2012 FINANCIAL REPORT

VANDERBILT UNIVERSITY

Contents

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Letter from the Chancellor

The beginning of a new fiscal year provides an interesting vantage point from which to peer at Vanderbilt. As we reflect on the previous year, we are very pleased with our results and progress in all areas. When measured against the global and political environment, we are even more pleased.

Hard work and fiduciary discipline provide Vanderbilt a strong foundation from which to navigate the road ahead. We completed the year with a positive return and annual operating results of $158 million. This promising start for FY2013 allows the university to invest in its mission through initiatives that include retention and recruitment of world-class faculty, advancement of the residential colleges program, expansion for our hospitals and clinics, and enhancements to athletic facilities.

As Vanderbilt has made these significant investments, we remain committed to responsible growth that is aligned with our mission and our means. As we celebrate our achievements, we are ever mindful of the importance of responsibly managing our resources to retain our enviable standing among the country's top research universities.

Chief among the factors that have vaulted Vanderbilt to this position is a deep commitment to accepting students on the basis of talent and academic achievement, without regard to their ability to pay. Vanderbilt is one of only a handful of institutions who meet 100 percent of undergraduates' demonstrated financial need with grant assistance – and no loans. Additionally, to ensure that the rising rate of tuition does not deter students in their pursuit of a college education, the undergraduate tuition increase was held to 1.9 percent – Vanderbilt's lowest increase in over 25 years and the lowest among all of our peers.

These principles of meritocracy and providing opportunity are supported by the generous giving of Vanderbilt alumni, parents, faculty, staff, and friends. Thanks to increased philanthropy from alumni and a record high number of undergraduate donors, all areas of the university – from scholarships and the undergraduate experience, to faculty chairs and patient care – were strengthened in FY2012.

The unique combination of outstanding faculty; cutting-edge research within a liberal arts educational environment; investments in all aspects of the student experience; and strenuous efforts to provide financial aid for students with need has pushed the demand for the Vanderbilt experience to an all-time high. The university saw an incredible increase in undergraduate, graduate, and professional student applications, including 28,348 applications received for the Class of 2016. This steady climb is up 14 percent from the previous year and 119 percent from 2007. Similarly, we saw our tenth consecutive record year for the number of graduate applications.

Particularly noteworthy in a year of declines in governmental health care reimbursement and funding from the National Institutes of Health, Vanderbilt University Medical Center wrapped up FY2012 with continued strong performance. Likewise, the university's research enterprise continued its decade-long trajectory of growing faster than the federal funding rate. This past fiscal year, we secured $572 million in sponsored research awards, a decrease of only 2.6 percent from FY2011 despite far larger reductions in funding rates from public and private sponsors. Vanderbilt remains in the very highest tier for receipt of peer-reviewed NIH-funded research grants among all universities and colleges.

Collectively, these investments burnish Vanderbilt's reputation as a powerful research university set within a caring, supportive environment that seeks to bring out the best in each student and provide the finest in personalized care for each patient. Having just completed my 25th year at Vanderbilt University, I believe more passionately than ever that the future of higher education, our great nation, and humankind rests strongly and responsibly with the great research universities like Vanderbilt. Through innovative discoveries, exemplary scholarship, strategic planning, and careful stewardship, we are well positioned to accept this formidable challenge, and we embrace the opportunity with a keen sense of optimism.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008
STUDENTS					
Undergraduate	6,817	6,879	6,794	6,637	6,532
Graduate and professional	6,019	5,835	5,712	5,455	5,315
Total fall enrollment	12,836	12,714	12,506	12,092	11,847
Undergraduate admissions					
Applied	24,837	21,811	19,353	16,944	12,910
Accepted	4,078	3,914	3,899	4,292	4,237
Enrolled	1,601	1,600	1,599	1,569	1,672
Selectivity	16.4%	17.9%	20.1%	25.3%	32.8%
Yield	39.3%	40.9%	41.0%	36.6%	39.5%
Degrees conferred					
Baccalaureate	1,673	1,735	1,583	1,568	1,542
Master’s	1,432	1,252	1,280	1,235	1,081
M.D.	99	97	118	103	94
Other doctoral	516	556	515	477	519
Total degrees conferred	3,720	3,640	3,496	3,383	3,236
Undergraduate six-year graduation rate	92.2%	91.9%	90.6%	90.7%	89.4%
Undergraduate tuition	$ 40,320	$ 38,952	$ 37,632	$ 36,100	$ 34,414
% increase over prior year	3.5%	3.5%	4.2%	4.9%	5.5%
HOSPITALS AND CLINICS					
Licensed beds	985	916	916	836	836
Inpatient days	285,270	282,547	272,731	265,733	267,947
Discharges	53,818	52,453	51,874	51,575	51,831
Average daily census	782	774	747	728	732
Average length of stay (days)	5.3	5.4	5.3	5.2	5.2
Average occupancy level	83.6%	84.5%	83.6%	87.1%	87.6%
Hospital surgical operations - inpatient	22,183	22,246	21,702	21,283	20,383
Hospital surgical operations - outpatient	28,815	25,650	23,790	18,597	19,574
Ambulatory visits	1,725,901	1,586,395	1,450,196	1,266,255	1,178,841
Emergency visits	114,051	109,987	108,398	102,631	102,998
LifeFlight (helicopter) missions	2,550	2,203	2,152	2,112	2,458
Case mix index	1.90	1.93	1.93	1.89	1.81
FACULTY AND STAFF					
Full-time faculty	3,551	3,448	3,309	3,131	2,997
Full-time staff	20,119	19,192	18,089	17,160	16,246
Part-time faculty	439	396	424	402	351
Part-time staff	768	798	683	676	666
Total headcount	24,877	23,834	22,505	21,369	20,260
RESEARCH EXPENDITURES FUNDING (in thousands)					
Federal grants and contracts	$ 310,786	$ 320,211	$ 279,282	$ 250,431	$ 244,117
Nonfederal grants, contracts, and other	57,625	54,694	57,880	64,061	60,019
Facilities and administrative costs recovery	142,663	140,205	125,526	114,509	110,847
Institutional resources, including cost sharing	48,042	47,959	48,115	45,990	46,455
Total research expenditures	$ 559,116	$ 563,069	$ 510,803	$ 474,991	$ 461,438
ENDOWMENT					
Market value (in thousands)	$ 3,360,036	$ 3,375,153	$ 3,007,607	$ 2,833,614	$ 3,495,439
Endowment return	1.3%	13.6%	8.9%	-16.3%	2.1%
Endowment per student	$ 261,767	$ 265,467	$ 240,493	$ 234,338	$ 295,048
Endowment payout (spending formula)	4.4%	4.8%	5.2%	4.7%	3.8%
Endowment payout (strategic initiatives)	-	-	0.1%	0.1%	0.2%
Total endowment payout	4.4%	4.8%	5.3%	4.8%	4.0%

Financial Overview

As Vanderbilt continues to operate in an environment with increasing regulatory requirements as well as national and international uncertainty, financial diligence remains vital to carrying out the university's mission. Vanderbilt is dedicated to focusing resources on areas with the highest strategic importance for the university's future. We remain committed to striking the right balance of fiscal restraint with continued aggressive investments in students, faculty, and staff. In support of this commitment through coordinated efforts across the university as a whole, Vanderbilt again strengthened its financial foundation with positive operating results in fiscal 2012.

Several key factors contributed to Vanderbilt's positive financial performance during fiscal 2012. The university's net operating results of $158 million continue to enhance our strong liquidity position. Moreover, we have paid down a significant amount of debt. Vanderbilt's medical center continues to grow and thrive in a rapidly changing environment by providing world-class health care services with continued positive financial performance.

