated by multiplying our target weighting in each investment category by an appropriate market index for that asset class. The private equity and venture capital indices are not available until several months after the end of each quarter so we cannot definitively report our relative results until October. However, we believe the endowment outperformed the blended benchmark by more than 2%. Since adopting asset allocation targets and appropriate market benchmarks four years ago, we have outperformed the blended index in every year, and the average level of added value has been 6.5%.

ENDOWMENT MARKET VALUE PER UNIT vs. PAYOUT PER UNIT (in constant 2002 dollars)



TOTAL ENDOWMENT MARKET VALUE (in millions)

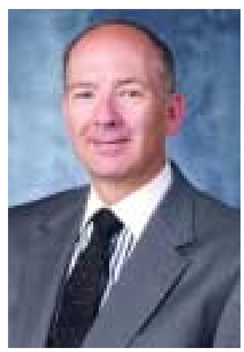


While information on the competitive performance of our private equity funds is not yet available, there were several noteworthy performances in the remainder of the portfolio. On a relative basis, the best performing component for the fiscal year was domestic equities, which fell 8.4% versus the 16.6% decline in the Wilshire 5000 Index. This excellent performance is attributable to the fact that one third of this category is invested in hedge funds that maintain both long and short positions. Additionally, we maintained a strong value tilt throughout most of the year. Global equities, absolute return strategies, and fixed income also outperformed their respective benchmarks by amounts ranging from 11 to 225 basis points. International and emerging markets equities slightly underperformed, trailing their benchmarks by approximately 30 basis points.

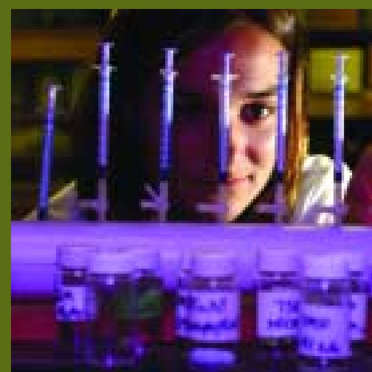
The segment of the endowment with the greatest variation in return was our non-marketable portfolio, which consists of energy properties, timber, real estate, and private equity. At one extreme, our natural resource portfolio (timber and energy) earned 19% for the fiscal year. At the other end of the spectrum, leveraged buyouts and venture capital returned -18% and -43%, respectively. While the latter numbers are certainly not pretty, we have been investing in private equity for more than twenty years, which gives us the confidence to continue to invest with top-tier groups through all phases of the cycle.

Keep the Faith

I have reported negative returns on the endowment for the past two years and the outlook for future returns is certainly muted. In such an environment, it is very easy for investors to lose their focus and resolve. Just as many lost their discipline in the heat of the Bubble, others will abandon sensible long-term investment plans in response to the tide of red ink. I am happy to report that we are sticking to our strategy. At the policy level, our Investment Committee has carefully evaluated the risk-reward balance inherent in our asset mix and is comfortable that it is consistent with the nature and purpose of the fund. And, from an implementation standpoint, our investment team has been able to add considerable value through good manager selection and tactical asset shifts. I would like to express my appreciation to all who support this effort, and I look forward to a more uplifting report in future years.



William T. Spitz
Vice Chancellor for Investments and Treasurer



Consolidated
Financial Statements

Independent *Auditors' Report*

Board of Trust, The Vanderbilt University:

We have audited the consolidated statements of financial position of The Vanderbilt University as of June 30, 2002 and 2001, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Vanderbilt University as of June 30, 2002 and 2001, and their changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Nashville, Tennessee
September 5, 2002

Consolidated Statements of Financial Position

As of June 30, 2002 and 2001 (in thousands)

	2002	2001
Assets		
Cash and cash equivalents	$ 233,477	$ 224,732
Collateral under security lending agreements	195,630	278,722
Accounts receivable	213,481	201,860
Prepaid expenses and other assets	67,384	68,400
Contributions receivable	127,482	123,642
Student loans receivable	33,401	33,786
Investments	2,386,432	2,549,427
Property, plant, and equipment	1,098,315	901,651
Interest in trusts held by others	44,173	49,408
Total assets	$4,399,775	$4,431,628
Liabilities		
Accounts payable and accrued expenses	$ 370,504	$ 351,296
Payable under security lending agreements	195,630	278,722
Current portion of long-term debt	12,087	11,614
Deferred revenues	29,862	33,080
Actuarial liability of annuities payable	39,736	41,512
Government advances for student loans	15,407	14,791
Long-term debt, net of current portion	609,554	521,716
Total liabilities	1,272,780	1,252,731
Net Assets		
Unrestricted	2,394,818	2,555,740
Temporarily restricted	213,519	143,741
Permanently restricted	518,658	479,416
Total net assets	3,126,995	3,178,897
Total liabilities and net assets	$4,399,775	$4,431,628

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

Consolidated Statements *of Activities*

■ Years Ended June 30, 2002 and 2001 (in thousands)