Undergraduate and graduate applications continue to grow. The record size and strength of the applications received demonstrate the increasing value students are placing on a Vanderbilt education. The number of applications for the fall of 2011 grew 13.9% to a total of 24,837 with a selectivity rate of 16.4% compared to 17.9% in fall 2010—and the fall 2012 selectivity rate was at a record level of 14.2%.

After successful completion of the *Shape the Future* campaign in fiscal 2011, fundraising remains strong and, despite federal budget constraints, Vanderbilt's research enterprise remains solid. Vanderbilt's commitment to scholarly research, informed and creative teaching, and service to the public continues to attract outstanding faculty members, enhancing the educational experience for all Vanderbilt students.

Investments in the future of Vanderbilt and its mission would not be possible without a strong financial foundation. The details of Vanderbilt's financial performance for fiscal 2012 below demonstrate the continued commitment of the university to excellence and providing outstanding opportunities for the future.

Financial Position

As of June 30, 2012, Vanderbilt's financial position consisted of assets totaling $7,471 million and liabilities totaling $2,452 million, resulting in net assets of $5,019 million.

Summary of Financial Position
as of June 30, in millions

	2012	2011
ASSETS		
Working capital cash and investments	$ 1,210	$ 1,185
Endowment and other cash and investments	3,776	3,809
Accounts and contributions receivable	675	595
Property, plant, and equipment, net	1,728	1,754
Prepaid expenses and other assets	82	78
Total assets	**$ 7,471**	**$ 7,421**
LIABILITIES		
Payables and accrued liabilities	$ 636	$ 627
Deferred revenue	119	126
Interest rate exchange agreements	316	135
Taxable debt for liquidity	250	365
Project and equipment-related debt	1,131	1,078
Total liabilities	**2,452**	**2,331**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt University	2,560	2,603
Unrestricted net assets related to noncontrolling interests	201	199
Temporarily restricted net assets	1,191	1,262
Permanently restricted net assets	1,067	1,026
Total net assets	**5,019**	**5,090**
Total liabilities and net assets	**$ 7,471**	**$ 7,421**

Total net assets include Vanderbilt's endowment valued at $3,360 million as of June 30, 2012. Net assets associated with capital infrastructure totaled $597 million, which represents the university's property, plant, and equipment, net of accumulated depreciation and capital-related debt. Other net assets, which totaled $1,062 million as of June 30, 2012, include current assets and current liabilities, net of mark-to-market adjustments on interest rate exchange agreements, and net assets related to noncontrolling interests.

Vanderbilt's assets, totaling $7,471 million as of June 30, 2012, reflect a 0.7% increase from the prior year. This increase is attributable primarily to net operating results offset by a slight decline in the endowment.

Total liabilities increased by $121 million to $2,452 million as of June 30, 2012. This increase is attributable largely to an increase in the mark-to-market liability associated with the university's interest rate exchange agreements.

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

Cash and Liquidity

Vanderbilt's working capital cash and investments, which include highly liquid operating accounts, amounts posted as collateral (primarily related to interest rate exchange agreements), and amounts invested in the long-term investment pool alongside the endowment, totaled $1,210 million as of June 30, 2012. During fiscal 2012, working capital cash and investments increased by $25 million primarily due to strong operating results offset by the growth in receivables and early debt retirements.

Operating assets continue to be invested in a conservative, diversified manner to ensure adequate liquidity under modeled stress scenarios. During the past year Vanderbilt's endowment also provided increased liquidity support, especially monthly liquidity, while still maintaining a long-term investment horizon. As of June 30, 2012, $1,686 million of operating and endowment assets were available within 30 days, including $792 million available on a same-day basis. Based largely on this very strong liquidity position, Vanderbilt holds the highest short-term ratings by the major credit rating agencies.

To provide supplemental liquidity support, Vanderbilt maintains agreements with two banks to provide operating lines of credit with maximum available commitments totaling $300 million. In addition, Vanderbilt carries $200 million of revolving credit facilities with two banks to provide dedicated self-liquidity support for the debt portfolio.

Debt

Vanderbilt's debt portfolio includes fixed-rate debt, variable-rate debt, and commercial paper, along with interest rate exchange agreements that are used for hedging interest rate exposures within the university's debt portfolio.

In accordance with our strategic capital plan, Vanderbilt did not issue incremental debt during fiscal 2012. Scheduled principal payments on long-term debt, early retirements of fixed-rate debt, and elective reductions of commercial paper reduced total outstanding debt by $62 million to a balance of $1,381 million as of June 30, 2012. This amount consisted of $1,131 million of capital project-related debt and $250 million of taxable debt for liquidity support. For operational and management reporting purposes, during fiscal 2012, Vanderbilt designated $115 million of then-outstanding taxable commercial paper to be a component of the university's capital project-financing framework, whereas in the prior year this amount was considered taxable debt for liquidity.

During fiscal 2012, Vanderbilt refinanced $134 million of weekly-remarketed variable-rate debt with floating-rate notes having tender dates in three and five years, which reduced total weekly remarketing risk. Also, to reduce net interest costs, Vanderbilt refinanced $42 million of fixed-rate debt with newly issued fixed-rate debt having a final maturity date in fiscal 2018.

Statements of Activities

Vanderbilt's total operating and nonoperating activity resulted in a $71 million decrease in net assets in fiscal 2012, which follows a $717 million increase in fiscal 2011.

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

	2012	2011
CONSOLIDATED REVENUES		
Tuition and educational fees, net of financial aid	$ 250	$ 244
Government grants and contracts and F&A costs recovery	545	545
Private grants and contracts	55	53
Contributions	83	98
Endowment distributions	148	152
Investment income	19	34
Health care services	2,462	2,294
Room, board, and other auxiliary services, net of financial aid	110	104
Other sources	39	40
Total consolidated revenues	**3,711**	**3,564**
CONSOLIDATED EXPENSES		
Instruction, academic support, and student services	665	632
Research	439	441
Health care services	2,184	2,047
Public service	45	39
Institutional support	42	47
Room, board, and other auxiliary services	132	135
Total consolidated expenses	**3,507**	**3,341**

Summary of Statements of Activities (continued)
all net asset categories, in millions

	2012	2011
OTHER CHANGES IN NET ASSETS		
Changes in appreciation of endowment, net of distributions	(95)	256
(Losses) gains on interest rate exchange agreements	(181)	72
Increase in net assets related to non-controlling interests	2	122
Other nonoperating activity	(1)	44
Total other changes in net assets	**(275)**	**494**
(Decrease) increase in net assets	**$ (71)**	**$ 717**

During fiscal 2012, the decrease in total net assets primarily resulted from strong net operating activity offset by mark-to-market losses on interest rate exchange agreements and an excess of endowment distributions over current year investment return. In comparison, the increase in fiscal 2011 primarily resulted from strong net operating activity, endowed gifts and pledges, net gains in the endowment, and mark-to-market gains on interest rate exchange agreements.

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

Consolidated Revenues

Consolidated revenues increased $147 million or 4.1% to $3,711 million in fiscal 2012, as compared to $3,564 million in fiscal 2011. This increase was driven primarily by a 7.3% increase in health care services revenue largely due to volume increases in the hospitals and clinics. Vanderbilt's health care services are discussed further in a subsequent section.

Consolidated Expenses

Consolidated expenses increased by 5.0% to $3,507 million in fiscal 2012, as compared to $3,341 million in fiscal 2011. This increase was driven primarily by a 6.7% increase in health care services expenses, and a 5.2% increase in total instruction, academic support, and student services expenses.

Other Changes in Net Assets

Other changes in net assets included changes in appreciation of endowment, net of distributions, totaling negative $95 million in fiscal 2012 and $256 million in fiscal 2011. The fiscal 2012 change in appreciation for the endowment resulted from a 1.3% investment return offset by 4.4% of the endowment utilized for distributions.

In fiscal 2012, Vanderbilt incurred net unrealized losses totaling $181 million on interest rate exchange agreements. These losses are based on mark-to-market valuations of the university's portfolio of interest rate exchange agreements, especially fixed-payer exchange contracts. Adjustments to annual interest expense occur for net cash settlements as Vanderbilt *pays* an average of 3.7% on its fixed-payer contracts and *receives* amounts based on a percentage of 1-month LIBOR rates. The unrealized mark-to-market valuation on these agreements was driven primarily by long-term LIBOR rates. During the past year, the 30-year LIBOR rate decreased to 2.5% as of June 30, 2012—down from 4.1% as of June 30, 2011—which resulted in an increase to the fair value of the liability for the agreements.

Net assets related to noncontrolling interests increased $2 million due to the change in appreciation allocable to noncontrolling interests offset by a slight decrease in net capital contributions. Finally, net other nonoperating activity totaled negative $1 million in fiscal 2012 compared to $44 million in fiscal 2011. Fiscal 2011 activity included $16 million of net gains related to the sale of an investment in the Windsor Health Plan as well as net investment gains related to assets set aside as a reserve for medical self-insurance.

Summary of Changes in Net Assets
in millions

	2012	2011
Revenues and expenses:		
Unrestricted operating revenues	$ 3,665	$ 3,480
Unrestricted operating expenses	(3,507)	(3,341)
Unrestricted operating activity	158	139
Contribution activity in temporarily restricted and permanently restricted net assets	36	55
Investment income and endowment distributions in temporarily restricted and permanently restricted net assets	10	29
Other changes in net assets:		
Change in appreciation of endowment, net of distributions	(95)	256
(Losses) gains on interest rate exchange agreements	(181)	72
Increase in net assets related to noncontrolling interests	2	122
Other nonoperating activity	(1)	44
(Decrease) increase in net assets	**$ (71)**	**$ 717**
Ending balance of net assets	**$ 5,019**	**$ 5,090**

Unrestricted Operating Activity

The change in unrestricted net assets from operating activity is the measure of the university's *operating results.* This unrestricted operating activity totaled $158 million in fiscal 2012 and $139 million in fiscal 2011.

Operating Revenues

Unrestricted operating revenues totaled $3,665 million in fiscal 2012, reflecting a 5.3% increase from the prior year.

Despite increasing budgetary constraints faced by governmental grantors, government grants and contracts revenue, predominantly for research activities, and facilities and administrative (F&A) costs recovery remained stable from fiscal 2011 to 2012. Federal funding from the National Institutes of Health, the Department of Defense, NASA, and other federal agencies comprised 86% and 87% of sponsored research revenues at Vanderbilt in fiscal 2012 and 2011, respectively.

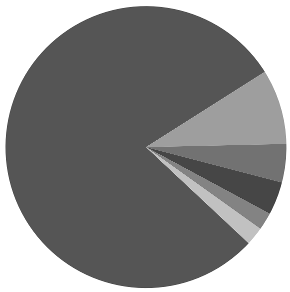
In fiscal 2012, grants and contracts revenue and F&A costs recovery (from both governmental and private sponsors) of $600 million included $511 million related to research; the remainder supported institutional, patient care, and public service initiatives. Vanderbilt also provided $48 million of supplemental institutional funds, resulting in $559 million of resources that were expended for research.

Operating Revenues by Source
unrestricted net assets, in millions

	2012	2011
Tuition and educational fees, net of financial aid	$ 250	$ 244
Government grants and contracts and F&A costs recovery	545	545
Private grants and contracts	55	53
Contributions, including net assets released from restrictions	47	43
Endowment distributions	137	142
Investment income	20	15
Health care services	2,462	2,294
Room, board, and other auxiliary services, net of financial aid	110	104
Other sources	39	40
Total operating revenues	**$ 3,665**	**$ 3,480**

As illustrated below, the majority of the $559 million in total research expenditures for fiscal 2012 was funded by federal government grants and contracts.

Research Expenditures by Funding Source
fiscal 2012



Although Vanderbilt's research support outlook remains strong, we temper our optimism in light of continued fiscal pressures on governmental funding sources. Sponsored research and project awards, which included multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled $572 million in fiscal 2012 and $587 million in fiscal 2011 as shown in the table below.

Sponsored Research and Project Awards
in millions

	2012	2011
American Recovery and Reinvestment Act of 2009 (ARRA)	$ 137	$ 125
Other awards	435	462
Total sponsored research and project awards	**$ 572**	**$ 587**

Operating Expenses

Operating expenses totaled $3,507 million in fiscal 2012, reflecting a 5.0% increase from the prior year.

Operating Expenses by Function
unrestricted net assets, in millions

	2012	2011
Instruction, academic support, and student services	$ 665	$ 632
Research	439	441
Health care services	2,184	2,047
Public service	45	39
Institutional support	42	47
Room, board, and other auxiliary services	132	135
Total operating expenses	**$ 3,507**	**$ 3,341**

Expenses for instruction, academic support, and student services increased 5.2% in fiscal 2012. These expenses substantially exceed net tuition revenues, which are noted on the preceding page. Therefore, Vanderbilt, like other major private research universities, relies upon contributions, endowment support, and other alternative sources of revenue—in addition to tuition—to meet its educational mission objectives.

Research expenses as reflected on the consolidated statements of activities decreased 0.5% to $439 million in fiscal 2012 from $441 million in fiscal 2011. In addition to direct costs, research expenses include allocations of overhead and other support costs such as depreciation and interest on indebtedness.

Health care services expenses increased 6.7% to $2,184 million in fiscal 2012 from $2,047 million in fiscal 2011. This increase is attributable largely to an overall increase in patient volumes.

Health Care

Health care is an industry that represents nearly one-fifth of the United States economy and few would dispute that most families and individuals will be impacted significantly as health care continues to face unprecedented challenges. As a prime example, the June 2012 U.S. Supreme Court ruling upholding in large measure the 2010 Patient Protection and Affordable Care Act will continue to put pressure on hospitals and insurers, among others, to accelerate innovation geared to quickly delivering more effective, high-quality care at lower reimbursement rates.

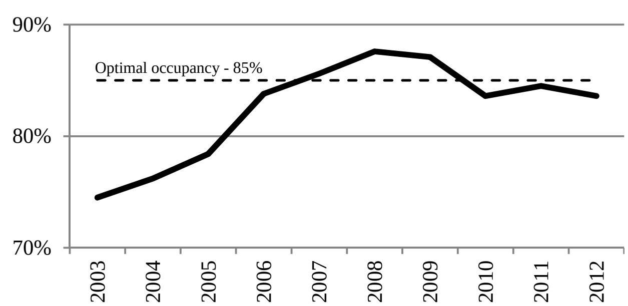
Vanderbilt retains an unwavering commitment to continually striving to provide high quality health care services at reimbursement rates that meet key community needs, including providing substantial charity care for members of the community who otherwise would not be able to secure needed services. More specifically, Vanderbilt's hospitals, clinics, and physician practices are responding to health care reform with innovations in quality of care, patient access, and efficiency of care delivery. Strategies include managing high-cost patient populations with the goal of enhancing patient care processes to reduce costs and improve outcomes, and a focus on initiatives to avoid hospital readmissions, health care acquired infections, and other adverse events. Vanderbilt has implemented significant improvements in clinical information systems resulting in increased leverage of electronic health information. The medical center also is developing affiliations with community providers to improve access to broader patient populations for our students, residents, and researchers, and we are exploring bundled payment models for certain episodes of care.