	2002	2001
Changes in Unrestricted Net Assets		
OPERATING REVENUES		
Tuition and educational fees	$ 242,606	$ 226,647
Room and board	34,520	33,222
Financial aid	(85,346)	(76,448)
Net tuition, fees, and room and board	191,780	183,421
Government grants and contracts	156,296	132,365
Facilities and administrative costs recovery	61,591	51,429
Gifts, private grants, and contributions	54,331	56,519
Endowment income	93,406	84,666
Investment income	14,016	24,247
Health care services	930,050	812,817
Auxiliary services	45,191	37,032
Other sources	25,541	18,099
Net assets released from restrictions	18,183	18,306
Total operating revenues	1,590,385	1,418,901
OPERATING EXPENSES		
Instruction, departmental research, and other related programs	230,094	210,795
Sponsored research	188,819	162,368
Health care services	867,932	763,259
Academic support	85,217	76,681
Institutional support	62,217	60,978
Student support services	21,343	19,547
Public service	17,105	12,502
Auxiliary services	86,234	73,820
Total operating expenses	1,558,961	1,379,950
Change in unrestricted net assets from operating activities	31,424	38,951
NON-OPERATING ITEMS		
Gifts and contributions for plant facilities	5,133	3,603
Net assets released from restrictions	12,426	64,372
Investment losses	(209,485)	(187,521)
Other non-operating items	(3,420)	(432)
Change in estimate for discontinued operations provision	3,000	6,500
Change in unrestricted net assets from non-operating items	(192,346)	(113,478)
Decrease in unrestricted net assets	(160,922)	(74,527)
Changes in Temporarily Restricted Net Assets		
Contributions and other	103,910	15,376
Net gain (loss) on contributions receivable	4,515	(12,744)
Endowment income	2,487	2,193
Investment losses	(10,525)	(6,919)
Net assets released from restrictions	(30,609)	(82,678)
Increase (decrease) in temporarily restricted net assets	69,778	(84,772)
Changes in Permanently Restricted Net Assets		
Contributions and other	47,184	31,553
Endowment income	182	255
Investment losses	(8,124)	(5,555)
Increase in permanently restricted net assets	39,242	26,253
Decrease in total net assets	$ (51,902)	$ (133,046)
Net assets at beginning of year	3,178,897	3,311,943
Net assets at end of year	$3,126,995	$3,178,897

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

Consolidated Statements of Cash Flows

■ Years Ended June 30, 2002 and 2001 (in thousands)

	2002	2001
Cash Flows from Operating Activities		
Decrease in total net assets	$ (51,902)	$ (133,046)
Adjustments to reconcile decrease in total net assets to net cash provided by operating activities:		
Non-operating items		
Gifts for plant expansion and endowment	(64,084)	(85,585)
Net realized investment losses (gains)	9,812	(246,261)
Noncash items		
Depreciation and amortization	80,680	61,630
Provisions for doubtful accounts	70,391	54,047
Net decrease in unrealized appreciation	164,703	420,906
Present value adjustment on annuities payable	(1,776)	(5,399)
Interest in trusts held by others	5,235	(526)
Discontinued operations		
Change in estimate for discontinued operations provision	(3,000)	(6,500)
Incurred gains (losses), net of depreciation	3,386	(11,614)
Change in operating assets and liabilities		
Decrease (increase) in:		
Accounts receivable	(80,516)	(49,479)
Prepaid expenses and other assets	1,016	9,485
Contributions receivable	(5,491)	65,809
Increase (decrease) in:		
Accounts payable and accrued expenses	18,822	34,559
Deferred revenues	(3,218)	(1,573)
Government advances for student loans	616	472
Net cash provided by operating activities	144,674	106,925
Cash Flows from Investing Activities		
Purchases of investments	(1,521,258)	(3,700,713)
Proceeds from the sale of investments	1,509,738	3,721,178
Acquisition of property, plant, and equipment	(281,212)	(187,418)
Disposal of property, plant, and equipment	3,868	7,189
Student loans disbursed	(4,835)	(4,005)
Principal collected on student loans	5,375	4,843
Net cash used in investing activities	(288,324)	(158,926)
Cash Flows from Financing Activities		
Gifts for plant expansion and endowment	64,084	85,585
Proceeds from the issuance of bonds	100,000	78,915
Payments to retire or defease debt	(11,689)	(86,907)
Net cash provided by financing activities	152,395	77,593
Net increase in cash and cash equivalents	$ 8,745	$ 25,592
Cash and cash equivalents at beginning of year	224,732	199,140
Cash and cash equivalents at end of year	$ 233,477	$ 224,732

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

1. ORGANIZATION

The Vanderbilt University is a private, not-for-profit institution located in Nashville, Tennessee, which owns and operates educational and research facilities as well as a healthcare system. Founded in 1873, the University has approximately 6,200 undergraduate and 4,300 graduate and professional students enrolled in its ten schools and colleges. The Chancellor and the Board of Trust, the governing board of the University, have oversight responsibility for all of the University's financial affairs.

These consolidated financial statements include the accounts of all entities in which the University has a significant financial interest and over which the University has control, including its hospital and clinic. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Based on the existence or absence of donor-imposed restrictions, the University classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets are free of donor-imposed restrictions. All revenue, 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 the University. These net assets may include unconditional pledges, interest in trusts held by others, and life income and gift annuities.

Permanently restricted net assets are amounts required by donors to be held in perpetuity. These net assets may include true endowment, interest in trusts held by others, and life income and gift annuities.

Expirations of temporary restrictions on net assets, i.e., the passage of time and/or fulfilling donor-imposed stipulations, are reported as *net assets released from restrictions* between the applicable classes of net assets in the Statements of Activities.

Cash and Cash Equivalents

Cash and cash equivalents, maturing in 90 days or less, are reported at fair value.

Investments

Investments are reported at fair value, based primarily on market quotes, except for certain real estate and mortgages that are stated at cost. Fair values for certain alternative investments (primarily investments in partnerships) are based on estimates reported by fund managers where a ready market for the investments does not exist.

The University has significant exposure to a number of risks including interest rate, 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 the University's financial statements.

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 by investment managers are reported as a component of investments.

All true endowment investments and long-term net assets functioning as endowment are managed in a pool, unless special considerations or donor stipulations require that they be held separately.

Gains and losses on investments generally are reported as increases or decreases in non-operating unrestricted net assets unless explicit donor stipulations or law restrict their use.

Endowment Income Distribution Policy

The University employs a *total return* policy that establishes the amount of endowment income distributed to support current operational needs. This policy is designed to insulate operational programs from capital market fluctuations and increase the amount of return that is reinvested in the corpus of funds in order to enhance its long-term value.