Vanderbilt University Medical Center finished fiscal 2012 in the *U.S. News & World Report* annual ranking of America's Best Hospitals with 11 ranked specialties out of a possible 16 categories. Specialty programs ranking among the top 35 in their respective fields: cancer; cardiology and heart surgery; diabetes and endocrinology; ear, nose, and throat; gastroenterology; gynecology; nephrology; neurology and neurosurgery; orthopedics; pulmonology; and urology. Vanderbilt was among only 3% of facilities analyzed (nearly 4,800) for this year's rankings to be named in at least one specialty. In addition, the Monroe Carell Jr. Children's Hospital at Vanderbilt was included among the nation's leaders in pediatric health care in *U.S. News & World Report* magazine's Best Children's Hospital rankings. The hospital achieved rankings in a maximum 10 out of 10 specialties: cancer, cardiology and heart surgery, diabetes and endocrinology, gastroenterology, neonatology, nephrology, neurology and neurosurgery, orthopedics, pulmonology, and urology.

Successful volume growth in recent years led to peaking occupancy rates and capacity constraints in Vanderbilt's hospitals. Vanderbilt's overall hospital occupancy rates were 83.6% in fiscal 2012, an anticipated decrease from 84.5% in fiscal 2011, due to the addition of 69 licensed beds during fiscal 2012.

Vanderbilt completed construction of a 33-bed expansion to the children's hospital in April 2012, and added a total of 36 beds in the adult hospital, inclusive of a new 34-bed floor in the Critical Care Tower, which opened in May 2012. One of two remaining floors in the Critical Care Tower that was originally left in a shelled-out state is currently under construction. Occupancy is anticipated by the second quarter of fiscal 2013. Other renovations in the adult hospital will yield additional beds, resulting in an anticipated 34 new beds during fiscal 2013. The long-term outlook is for continued growth in inpatient services. The bed expansions are necessary to manage occupancy in the 85% range in order to avoid overcrowding and long wait times for patients in the emergency room, recovery rooms, and other procedural staging areas.

Percentage Occupancy
licensed beds



Inpatient hospital surgical operations declined 0.3% in fiscal year 2012 compared to the prior year while surgeries for outpatients increased 12.3%. In the outpatient clinics, ambulatory visits increased 8.8% to total 1,725,901 in fiscal 2012 as Vanderbilt continued its expansion of health care services offered outside the medical center's main campus. Approximately 43% of outpatient visits occurred at off-campus locations. Growth in ambulatory visits also occurred as the result of physician practice expansions in cardiology, neurology, and ophthalmology in nearby Williamson County and Wilson County.

Responding to the strong growth in outpatient services in Williamson County, Vanderbilt purchased 22 acres of unimproved land in that area during fiscal 2011. Vanderbilt currently is in the design stage of a medical office building of approximately 200,000 square feet that would consolidate several existing physician practice locations, as well as provide space for growth.

The average length of stay for patients in Vanderbilt's hospitals remained consistently low at 5.3 days in fiscal 2012 as compared to 5.4 days in fiscal 2011. This decrease predominantly was due to higher growth rates in obstetrics and normal newborn deliveries which have a lower length of stay (2.2 days) than other medical/surgical acute services.

The medical center's overall case mix index (CMI) declined to 1.90 for fiscal 2012 from 1.93 for fiscal 2011, due to higher growth rates in low-CMI services such as obstetric and normal newborn deliveries versus higher-CMI medical/surgical acute care services. Excluding obstetrics and normal newborn deliveries, the case mix index was 2.18 in fiscal 2012 comparing closely to 2.19 in fiscal 2011. While having patient acuity levels that are among the highest quartile of teaching hospitals, Vanderbilt's mortality index measure is one of the best in the nation. This outcome is reflective of the high quality of care at our hospitals, with a continued focus on evidence-based medicine and clinical improvement. Besides high quality care continuing to be a key factor in reduced actuarially determined medical malpractice expenses, the medical center had other one-time favorable adjustments to fiscal 2012 income such as settlements from government agencies. Collectively, these items totaled approximately $38 million.

The following table shows payor mix percentages based on gross patient revenues for Vanderbilt's hospitals and clinics in fiscal 2012 and fiscal 2007 (five years prior). Vanderbilt's medical center has experienced a decline in the percentage of TennCare/Medicaid patients, primarily because TennCare organizations have developed broader physician and hospital provider networks that allow low-acuity health care services to be provided in the local communities. Further, due to high quality and favorable patient satisfaction scores, the community preference for Vanderbilt's hospitals and clinics continues to increase, resulting in modest market share growth in the managed care payor group over the past five years.

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

	2012	2007
Managed care	38.7%	38.3%
Medicare	26.1	23.1
TennCare/Medicaid	18.2	19.6
Commercial indemnity	8.4	9.7
Uninsured (self-pay) and other	8.6	9.3
Total payor mix	**100.0%**	**100.0%**

The university's medical center maintains a charity care policy which sets forth the criteria for health care services that are provided without expectation of payment, or at a reduced payment rate to patients who meet certain income criteria based on federal poverty limit guidelines. These services are accounted for as charity care and are not reported as revenue.

Of the total uncompensated care provided by the medical center (comprising charity care and bad debt reflected as deductions from gross revenue), 78% and 75% of the total in fiscal 2012 and 2011, respectively, was charity care. Charity care services represent 5.7% and 5.4%, respectively, of total patient services revenue in fiscal 2012 and 2011.

In addition to uncompensated care, the medical center provides a number of other services to benefit the economically disadvantaged for which little or no payment is received. These services include public health education and training for new health professionals and services to patients with special needs.

Finally, in addition to charity care assistance and community benefits previously noted, Vanderbilt provides other substantial community benefits in the form of clinical and laboratory research support.

This activity is primarily conducted by the schools of medicine and nursing and includes direct and indirect costs of research funded by other tax-exempt organizations, government entities, and internal funding sources.

A summary of costs for the preceding community benefit activities, which are regularly reported in Vanderbilt's Form 990 filing (Return of Organization Exempt from Income Taxes), is provided in the following table.

Charity Care
in millions

	2012	2011
Charity care and community benefits		
Unreimbursed cost of charity care	$ 120,069	$ 104,220
Resident and Allied Health education	86,055	74,076
Unreimbursed cost of TennCare/ Medicaid	47,213	47,807
Other community health programs	5,386	5,283
Behavioral health hospital services	806	2,607
Clinical and laboratory research support	494,807	493,244
Total costs of charity care and community benefits	754,336	727,237
Other unrecovered costs using IRS Form 990 Schedule H guidelines but not includable as community benefits		
Unreimbursed cost of Medicare	54,662	52,788
Cost of bad debts	34,248	33,728
Unreimbursed cost of TRICARE	8,701	9,616
Total other unrecovered costs	97,611	96,132
Total cost of charity care, community benefits, and other unrecovered costs	**$ 851,947**	**$ 823,369**

Endowment

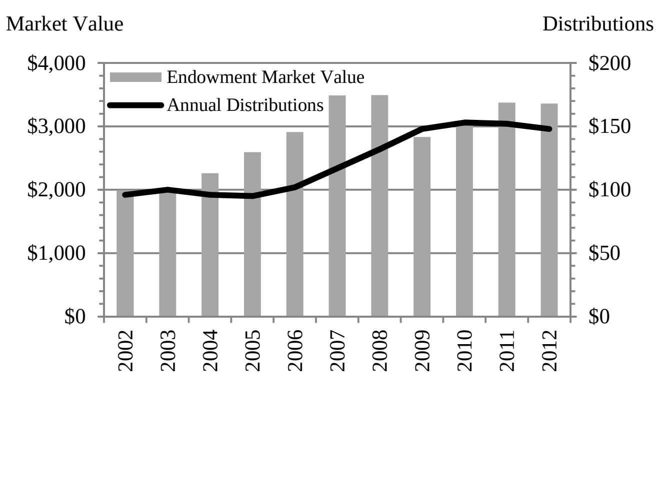
For fiscal 2012, Vanderbilt's endowment portfolio had an investment return of 1.3%. Endowment distributions totaling $148 million in fiscal 2012 were used to support the university's education, research, and public service missions. The endowment ended fiscal 2012 with a $3,360 million total market value. The overall change in absolute value not only reflects investment return and the distribution of endowment funds to support university operations, but also the net impact of new endowment gifts and additions to institutional endowments (quasi-endowments). During fiscal 2012, the university added $88 million to the endowment portfolio through new gifts and additions to institutional endowments (quasi-endowments).