Under this policy, endowment income distributions are based on a percentage of the previous three years' average year-end market values. Actual endowment return earned in excess of distributions under this spending policy is reinvested as part of the University's *managed endowment* and is reported as a non-operating item in the Statements of Activities.

Other Financial Instruments

Recorded amounts for receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value.

Using market quotations for similar issues or borrowings, the University evaluates the estimated fair value of its fixed-rate long-term indebtedness relative to carrying value. Principal balances for fixed-rate debt are used for carrying value as long as such amounts are substantially equivalent to estimated fair value.

The University employs derivatives in a limited manner, primarily interest rate swap agreements to manage market risk associated with outstanding variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as non-operating investment income in the 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 swap agreements are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University deals only with high quality counterparties that meet rating criteria for financial stability and creditworthiness. Additionally, the University requires the posting of collateral when amounts subject to credit risk under swap arrangements exceed specified levels.

University management also approves strategic use of derivatives by external investment managers to manage market risks. The most common strategies engaged by such managers are futures contracts, short sales, and hedges against currency translation risk for investments denominated in other than U.S. dollars. These derivative instruments are recorded at their respective fair values.

Through an agreement with its primary investment custodian, the University participates in security lending to brokers. For pledged cash collateral under the control of the University, a short-term asset and liability are recorded representing the market value of such collateral.

Life Income, Gift Annuities, Interest in Trusts Held by Others

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and life income funds for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenue is recognized at the dates the trusts are established, after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes related to estimated future donor-related payments.

The University also is the beneficiary of certain perpetual trusts held and administered by others. These trust assets are recorded at fair value as interest in trusts held by others with carrying values adjusted annually for changes in market 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 market value at the date of donation. Additions to the library collection are expensed at the time of purchase.

Depreciation is calculated by the straight-line method at rates estimated to allocate the cost of various classes of assets over their estimated useful lives. Equipment is removed from the accounting records at the time of disposal.

Government Advances for Student Loans

Government revolving loans to qualified students are funded principally with federal advances to the University under the Perkins, Nursing, and Health Professions Student Loan Programs. These advances of federal funds are classified as liabilities.

Contributions

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Conditional promises (primarily bequest intentions) are not recorded until donor stipulations are substantially met.

Unconditional promises to give, with payments due 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. Amortization of the discount is recorded as additional contribution revenue in the appropriate net asset class.

Contributions with donor-imposed restrictions are recorded as 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 upon receipt of the gift or expiration of the time restriction, and 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 consisting of marketable securities are stated at the fair value of the underlying securities with significant changes in fair value separately reported as a non-operating item.

Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal income taxes pursuant to Section 501(a) of the Code.

Operating Results

Operating results in the Statements of Activities reflect all transactions that change unrestricted net assets, except gifts for plant facilities and certain items associated with endowment investments. In accordance with the University's endowment spending policy, as previously described, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue.

The University's primary programs are instruction, research, patient care, and public service. Academic and student support expenses and auxiliary services are considered integral to the delivery of these programs. Fundraising costs are not material to the University's contributions or total program costs.

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 periodic facility usage surveys. Interest expense on external debt is allocated to the activities that have most directly benefited from the proceeds of the external debt.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

3. ACCOUNTS RECEIVABLE

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

	2002	2001
Patient care	$ 233,413	$ 201,207
Students and others	72,118	68,735
Accrued investment income	10,762	12,099
Accounts receivable	316,293	282,041
Less: Allowance for uncollectible accounts	102,812	80,181
Accounts receivable, net	$ 213,481	$ 201,860

4. CONTRIBUTIONS RECEIVABLE

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

	2002	2001
Unconditional promises expected to be collected in:		
Less than one year	$ 36,375	$ 19,011
One year to five years	102,917	116,221
More than five years	1,598	1,836
Total unconditional promises	140,890	137,068
Less: Unamortized discount	10,303	11,972
Allowance for uncollectible promises	3,105	1,454
Contributions receivable, net	$ 127,482	$ 123,642

Unconditional promises to give are reported at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Amortization of the discount is recorded as additional contribution revenue in the appropriate net asset class.

Since November 1998, the Martha and Bronson Ingram family, including gifts through the Ingram Charitable Fund, Inc. (ICF), has pledged or distributed to the University 16.3 million shares of Ingram Micro, Inc. Class A common stock, of which 3.6 million shares are held by the ICF and 5.2 million shares are held by the University as of June 30, 2002.

Included in temporarily restricted contributions receivable is the fair value of pledged undistributed shares held by the ICF as of June 30:

	2002	2001
Undistributed Ingram Micro shares held by the ICF at fiscal year-end	3,575,000	2,880,000
Market price per share	$ 13.75	$ 14.49
Fair value (in thousands)	$ 49,156	$ 41,731

New pledges of 3.2 million shares donated to the ICF during the year are reported as contributions receivable at the year-end market value, net of the decline since the pledge was received. Net changes on shares pledged in prior years due to fair value changes for the underlying stock are reported separately as a non-operating gain or loss on contributions receivable in the Statements of Activities.

In addition to pledges reported as contributions receivable, the University had received bequest intentions of approximately $113 million as of June 30, 2002. These intentions to give are not recognized as assets due to their conditional nature. If these bequests are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

5. STUDENT LOANS RECEIVABLE

Loans to students from University 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 receivable from students under governmental loan programs, also carried at cost, can only be assigned to the United States government or its designees. Loan balances are net of allowances for estimated uncollectible accounts of $3.1 million and $3.3 million as of June 30, 2002 and 2001, respectively.