Fiscal 2012 proved to be a challenging year, as investor sentiment and markets shifted from negative to positive then back again to negative. This "Risk On/Risk Off" was the common theme throughout the year as the *Euro Crisis* weighed heavily on the markets. Global equity markets finished the twelve-month period ending June 30, down 6.5%, after rallying back from a 17% decline during the first three months of the fiscal year. Fortunately, Vanderbilt's fixed income, private markets, and natural resources posted positive returns, offsetting the equity allocation's negative return.

At the strategy level, long-term treasuries, technology-based venture funds, and private equity were top performers and the most favorable contributors to the endowment's fiscal 2012 performance. An under-allocation to global equities, and an over-allocation to private market investments, including private equity and venture capital investments, also aided returns on both an absolute and relative basis. While disappointed with the fiscal year's modest absolute return we are pleased to have posted a positive return during what has proven to be a challenging investing environment.

Financial markets continue to show signs of vulnerability due to the pending "fiscal cliff" facing the United States, continued high unemployment, sovereign debt risk, inflation in developing markets, and global political instability. Fortunately, Vanderbilt has implemented a number of strategic initiatives to enhance the university's ability to navigate through what many consider a protracted low-return and high-volatility environment. These measures include enhancing overall liquidity, solidifying strategic relationships with premier managers, expanding geographical breadth, and improving transparency and systems.

Endowment Market Value and Annual Distributions
in millions



Endowment Asset Allocation
June 2012 (% of portfolio)

	Actual	Target
Global equities	31.4%	35.0%
Absolute return	20.0	25.0
Fixed income	5.2	10.0
Cash and cash equivalents	0.2	-
Total marketable	**56.8**	**70.0**
Private markets	27.7	15.0
Real estate	7.9	7.5
Natural resources	7.5	7.5
Other	0.1	-
Total nonmarketable	**43.2**	**30.0**
Total endowment	**100.0%**	**100.0%**

Conclusion

Vanderbilt ended fiscal 2012 in a strong financial position. The university continues to focus on strategic prioritization by utilizing financial resources wisely to further the university's mission and goals. Although the economic climate is marked with uncertainty with anticipated declines in government funding, health care reform, and general operating and capital demands, we remain confident that the strong financial footing that is currently in place at Vanderbilt coupled with prudent management decisions will continue to pave the way for a bright future.

Vanderbilt is positioned to take on new and complex projects that are ambitious, but will serve to take the university to yet a higher level of excellence. Capital investments, such as the next phase of College Halls at Vanderbilt, as well as investments in faculty and research are on the forefront of plans for both the present and the foreseeable future.

As reflected in the audited financial statements, the financial ratios, and as noted in this financial overview, Vanderbilt's fiscal standing remains strong. We are committed to careful stewardship of Vanderbilt's resources so that we can carry out our mission and further enhance our position as one of the world's premier higher education institutions.

Financial Ratios

Expendable Net Assets to Debt

Expendable Net Assets / Project Debt and Lease Commitments

2008	2009	2010	2011	2012
2.7x	1.9x	2.1x	2.3x	2.4x

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

Vanderbilt's expendable net assets to debt increased slightly in fiscal 2012 as the result of positive operating results and a decline in outstanding debt, tempered by a net decrease in endowment market value and increased interest rate exchange agreements portfolio liability. The improvement in fiscal 2011 was the result of positive endowment returns and operating results. Vanderbilt aims to maintain expendable net assets to debt of at least 2.0.

Debt Service Coverage Ratio

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

2008	2009	2010	2011	2012
3.4x	3.2x	3.6x	4.0x	4.1x

The *debt service coverage ratio* measures the university's ability to pay annual debt service obligations from current year operating activities. In this context, annual debt service is normalized to calculate long-term (25 years), level principal and interest payments that would be required based on the portfolio's then-prevailing weighted average interest rates inclusive of the effects of interest rate exchange agreements. The scope for this ratio is all outstanding debt, except for taxable commercial paper used for short-term liquidity support prior to fiscal 2012.

Vanderbilt's debt service coverage ratio increased in fiscal 2012 and 2011 primarily as the result of strong net operating results. The debt portfolio's effective interest rate, which includes the impact of interest rate exchange agreements, declined in fiscal 2012 and 2011 – a favorable impact on normalized annual debt service. Vanderbilt aims to maintain a debt service coverage ratio of at least 2.0.

Debt Service Burden[1]

Normalized Annual Debt Service / Unrestricted Operating Expenses

2008	2009	2010	2011	2012
2.5%	2.7%	3.3%	2.9%	2.8%

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

Vanderbilt's debt service burden decreased in fiscal 2012 and 2011 primarily due to stable normalized annual debt service coupled with an increase in operating expenses. Vanderbilt aims to maintain a debt service burden below 5.0%.

Operating Cash Flow Margin[1]

Unrestricted Operating Results before Interest and Depreciation / Unrestricted Operating Revenues

2008	2009	2010	2011	2012
8.2%	8.7%	11.4%	11.1%	10.9%

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

In fiscal 2012, Vanderbilt's unrestricted operating results before interest and depreciation increased 2.8% to $398 million from $387 million in fiscal 2011. Fiscal 2012 unrestricted operating revenues, at $3,665 million, represent a 5.3% increase from $3,480 million in fiscal 2011.

Capital Intensiveness Ratio[1]

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

2008	2009	2010	2011	2012
9.3%	8.5%	5.2%	3.6%	3.9%

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

Vanderbilt's capital intensiveness ratio increased in fiscal 2012 as spending on major capital projects increased in accordance with the university's capital plan. During fiscal 2012, major capital projects included the bed-expansion of the Monroe Carell Jr. Children's Hospital at Vanderbilt, the Critical Care Tower buildout, College Halls at Kissam, and the Blakemore House purchase and renovation.

Average Age of Plant

Accumulated Depreciation / Depreciation Expense

2008	2009	2010	2011	2012
9.4 yrs	9.5 yrs	10.0 yrs	10.2 yrs	11.2 yrs

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

[1] Due to the adoption of Accounting Standards Update 2011-7 (ASU 2011-7), *Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, affected financial ratios for fiscal 2008 through fiscal 2011 have been recalculated to provide comparability to fiscal 2012 ratios.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

pwc

Report of Independent Auditors

Board of Trust
Vanderbilt University:

In our opinion, the accompanying consolidated statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Vanderbilt University at June 30, 2012 and June 30, 2011, 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. These financial statements are the responsibility of Vanderbilt University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, Vanderbilt adopted ASU 2011-07, "Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" effective July 1, 2011.