6. INVESTMENTS

Investments by security type as of June 30 were as follows (in thousands):

	2002	2001
Short-term securities	$ 142,639	$ 171,984
Bonds	445,016	477,740
Stocks	1,118,091	1,178,951
Partnership investments	538,288	573,369
Mortgages	18,145	20,103
Real estate, net	108,802	91,112
Other	18,104	34,422
Net receivables (payables) for unsettled trades by investment managers	(2,653)	1,746
Total fair value	$ 2,386,432	$ 2,549,427
Total cost	$ 2,432,991	$ 2,445,682

Investments by net asset category as of June 30 were as follows (in thousands):

	2002	2001
Unrestricted	$ 1,827,679	$ 2,102,781
Temporarily restricted	97,897	25,815
Permanently restricted	460,856	420,831
Total fair value	$ 2,386,432	$ 2,549,427

Through an agreement with its primary investment custodian, the University participates in lending securities to brokers. Among other provisions that limit the University's risk, this agreement specifies that the custodian is responsible for managing strict borrower collateral requirements. Collateral, which is pooled by the custodian, generally is limited to cash, government securities, and irrevocable letters of credit. Depending on the type of securities being lent, minimum collateral ranges from 101% to 105% with required daily marking-to-market.

Both the investment custodian and security borrowers have the right to terminate a specific loan of securities at any time. Other than for an event of default, the investment custodian is prohibited from re-pledging or otherwise encumbering the pledged collateral in any fashion. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

At June 30, 2002, investment securities with a market value of $343.9 million were loaned to various approved brokers under this program with collateral having a total market value of $353.7 million, including cash of $195.6 million. The cash collateral and the obligation to return such collateral are reported as a short-term asset and liability on the Statements of Financial Position.

7. INVESTMENT RETURN

As previously noted, the University employs a total return distribution policy that establishes the amount of endowment income that is available to support current operating needs. Under this policy, distributions in 2002 and 2001 were based on 4.5% of the previous three years' average year-end market values. Endowment income distributed was 4.6% and 3.9% of the current years' average market value of the *managed endowment* in 2002 and 2001, respectively.

Endowment income distributed along with other investment income was categorized as of June 30 as follows (in thousands):

	2002	2001
Operating:		
Endowment income	$ 93,406	$ 84,666
Investment income	14,016	24,247
Total operating return	107,422	108,913
Non-operating:		
Unrestricted:		
Investment losses	(209,485)	(187,521)
Temporarily restricted:		
Endowment income	2,487	2,193
Investment losses	(10,525)	(6,919)
Permanently restricted:		
Endowment income	182	255
Investment losses	(8,124)	(5,555)
Total non-operating return	(225,465)	(197,547)
Total investment return	$ (118,043)	$ (88,634)

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

	2002	2001
Endowment income	$ 96,075	$ 87,114
Realized gains distributed	(66,550)	(37,654)
Endowment interest and dividends	29,525	49,460
Net realized gains (losses) from original cost	(9,812)	246,261
Net unrealized depreciation and other investment income	(137,756)	(384,355)
Total investment return	$ (118,043)	$ (88,634)

8. NET ASSET COMPONENTS OF MANAGED ENDOWMENT

Vanderbilt's *managed endowment* represents only those endowment-related net assets that are under the management control of Vanderbilt University. Gift annuities, interest in trusts held by others, and certain contributions pending transfer are not considered components of the *managed endowment*.

Endowment and long-term investment net assets functioning as endowment and the reconciliation to related asset components as of June 30 were as follows (in thousands):

	2002	2001
Unrestricted net assets:		
Funds functioning as endowment, at cost	$ 1,593,426	$1,644,764
Net unrealized appreciation (depreciation) on investments	(49,618)	96,636
Exclude net unrealized losses allocable to other investments	21,835	28,385
Subtotal-funds functioning as endowment	1,565,643	1,769,785
Permanently restricted net assets:		
True endowment	458,223	411,304
Exclude portion allocable to contributions receivable	(34,174)	(21,475)
Subtotal-managed true endowment	424,049	389,829
Total fair value of *managed endowment* investments	$ 1,989,692	$2,159,614

9. PROPERTY, PLANT, AND EQUIPMENT

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

	2002	2001
Land	$ 47,416	$ 47,161
Buildings and improvements	1,253,418	994,268
Moveable equipment	437,637	407,629
Construction in progress	157,812	185,148
Property, plant, and equipment	1,896,283	1,634,206
Less: Accumulated depreciation	797,968	732,555
Property, plant, and equipment, net	$ 1,098,315	$ 901,651

Purchases for the library collection are not included in the foregoing since they are expensed at the time of purchase. As of June 30, 2002, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, exceeds $225 million. For fiscal 2002, $4.1 million of capitalized interest was added to construction in progress and $0.7 million was capitalized for internally developed software.

The University receives federal reimbursement for a portion of the costs of its facilities used in organized sponsored research. In accordance with revisions to OMB Circular A-21 that establishes principles for determining reimbursable costs, the University undertook a componentization study on economic lives and depreciation methods for buildings and equipment. In fiscal 2001, the University adopted a revised methodology to determine estimated useful lives for such assets to conform to the practices used for federal recovery purposes, resulting in a non-operating gain of $4.0 million.

10. DEBT

Bonds and other obligations as of June 30 were as follows (in thousands):