PricewaterhouseCoopers LLP

October 19, 2012

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T: (646) 471 3000, F: (813) 236 6000, www.pwc.com/us

Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2012 and 2011 (in thousands)

	2012	**2011**
ASSETS		
Cash and cash equivalents	$ 912,419	$ 1,129,804
Accounts receivable, net	518,566	436,687
Prepaid expenses and other assets	82,167	78,756
Contributions receivable, net	72,334	78,572
Student loans and other notes receivable, net	45,409	40,207
Investments	3,872,014	3,664,182
Investments allocable to noncontrolling interests	201,386	199,249
Property, plant, and equipment, net	1,727,611	1,754,524
Interests in trusts held by others	39,257	39,362
Total assets	**$ 7,471,163**	**$ 7,421,343**
LIABILITIES		
Accounts payable and accrued liabilities	$ 228,422	$ 236,428
Accrued compensation and withholdings	245,859	225,360
Deferred revenue	118,826	125,458
Actuarial liability for self-insurance	105,543	111,348
Actuarial liability for split-interest agreements	34,171	32,775
Government advances for student loans	22,113	21,036
Commercial paper	264,075	264,862
Long-term debt and capital leases	1,117,029	1,178,531
Fair value of interest rate exchange agreements, net	315,577	135,026
Total liabilities	**2,451,615**	**2,330,824**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	2,559,802	2,603,397
Unrestricted net assets related to noncontrolling interests	201,386	199,249
Total unrestricted net assets	2,761,188	2,802,646
Temporarily restricted net assets	1,191,216	1,262,271
Permanently restricted net assets	1,067,144	1,025,602
Total net assets	**5,019,548**	**5,090,519**
Total liabilities and net assets	**$ 7,471,163**	**$ 7,421,343**

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

Vanderbilt University
Consolidated Statement of Activities
Year Ended June 30, 2012 (in thousands)

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 250,137	$ -	$ -	$ 250,137
Grants and contracts:				
Government sponsors	397,555	-	-	397,555
Private sponsors	54,768	-	-	54,768
Facilities and administrative costs recovery	147,806	-	-	147,806
Total grants and contracts	600,129	-	-	600,129
Contributions	25,861	28,430	28,580	82,871
Endowment distributions	136,883	8,565	2,447	147,895
Investment income (loss)	19,831	276	(969)	19,138
Health care services	2,461,830	-	-	2,461,830
Room, board, and other auxiliary services, net	109,733	-	-	109,733
Other sources	39,068	-	-	39,068
Net assets released from restrictions	21,459	(21,459)	-	-
Total revenues and other support	**3,664,931**	**15,812**	**30,058**	**3,710,801**
EXPENSES				
Instruction	480,296	-	-	480,296
Research	439,395	-	-	439,395
Health care services	2,184,054	-	-	2,184,054
Public service	44,889	-	-	44,889
Academic support	148,871	-	-	148,871
Student services	35,586	-	-	35,586
Institutional support	41,851	-	-	41,851
Room, board, and other auxiliary services	132,458	-	-	132,458
Total expenses	**3,507,400**	**-**	**-**	**3,507,400**
Change in unrestricted net assets from operating activity	**157,531**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	(31,447)	(62,982)	-	(94,429)
Change in appreciation of self-insurance assets	876	-	-	876
Change in appreciation of other investments	(2,476)	-	-	(2,476)
Change in appreciation of interest rate exchange agreements	(180,551)	-	-	(180,551)
Contributions for plant	1,813	-	-	1,813
Net assets released from restrictions for plant	24,210	(24,210)	-	-
Donor designation changes	(11,809)	325	11,484	-
Other	(1,742)	-	-	(1,742)
Total other changes in net assets	**(201,126)**	**(86,867)**	**11,484**	**(276,509)**
(Decrease) increase in net assets controlled by Vanderbilt	**(43,595)**	**(71,055)**	**41,542**	**(73,108)**
Increase in net assets related to noncontrolling interests	**2,137**	**-**	**-**	**2,137**
Total (decrease) increase in net assets	**$ (41,458)**	**$ (71,055)**	**$ 41,542**	**$ (70,971)**
Net assets, June 30, 2011	**$ 2,802,646**	**$ 1,262,271**	**$ 1,025,602**	**$ 5,090,519**
Net assets, June 30, 2012	**$ 2,761,188**	**$ 1,191,216**	**$ 1,067,144**	**$ 5,019,548**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2011 (in thousands)

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 243,859	$ -	$ -	$ 243,859
Grants and contracts:				
Government sponsors	399,440	-	-	399,440
Private sponsors	53,494	-	-	53,494
Facilities and administrative costs recovery	145,295	-	-	145,295
Total grants and contracts	598,229	-	-	598,229
Contributions	23,564	22,621	51,314	97,499
Endowment distributions	142,252	7,450	2,556	152,258
Investment income	14,666	13,583	6,062	34,311
Health care services	2,293,962	-	-	2,293,962
Room, board, and other auxiliary services, net	103,769	-	-	103,769
Other sources	40,351	-	-	40,351
Net assets released from restrictions	19,160	(19,160)	-	-
Total revenues and other support	**3,479,812**	**24,494**	**59,932**	**3,564,238**
EXPENSES				
Instruction	464,313	-	-	464,313
Research	441,064	-	-	441,064
Health care services	2,047,489	-	-	2,047,489
Public service	39,262	-	-	39,262
Academic support	133,076	-	-	133,076
Student services	34,919	-	-	34,919
Institutional support	46,879	-	-	46,879
Room, board, and other auxiliary services	133,879	-	-	133,879
Total expenses	**3,340,881**	**-**	**-**	**3,340,881**
Change in unrestricted net assets from operating activity	**138,931**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	102,258	153,510	-	255,768
Change in appreciation of self-insurance assets	11,299	-	-	11,299
Change in appreciation of other investments	13,767	-	-	13,767
Change in appreciation of interest rate exchange agreements	72,070	-	-	72,070
Contributions for plant	3,430	560	-	3,990
Net assets released from restrictions for plant	16,689	(16,689)	-	-
Donor designation changes	(11,859)	(7,628)	19,487	-
Other	15,477	-	-	15,477
Total other changes in net assets	**223,131**	**129,753**	**19,487**	**372,371**
Increase in net assets controlled by Vanderbilt	**362,062**	**154,247**	**79,419**	**595,728**
Increase in net assets related to noncontrolling interests	**121,554**	**-**	**-**	**121,554**
Total increase in net assets	**$ 483,616**	**$ 154,247**	**$ 79,419**	**$ 717,282**
Net assets, June 30, 2010	**$ 2,319,030**	**$ 1,108,024**	**$ 946,183**	**$ 4,373,237**
Net assets, June 30, 2011	**$ 2,802,646**	**$ 1,262,271**	**$ 1,025,602**	**$ 5,090,519**

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011 (in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in total net assets	**$ (70,971)**	**$ 717,282**
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Increase in net assets related to noncontrolling interests	(2,137)	(121,554)
Net realized gains on investments	(56,783)	(56,526)
Net decrease (increase) in unrealized appreciation on investments	39,985	(305,940)
Contributions for plant and endowment	(59,069)	(78,032)
Contributions of securities other than for plant and endowment	(10,095)	(11,062)
Depreciation and amortization	172,718	173,195
Amortization and reclassification of bond discounts and premiums	1,430	(2,355)
Payments to terminate interest rate exchange agreements	-	23,680
Net decrease (increase) in fair value of interest rate exchange agreements	180,551	(97,289)
Net decrease in fair value of option to execute interest rate exchange agreement	-	1,539
(Increase) decrease in:		
Accounts receivable, net of accrued investment income	(81,640)	(32,280)
Prepaid expenses and other assets	(3,411)	11,479
Contributions receivable	6,238	(1,533)
Interests in trusts held by others	105	(2,969)
Increase (decrease) in:		
Accounts payable and accrued liabilities, net of nonoperating items	(14,126)	(15,531)
Accrued compensation and withholdings	20,499	311
Deferred revenue	(6,632)	808
Actuarial liability for self-insurance	(5,805)	8,590
Actuarial liability for split-interest agreements	1,396	1,311
Net cash provided by operating activities	**112,253**	**213,124**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,412,099)	(2,416,030)
Proceeds from sales of investments	2,231,160	2,499,503
Purchases of investments allocable to noncontrolling interests	(38,707)	(50,780)
Proceeds from sales of investments allocable to noncontrolling interests	40,815	47,179
(Increase) decrease in accrued investment income	(239)	1,307
Acquisitions of property, plant, and equipment	(143,089)	(124,411)
Proceeds from disposals of property, plant, and equipment	3,404	835
Student loans and other notes receivable disbursed	(10,090)	(3,091)
Principal collected on student loans and other notes receivable	4,888	4,524
Net cash used in investing activities	**(323,957)**	**(40,964)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for plant and endowment	59,069	78,032
Increase in government advances for student loans	1,077	2,168
Proceeds from debt issuances	180,231	474,946
Payments to retire or defease debt	(243,950)	(536,580)
Payments to terminate interest rate exchange agreements	-	(23,680)
Proceeds from noncontrolling interests in investment partnerships	38,707	50,780
Payments to noncontrolling interests in investment partnerships	(40,815)	(47,179)
Net cash used in financing activities	**(5,681)**	**(1,513)**
Net (decrease) increase in cash and cash equivalents	**$ (217,385)**	**$ 170,647**
Cash and cash equivalents at beginning of year	**$ 1,129,804**	**$ 959,157**
Cash and cash equivalents at end of year	**$ 912,419**	**$ 1,129,804**

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

Vanderbilt University
Notes to the Consolidated Financial Statements

1. Organization

The Vanderbilt University (Vanderbilt) is a private, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational, research, and health care facilities as part of its mission to be a leading center for informed and creative teaching, scholarly research, and public service. Vanderbilt provides educational services to approximately 6,800 undergraduate and 6,000 graduate and professional students enrolled in its 10 schools and colleges.