	Remaining Years to Maturity	Average Interest Rate	Outstanding Principal 2002	Outstanding Principal 2001
Variable-rate bonds:				
University				
2000 Series A	29	1.9%	$ 66,500	$ 67,500
2000 Series B	29	1.9%	66,500	67,500
2002 Series A	31	1.7%	22,400	—
Subtotal			155,400	135,000
Hospital				
1985 Series A	13	2.7%	45,250	45,250
2000 Series C	29	2.0%	90,000	90,000
2002 Series B	31	1.7%	77,600	—
Subtotal			212,850	135,250
Total variable-rate bonds			368,250	270,250
Fixed-rate obligations:				
University				
1996 Series A	7	5.1%	7,015	7,835
1997 Series A	17	5.3%	28,230	29,250
1998 Series A	14	5.5%	25,040	26,210
1998 Series B	27	5.0%	37,255	37,920
2001 Series A	14	4.8%	17,590	18,470
HUD bonds	7	3.0%	1,454	1,704
Note payable	7	7.3%	9,826	10,191
Other obligations	7	3.0%	501	565
Subtotal			126,911	132,145
Hospital				
1991 Series B	2	6.0%	2,410	3,515
1992 Series A	1	5.4%	1,445	2,815
1993 Series A	17	5.1%	41,380	42,915
1998 Series C	13	4.7%	21,220	21,385
2001 Series B	21	4.9%	60,025	60,305
Subtotal			126,480	130,935
Total fixed-rate obligations			253,391	263,080
Total long-term debt			621,641	533,330
Less: Current portion			12,087	11,614
Long-term debt, net of current portion			$ 609,554	$ 521,716

Hospital (patient care) bonds are issued under a Master Trust Indenture and are payable from Hospital revenues. In addition, the University has unconditionally guaranteed the timely debt service of such bonds.

Selected debt-related information follows (in millions):

	2002	2001
Interest cost paid	$ 21.1	$ 23.8
Interest cost expensed	$ 16.4	$ 22.3
Assets held by trustees for subsequent debt service as of June 30	$ 8.6	$ 8.4

Principal payments and scheduled sinking fund requirements due in subsequent fiscal years ending June 30 are as follows (in millions):

2003	$ 12.1	2006	$ 17.6
2004	$ 13.1	2007	$ 18.4
2005	$ 17.0	Thereafter	$ 543.4

Under certain circumstances, variable-rate bond obligations may be converted to a fixed-rate structure. Prior to conversion to fixed-rate, bond owners have the right to tender their bonds for purchase in whole or in part. The University has agreements with underwriters to re-market any bonds so tendered.

Deeds of trust on certain University property, pledged revenues, and security interests in certain other assets provide debt security. 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 maintenance of external liquidity facilities or lines of credit. The University has complied with applicable debt covenants.

In January 2001, the University issued Series 2001 A and B revenue refunding bonds, the proceeds of which were deposited to an irrevocable trust to advance refund a portion of the Series 1991 A and Series 1992 A bonds. Neither the principal balance of the defeased bonds nor the refunding trust assets are reflected in the Statements of Financial Position; an advance refunding accounting loss of $5.5 million was included as a non-operating item in the Statements of Activities for fiscal 2001. The economic gain of this transaction, representing the net present value of the difference between future debt service on the new debt and the refunded debt, was $4.4 million.

In June 2002, the University issued Series 2002 A and B variable-rate bonds aggregating $100 million. The bonds were issued to finance the construction, expansion, and renovation of various University facilities and related equipment, most notably a children's hospital outpatient tower and the Vanderbilt Bill Wilkerson Center for Otolaryngology and Communication Sciences and the Musculoskeletal Institute.

11. INTEREST RATE SWAP ARRANGEMENTS

To manage variable interest rate exposure for its debt portfolio, in February 2002 the University entered into two swap arrangements with a major financial institution. Under both agreements, the University receives variable payments based on 70% of LIBOR. The individual notional amounts were $66.5 million for each of these two swap arrangements. The swap notional amounts for each contract will gradually decline, corresponding to the principal amortization of the University's Series 2000 A and B bonds.

Under one swap arrangement that is scheduled to expire in October 2030, the University pays a fixed rate of 4.175%. Under the second swap arrangement, the University pays a fixed rate of 3.8%. Under this latter agreement, commencing October 2012, the counterparty has the option to terminate the contract without a termination payment.

These agreements, having an aggregate notional amount of $133 million at June 30, 2002, effectively create a synthetic fixed rate of interest on the Series 2000 A and B bond issues, resulting in $1.5 million of additional interest expense for fiscal 2002.

The fair value of these swap arrangements is the estimated amount that the University would pay or receive to terminate these contracts as of the report date. As of June 30, 2002, the estimated fair value loss of these swap arrangements was $3.4 million, included in accounts payable and accrued expenses.

12. UNRESTRICTED, TEMPORARILY RESTRICTED, AND PERMANENTLY RESTRICTED NET ASSETS

The University has chosen to provide further classification information about net assets.

Unrestricted net assets are internally designated into six groups described:

Designated for operations represents the cumulative budgeted operating activity of the University and routine equipment replacement reserves.

Designated gifts and grants are comprised of departmental gift funds.

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

Funds functioning as endowment are amounts set aside by the Board of Trust, intended to generate income in perpetuity to support operating needs. Such amounts include substantially all cumulative realized appreciation on the applicable investments.

Net unrealized appreciation on investments represents cumulative unrealized net gains and losses from original cost on marketable investments. Most of the net unrealized appreciation is attributable to funds functioning as endowment.

Designated for plant facilities represents the net investment in property, plant, and equipment, as well as funds designated for future acquisitions of plant facilities and retirement of debt.

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

	2002	2001
Designated for operations	$ 108,552	$ 122,226
Designated gifts and grants	125,811	166,347
Designated for student loans	28,443	27,026
Funds functioning as endowment	1,593,426	1,644,764
Net unrealized appreciation (depreciation) on investments	(49,618)	96,636
Designated for plant facilities	588,204	498,741
Total	$ 2,394,818	$ 2,555,740

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

	2002	2001
Gifts and pledges	$ 193,736	$ 121,486
Interest in trusts held by others	6,883	7,420
Life income and gift annuities	12,900	14,835
Total	$ 213,519	$ 143,741

Such temporarily restricted net assets were available for the following purposes or periods as of June 30 (in thousands):

	2002	2001
Student scholarships	$ 844	$ 802
Instruction	2,438	2,084
Capital improvements	28,556	39,451
Subsequent period operations and other	181,681	101,404
Total	$ 213,519	$ 143,741

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

	2002	2001
True endowment	$ 458,223	$ 411,304
Interest in trusts held by others	37,290	41,988
Life income and gift annuities	23,145	26,124
Total	$ 518,658	$ 479,416

13. OPERATING ACTIVITY

(A) *Financial Aid.* Financial aid is reflected as a reduction to tuition and housing fees in the Statements of Activities. Awards to students are based upon need and merit and are applied to billed tuition, educational fees, and room and board. If the University is unable to award endowed scholarships in a given year, endowment distributions are reinvested in order to provide scholarships in future years.

Financial aid does not include payments made to students for services rendered to the University. Components of financial aid for the years ended June 30 were as follows (in thousands):

	2002	2001
Institutional scholarships	$ 71,325	$ 63,983
Endowed scholarships	9,039	7,495
External financial aid	4,982	4,970
Total financial aid	$ 85,346	$ 76,448

(B) *Private Grant Revenue.* Approximately 87% of gifts, private grants, and contribution revenue represent transactions where University services are provided in exchange for the private grants.

(C) *Contributions Reporting.* Contributions are reported in the Statements of Activities on the accrual basis. Development and Alumni Relations separately reports total gifts based on reporting standards of the Council for Aid to Education (CAE). Under the CAE standards, total gifts of $198.5 and $155.7 million in 2002 and 2001, respectively, were reported.

(D) *Health Care Services.* Health care services revenue and expenses include those of Vanderbilt University Hospital and Clinic, Vanderbilt Medical Group, Vanderbilt Health Services, Inc., and other activities directed toward the purpose of providing health care services to the community.

(E) *Facilities and Administrative Costs Recovery.* Facilities and administrative (F&A) costs recovery, historically referred to as indirect cost recovery, represents revenue, primarily from the federal government, for reimbursement of F&A costs on research grants. The federal F&A costs recovery rate for on-campus research was 51.5% in fiscal 2002. This rate declines to 51.0% in fiscal 2003. The rate-setting process for F&A costs recovery is pending for years beyond fiscal 2004.

14. DISCONTINUED OPERATIONS

In June 1999, the Board of Trust Executive Committee agreed to sell or otherwise discontinue as a line of business the Vanderbilt Health Plans, Inc. (VHP), a for-profit corporation controlled by Vanderbilt University. During fiscal 1999, the University recorded $34.5 million for losses estimated on the future sale or disposal of VHP.

As of June 30, 2002, VHP lines of business have either been sold or essentially closed. The remaining divestiture provision balance of approximately $6.5 million, included in accounts payable and accrued expenses, primarily represents allowances for estimated medical coverage claims and uncollectible receivables.

The remaining assets and liabilities of VHP consist primarily of accounts receivable, short-term investments, and medical claims payable. The resulting net assets are not material to the net assets of the University.

15. RETIREMENT PLANS

The University'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.

The University's obligations under these plans are fully funded by periodic transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Retirement plan contributions for the years ending June 30, 2002 and 2001, were $25.7 million and $23.2 million, respectively.

16. COMMITMENTS AND CONTINGENCIES

(A) *Construction.* At June 30, 2002, approximately $144.2 million was committed for projects under construction and equipment purchases, to be financed primarily from bond proceeds.

(B) *Lease Obligations.* The University leases certain equipment. These leases are classified as operating leases and have lease terms ranging up to six years. Total lease expense for fiscal years 2002 and 2001 was $11.8 million and $10.1 million, respectively. Future minimum rentals on non-cancelable operating leases by fiscal year as of June 30, 2002, were as follows (in thousands):

2003	$ 11,137
2004	7,964
2005	4,510
2006	3,247
2007	1,593
2008	383
Total future minimum rentals	$ 28,834

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

(D) *Medical Malpractice Liability Insurance.* The University is self-insured for the first level of medical malpractice claims. For this self-insured retention, a trust fund has been established. The funding of the trust 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) *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 the University's financial position.

(F) *Health Care Services Revenue.* Revenue from hospital services include amounts paid under reimbursement agreements with certain third-party payors and are 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 settlements have been made through the year ended June 30, 1998.

In August 1996, Congress approved the Health Insurance Portability and Accountability Act of 1996 (Act). Under the Act, the federal government was given substantial resources and authority for the completion of fraud and abuse investigations, and the Act has established substantial fines and penalties for offenders. Management continues to refine policies, procedures, and compliance overview organizational structures to enforce and monitor compliance with this Act, as well as other government statutes and regulations.

The medical center's compliance with laws and regulations is subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time. Management believes that liability, if any, from such reviews will not have a significant effect on the University's financial position.

(G) *Partnership Investment Commitments.* There were $368.3 million of commitments to venture capital, real estate, and distressed security investments as of June 30, 2002. These funds may be drawn down over the next several years upon request by the general partners. As of June 30, 2002, $2.8 million of unallocated cash and cash equivalents in the *managed endowment* are held to meet these obligations. Management expects to finance these commitments with available cash and expected proceeds from the sale of securities.

(H) *McKendree Village, Inc. Debt Guaranty.* In July 1998, Vanderbilt University and McKendree Village, Inc., a not-for-profit retirement community, entered into a joint venture agreement. In September 1998, the University guaranteed payment of $19.8 million of bond debt issued by McKendree Village. As of June 30, 2002, the balance of the guaranteed debt remains $19.8 million.

(I) *Working Capital Line of Credit.* Effective July 31, 2001, the University entered into a commitment for a $20 million working capital line of credit with a major commercial bank, replacing an earlier credit line of $40 million that had expired. No amounts were outstanding under this line of credit as of June 30, 2002.

17. RELATED PARTIES

The University contracts with certain related parties for the purchase of goods, performance of construction activities, and provision of other services. Significant purchases of goods and services from related parties typically are subject to competitive pricing analyses. During fiscal 2002, the University had related party transactions approximating $24.4 million.