These consolidated financial statements include the accounts of all entities in which Vanderbilt has a significant financial interest and over which Vanderbilt has control. The patient care enterprise includes Vanderbilt University Hospitals and Clinics; Vanderbilt Medical Group, a physician practice program; and Vanderbilt Health Services, Inc., which includes wholly owned and joint ventured businesses primarily comprised of radiation oncology centers, imaging services, outpatient surgery centers, a home health care agency, and a home infusion and respiratory service.

All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

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

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Temporarily restricted net assets are limited as to use by donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of Vanderbilt. These net assets may include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not yet been appropriated by the Board of Trust for distribution.

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

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

Fair Value Measurements
Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosure* (ASC 820) defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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

Cash and Cash Equivalents
Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets, reported at fair value, primarily consist of depository account balances, money market funds, and short-term U.S. Treasury securities.

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

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

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

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

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

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

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

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

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

Split-Interest Agreements and Interests in Trusts Held by Others

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

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

Property, Plant, and Equipment

Purchased property, plant, and equipment are recorded at cost, including, where appropriate, capitalized interest on construction financing net of income earned on unspent proceeds. Donated assets are recorded at fair value at the date of donation. Repairs and maintenance costs are expensed as incurred. Additions to the library collection are expensed at the time of purchase.

Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Property, plant, and equipment are removed from the accounting records at the time of disposal.

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

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

Debt Portfolio Financial Instruments

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

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

Revenue Recognition

Vanderbilt's revenue recognition policies are:

Tuition and educational fees, net—Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by Vanderbilt for tuition and educational fees is reflected as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services provided to Vanderbilt.

Grants and contracts, government sponsors—Revenues from government sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Grants and contracts, private sponsors—Revenues from private sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Facilities and administrative (F&A) costs recovery—F&A costs recovery is recognized as revenue and represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Vanderbilt's federal F&A costs recovery rate for on-campus research was 56.0% in fiscal 2012 and 55.0% in fiscal

2011. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2012 and 2011.

Health care services—Health care services revenue is reported at established rates, net of contractual adjustments, charity assistance services, and provision for bad debt. Third party contractual revenue adjustments under governmental reimbursement programs are accrued on an estimated basis in the period the related services are rendered. The estimated amounts for Medicare are adjusted as final settlements are determined by Vanderbilt's Medicare Administrative Contractor (MAC).

Vanderbilt implemented the provisions of Accounting Standards Update (ASU) 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07) which specifies that bad debt related to patient service revenue is to be reported as a component of net patient service revenue (contra revenue) for fiscal years beginning after December 15, 2011. Vanderbilt elected to early adopt ASU 2011-07 for fiscal 2012. Accordingly, certain amounts in fiscal 2011 have been reclassified to conform to the fiscal 2012 presentation.

Contributions

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to Vanderbilt in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Allowance is made for uncollectible contributions receivable based upon Vanderbilt's analysis of past collection experience and other judgmental factors.

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

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

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

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

Operating Results

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

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

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

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

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

Income Taxes

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

Use of Estimates

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

Subsequent Events

Vanderbilt evaluated events subsequent to June 30, 2012, and through the date on which the consolidated financial statements were issued, October 19, 2012. No material subsequent events were identified for recognition or disclosure.

Redesignations

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

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)*:

	2012	2011
Patient care	$ 529,501	$ 448,013
Students, grants, and other	103,861	102,876
Accrued investment income	2,010	1,771
Accounts receivable, gross	635,372	552,660
Less: Allowance for bad debts	116,806	115,973
Accounts receivable, net	**$ 518,566**	**$ 436,687**
Days receivable	*51.0*	*43.1*

Gross patient care receivables represented 83.3% and 81.1% of total gross receivables as of June 30, 2012 and 2011, respectively. The largest portion of patient care receivables relates to Vanderbilt University Hospitals and Clinics (the Hospital) and in turn the largest component of the Hospital's receivables was from third party payors.

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

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

	2012	2011
Medicare	$ 49,435	$ 31,375
TennCare/Medicaid	62,274	50,925
Blue Cross	104,168	91,840
Various commercial carriers	171,738	147,275
Total from third party payors	**$ 387,615**	**$ 321,415**

Patient care bad debt expense, reported as a reduction to health care services revenue on the consolidated statements of activities, totaled $112.0 million and $111.0 million as of June 30, 2012 and 2011, respectively.

4. Contributions Receivable

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

	2012	2011
Unconditional promises expected to be collected:		
in one year or less	$ 31,621	$ 30,052
between one year and five years	50,659	60,509
in more than five years	3,509	2,165
Contributions receivable	85,789	92,726
Less: Unamortized discount	1,798	2,308
Less: Allowance for uncollectible promises	11,657	11,846
Contributions receivable, net	**$ 72,334**	**$ 78,572**

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2012 and June 30, 2011, generally were discounted at rates ranging from 0.5% to 2.0%.

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

In addition to pledges reported as contributions receivable, Vanderbilt received bequest intentions of approximately $246.5 million and $241.6 million as of June 30, 2012 and 2011, respectively. These intentions to give are not recognized as assets due to their conditional nature.

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

	2012	2011
Contributions receivable, net:		
Temporarily restricted	$ 32,741	$ 27,334
Permanently restricted	39,593	51,238
Total	**$ 72,334**	**$ 78,572**

5. Student Loans and Other Notes Receivable

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

	2012		2011	
	Net Receivable	**Related Allowance**	**Net Receivable**	**Related Allowance**
Federal loans	$ 17,979	$ 1,780	$ 17,766	$ 1,725
Institutional loans	20,240	2,733	15,353	2,732
Faculty mortgages	7,190	-	7,088	-
Student loans and other notes receivable, net	**$ 45,409**		**$ 40,207**	

Vanderbilt remains committed to "no-loans" for its undergraduate students, meaning that the university is meeting demonstrated financial need solely with grant assistance. For other groups (e.g., graduate students), participation in several federal revolving loan programs, including the Perkins program, has continued. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans.

Funds advanced by the federal government ultimately are refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay amounts due. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

As part of Vanderbilt's efforts to attract and retain a world-class faculty, Vanderbilt provides home mortgage financing assistance. Notes receivable amounting to $7.2 million were outstanding at June 30, 2012. These notes are collateralized by deeds of trust on properties concentrated in the surrounding region. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

6. Investments

The fair value of investments consists of the following as of June 30 *(in thousands)*:

	2012	2011
Derivative contract collateral and short-term securities[1]	$ 259,835	$ 95,249
Equity investments		
Developed market equities [2]	138,400	165,067
Emerging market equities [2]	379,499	473,727
Fixed income [1]	451,220	359,580
Absolute return [2]	678,064	751,522
Other hedge funds [2]	360,369	301,037
Private equity [3]	745,136	754,233
Venture capital [3]	433,306	395,798
Real estate [3]	322,856	269,553
Natural resources [3]	274,183	255,343
Equity method securities and trusts[4]	18,082	18,367
Other investments[4]	12,450	23,955
Total fair value	**$ 4,073,400**	**$ 3,863,431**
Total cost	**$ 3,570,332**	**$ 3,318,454**

[1] Fair value is based primarily on quoted prices in active markets.
[2] Fair value is based on the net asset value per share of the specifc investments as provided by the fund managers.
[3] Fair value is based on the net asset value of Vanderbilt's ownership interests at the fund level as provided by the fund managers.
[4] Carrying value provides a reasonable estimate of fair value for certain components.