Management
Responsibility for Financial Statements

The management of Vanderbilt University is responsible for preparing the accompanying consolidated financial statements and for their integrity, objectivity, and clarity. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to colleges and universities and include amounts that are based on management's best estimates and judgments.

The University's system of internal controls provides reasonable assurance that the University's assets are protected and that the financial records are reliable. These controls are supported by the establishment and communication of accounting policies and procedures, the division of responsibilities, the careful selection and training of qualified personnel, and a program of internal audits. Management continually monitors the system of internal control for compliance and believes that, as of June 30, 2002 and 2001, Vanderbilt University's system of internal controls is adequate to accomplish the objectives discussed herein.

In terms of proactively managing significant risk areas relative to ensuring complete, accurate, and understandable financial statements, management works closely with internal auditors, external auditors, and the Board of Trust on an ongoing basis to appropriately identify such risk areas and take steps to optimize risk exposure. The Board of Trust, generally through its Audit Committee, is responsible for reviewing and monitoring the University's financial reporting and accounting practices. Both the internal auditors and the independent auditors have access to the Audit Committee, and both meet with the Audit Committee at least semi-annually.

KPMG LLP has audited the accompanying consolidated financial statements. The auditors' report expresses an informed judgment as to whether management's consolidated financial statements present fairly the financial position of the University, as of June 30, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. The audits included an evaluation of the University's accounting systems, procedures, and internal controls; tests of the accounting records; and other auditing procedures to provide reasonable assurance that the consolidated financial statements were free of material misstatement. Management believes that all representations made to KPMG LLP during its audits were valid and appropriate.

Betty L. Price
Associate Vice Chancellor for Finance and Controller

Supplementary Combined Hospital, Clinic, and Parking Facilities

Financial Statements

Vanderbilt University Hospital, Clinic, and Parking Facilities

Balance Sheets

As of June 30, 2002 and 2001 (in thousands)
Using AICPA Health Care Organizations reporting guidelines

	2002	2001
Assets		
Current:		
Treasury cash	$ 28,092	$ 20,424
Assets limited as to use	294	1,780
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $32,512 and $24,786 in 2002 and 2001, respectively	111,655	95,097
Contributions receivable, net	11,566	1,121
Other receivables	4,106	4,744
Inventories of supplies	12,962	11,395
Prepaid expenses	4,100	2,669
Total current assets	172,775	137,230
Investments	74,943	96,399
Assets limited as to use, excluding current portion	64,867	71,783
Contributions receivable, net, excluding current portion	10,400	17,761
Property, plant, and equipment, net	291,478	202,634
Deferred financing costs, net	478	258
Total assets	$ 614,941	$ 526,065
Liabilities		
Current:		
Current installments on long-term debt	$ 4,680	$ 4,455
Accounts payable	19,959	20,999
Estimated net payables under third-party programs	12,277	22,590
Accrued compensated absences	13,924	12,871
Accrued interest	2,843	3,343
Other accrued expenses and liabilities	50,424	25,018
Total current liabilities	104,107	89,276
Long-term debt, excluding current installments	331,637	258,692
Deferred revenue	750	1,834
Total liabilities	436,494	349,802
Net Assets		
Unrestricted	136,418	135,098
Temporarily restricted	40,378	39,514
Permanently restricted	1,651	1,651
Total net assets	178,447	176,263
Total liabilities and net assets	$ 614,941	$ 526,065

Vanderbilt University Hospital, Clinic, and Parking Facilities

Statements of Operations

Years Ended June 30, 2002 and 2001 (in thousands)
Using AICPA Health Care Organizations reporting guidelines

	2002	2001
Changes in Unrestricted Net Assets		
Operating revenues:		
Net patient service revenue	$ 671,197	$ 570,233
Premium income	—	643
Investment income on assets whose use is limited under bond indenture agreements	150	341
Other revenue	11,933	10,611
Total operating revenues	683,280	581,828
Operating expenses:		
Medical services	474,598	403,695
General services	27,525	24,351
Administrative and fiscal services	83,083	66,681
Depreciation and amortization	25,055	23,729
Interest	7,546	8,317
Provision for bad debts	47,573	37,390
Total operating expenses	665,380	564,163
Income from operations	17,900	17,665
Other income:		
Unrestricted endowment income and bequests	765	698
Investment income	2,525	4,108
Total other income	3,290	4,806
Excess of revenues over expenses	21,190	22,471
Transfers to other University divisions:		
Transfers to other Vanderbilt Medical Center divisions, net	(23,293)	(28,798)
Transfers to Vanderbilt health venture subsidiaries	(2,055)	(13,271)
Net assets released from restrictions used for purchase of property and equipment	5,478	—
Extraordinary loss from early extinguishment of long-term debt	—	(4,686)
Increase (decrease) in unrestricted net assets	$ 1,320	$ (24,284)

Vanderbilt University Hospital, Clinic, and Parking Facilities

Statements of Changes in Net Assets

Years Ended June 30, 2002 and 2001 (in thousands)
Using AICPA Health Care Organizations reporting guidelines

	2002	2001
Unrestricted Net Assets		
Excess of revenues over expenses	$ 21,190	$ 22,471
Transfers to other Vanderbilt Medical Center divisions, net	(23,293)	(28,798)
Transfers to Vanderbilt health venture subsidiaries	(2,055)	(13,271)
Net assets released from restrictions used for purchase of property and equipment	5,478	—
Extraordinary loss from early extinguishment of long-term debt	—	(4,686)
Increase (decrease) in unrestricted net assets	1,320	(24,284)
Temporarily Restricted Net Assets		
Contributions for plant expansion	5,701	6,142
Net assets released from restrictions	(5,478)	—
Change in net realized and unrealized gains (losses) on temporarily restricted investments	641	(2,532)
Increase in temporarily restricted net assets	864	3,610
Net increase (decrease) in total net assets	$ 2,184	$ (20,674)
Net assets at beginning of year:		
Unrestricted	135,098	159,382
Temporarily restricted	39,514	35,904
Permanently restricted	1,651	1,651
Total net assets at beginning of year	176,263	196,937
Net assets at end of year:		
Unrestricted	136,418	135,098
Temporarily restricted	40,378	39,514
Permanently restricted	1,651	1,651
Total net assets at end of year	$ 178,447	$ 176,263

Vanderbilt University Hospital, Clinic, and Parking Facilities

Statements of Cash Flows

■ Years Ended June 30, 2002 and 2001 (in thousands)
Using AICPA Health Care Organizations reporting guidelines

	2002	2001
Cash Flows from Operating Activities		
Net increase (decrease) in total net assets	$ 2,184	$ (20,674)
Adjustments to reconcile net increase (decrease) in total net assets to net cash provided by operating activities:		
Transfers to other Vanderbilt Medical Center divisions and health venture subsidiaries, net	25,348	42,069
Extraordinary loss from early extinguishment of long-term debt	—	4,686
Contributions for plant expansion	(5,701)	(6,142)
Decrease (increase) in temporarily restricted investments	(641)	2,532
Provision for bad debts	47,573	37,390
Depreciation and amortization of plant and equipment	25,055	23,729
Loss on disposal of equipment	70	631
Amortization of bond discounts	199	205
Amortization of deferred revenue	(250)	(250)
Net unrealized losses on investments	1,790	2,037
Net realized and unrealized losses on assets limited as to use	3,349	4,818
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(59,709)	(45,247)
Other receivables	663	(373)
Inventories of supplies	(1,500)	(330)
Prepaid expenses	(1,415)	(107)
Accounts payable	(5,383)	4,189
Estimated net payables under third-party programs	(9,893)	22,280
Accrued compensated absences	956	1,057
Accrued interest	(500)	438
Other accrued expenses and liabilities	22,906	5,324
Net cash provided by operating activities	45,101	78,262
Cash Flows from Investing Activities		
Purchase of property, plant, and equipment	(107,730)	(37,948)
Additions to investments	(100,135)	(24,148)
Sale of investments	125,494	38,122
Net cash used by investing activities	(82,371)	(23,974)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt	77,600	60,305
Repayment of long-term debt	(4,455)	(63,730)
Payment of deferred financing costs	(474)	(605)
Transfers to other Vanderbilt Medical Center divisions and health venture subsidiaries, net	(30,325)	(42,069)
Contributions for plant expansion	2,592	2,503
Net cash provided (used) by financing activities	44,938	(43,596)
Net increase in treasury cash	$ 7,668	$ 10,692
Treasury cash - beginning of year	20,424	9,732
Treasury cash - end of year	$ 28,092	$ 20,424
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 8,046	$ 7,878
Assets and (liabilities) acquired (assumed) related to the transfer of Psychiatric Hospital at Vanderbilt on July 1, 2001 were:		
Accounts receivable, net	$ 4,422	
Estimated net receivable under third-party programs	419	
Inventories	66	
Prepaid expenses	17	
Property, plant, and equipment, net	6,160	
Accounts payable	(6,009)	
Other accrued expenses and liabilities	(98)	
	$ 4,977	

Vanderbilt University

Board of Trust

As of June 30, 2002

Administration

Gordon Gee, J.D., Ed.D., *Chancellor*
Lauren J. Brisky, M.B.A., *Vice Chancellor for Administration and Chief Financial Officer*
Harry R. Jacobson, M.D., *Vice Chancellor for Health Affairs*
Michael J. Schoenfeld, M.S., *Vice Chancellor for Public Affairs*
William T. Spitz, M.B.A., *Vice Chancellor for Investments and Treasurer*
David Williams II, J.D., LL.M., M.B.A., M.A., *Vice Chancellor for Student Life and University Affairs, General Counsel, and Secretary of the University*
Nicholas S. Zeppos, J.D., *Provost and Vice Chancellor for Academic Affairs*

Richard C. McCarty, M.S., Ph.D., *Dean of the College of Arts & Science*
Mark Wait, M.M., D.M.A., *Dean of the Blair School of Music*
James Hudnut-Beumler, M.Div., M.A., Ph.D., *Dean of the Divinity School*
Kenneth F. Galloway, Ph.D., *Dean of the School of Engineering*
William P. Smith, M.A., Ph.D., *Acting Dean of the Graduate School*
Kent D. Syverud, M.A., J.D., *Dean of the Law School*
Steven G. Gabbe, M.D., M.A., *Dean of the School of Medicine*
Colleen Conway-Welch, M.S.N., Ph.D., *Dean of the School of Nursing*
William G. Christie, M.B.A., Ph.D., *Dean of the Owen Graduate School of Management*
Camilla P. Benbow, M.A., M.S., Ed.D., *Dean of Peabody College*

BENEFACTIONS OF THE VANDERBILT FAMILY

Vanderbilt University was founded in 1873 by Commodore Cornelius Vanderbilt and has been generously supported by successive generations of his family. Especially significant were the gifts and bequests of Harold Stirling Vanderbilt and his wife, Gertrude Conaway Vanderbilt. The contributions of the Vanderbilt family are here summarized, without adjustments for inflation.

All amounts are shown in thousands of dollars.

The founding gifts of Commodore Cornelius Vanderbilt	$ 1,004
Harold Stirling Vanderbilt Gifts and bequests	57,279
Gertrude Conaway Vanderbilt Gifts and bequests	6,456
Gifts and bequests from other members of the family	8,599
TOTAL	**$ 73,338**

Prepared by Vanderbilt University
Division of Administration

Published by Vanderbilt University
Creative Services, 2002

Photos by Vanderbilt University
Division of Public Affairs and the
Medical Art Group