Included in the amounts reported in the table above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. During fiscal 2012, the minority limited partners funded capital commitments totaling $38.7 million. Additionally, Vanderbilt made payments to the minority limited partners of $40.8 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2012, the minority limited partners' interests in the results of the underlying returns from the private fund assets were $176.1 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $201.4 million as of June 30, 2012.

Investments, along with cash and cash equivalents, provide liquidity support for Vanderbilt's operations. Of these combined amounts, based on prevailing market conditions as of June 30, 2012, $792.4 million was available on a same-day basis and an additional $893.1 million was available within 30 days.

Excluding derivative instruments that may be held by investment managers as part of their respective investment strategies, Vanderbilt held financial futures derivative contracts with notional values of $729.2 million and $575.7 million as of June 30, 2012 and 2011, respectively. The fair market value of such contracts is settled daily between counterparties.

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

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

Developed market equities are comprised of investments in U.S. common stocks and other developed countries whose markets have a relatively high level of economic growth and security.

Emerging market equities include investments in the emerging global economies as defined by Morgan Stanley Capital International (MSCI) Emerging Markets Index.

Fixed income investments are directed towards capital preservation and predictable yield as well as more opportunistic strategies focused on generating return on price appreciation. These investments generally consist of U.S. Treasury debt securities, but may also include other highly liquid debt securities.

Absolute return investments reflect multiple strategies such as event driven, relative value, and equity funds to diversify risks and reduce volatility in the portfolio generally in hedge fund structures.

Other hedge fund investments include investments in both long and short primarily credit-oriented securities. Investments may include mortgage backed securities, trade finance, debt and asset-backed securities, repurchase agreements, senior loans, and bank loans.

Private equity includes investments that participate primarily in leveraged buyout strategies. Distributions from these investments are received through liquidations of the underlying assets. These investments generally are held in commingled limited partnership funds.

Venture capital consists of investments that participate in early-stage, high-potential, high-risk, growth startup companies. These investments generally are held in commingled limited partnership funds. Distributions from these investments are received through liquidations of the underlying assets.

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

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

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

7. Endowment

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

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

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

Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves the university's operating budget for the ensuing fiscal year. For fiscal years 2012 and 2011, Vanderbilt's Board of Trust approved endowment distributions based on 4.5% of the average of the previous three calendar year-end market values. Actual realized endowment return earned in excess of distributions is reinvested as part of Vanderbilt's endowment. For years where actual endowment return is less than the distribution, the shortfall is covered by the endowment pool's cumulative returns from prior years.

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

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

2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 26,889	$ 962,796	$ 989,685
Accumulated net appreciation of donor-restricted endowments	-	1,040,036	-	1,040,036
Reinvested distributions of donor-restricted endowments				
At historical value	133,836	1,641	-	135,477
Accumulated net appreciation	144,321	1,767	-	146,088
Institutional endowments				
At historical value	208,716	-	-	208,716
Accumulated net appreciation	840,034	-	-	840,034
Endowment net assets as of June 30, 2012	**$ 1,326,907**	**$ 1,070,333**	**$ 962,796**	**$ 3,360,036**

2011

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

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

	2012	2011
Net realized appreciation less endowment distributions	$ 1,644,115	$ 1,712,298
Net unrealized appreciation	382,043	416,978
Total	**$ 2,026,158**	**$ 2,129,276**

In striving to meet the overarching objectives for the endowment, over the past 20 years, there has been an 11% annualized standard deviation in Vanderbilt's returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components, each of which is designed to serve a specific role in establishing the right balance between risk and return. Global public and private equity investments, including venture capital and many hedge funds, are expected to produce favorable returns in environments of accelerated growth and economic expansion. Absolute return and fixed income investments are expected to generate stable returns and preserve capital during periods of poor equity performance. Real estate and natural resources allocations are designed to provide an inflation hedge.

From time to time, the fair value of assets associated with an endowed fund may fall below the level that a donor or UPMIFA requires in terms of maintenance of perpetual duration endowments. As of June 30, 2012 and 2011, Vanderbilt had deficiencies of this nature of approximately $11 million and $7 million, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature. Changes in endowment net assets for the fiscal years ended June 30 were as follows (*in thousands*):

2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2011	$ 1,331,327	$ 1,133,076	$ 910,750	$ 3,375,153
Endowment investment return:				
Investment income, net of fees	15,725	24,672	-	40,397
Net appreciation (realized and unrealized)	4,848	7,607	-	12,455
Total endowment investment return	20,573	32,279	-	52,852
Gifts and additions to endowment, net	35,722	240	52,046	88,008
Endowment distributions	(57,569)	(90,326)	-	(147,895)
Transfers for internal management costs	(3,385)	(5,311)	-	(8,696)
Other	239	375	-	614
Endowment net assets as of June 30, 2012	**$ 1,326,907**	**$ 1,070,333**	**$ 962,796**	**$ 3,360,036**

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2010	$ 1,195,501	$ 970,579	$ 841,527	$ 3,007,607
Endowment investment return:				
Investment income, net of fees	4,039	6,393	-	10,432
Net appreciation (realized and unrealized)	153,571	243,078	-	396,649
Total endowment investment return	157,610	249,471	-	407,081
Gifts and additions to endowment, net	38,845	8,992	69,223	117,060
Endowment distributions	(58,950)	(93,308)	-	(152,258)
Transfers for internal management costs	(2,045)	(3,237)	-	(5,282)
Other	366	579	-	945
Endowment net assets as of June 30, 2011	**$ 1,331,327**	**$ 1,133,076**	**$ 910,750**	**$ 3,375,153**

8. Investment Return

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

	2012	2011
OPERATING		
Unrestricted:		
Endowment distributions	$ 136,883	$ 142,252
Investment income	19,831	14,666
Total operating return	**156,714**	**156,918**
NONOPERATING		
Unrestricted:		
Change in appreciation of institutional endowments, net of distributions	(31,447)	102,258
Change in appreciation of self-insurance assets	876	11,299
Investment (loss) income	(2,476)	13,767
Temporarily restricted:		
Endowment distributions	8,565	7,450
Investment income	276	13,583
Change in appreciation of donor-restricted endowments, net of distributions	(62,982)	153,510
Permanently restricted:		
Endowment distributions	2,447	2,556
Investment (loss) income	(969)	6,062
Total nonoperating return	**(85,710)**	**310,485**
Total investment return	**$ 71,004**	**$ 467,403**

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

	2012	2011
Net interest, dividend, and partnership income	$ 54,210	$ 100,614
Net realized gains from original cost	56,783	56,526
Change in unrealized appreciation	(39,989)	310,263
Total investment return	**$ 71,004**	**$ 467,403**

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

Investment returns are reported net of returns attributed to limited partners on investments allocable to noncontrolling interests. Investment returns are also reported net of internal management costs of $8.7 million in fiscal 2012 and $5.3 million in fiscal 2011.

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $9.0 million and $10.7 million in fiscal 2012 and 2011, respectively.

9. Property, Plant, and Equipment

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

	2012	2011
Land	$ 73,859	$ 71,494
Buildings and improvements	2,657,197	2,587,239
Moveable equipment	879,482	830,102
Construction in progress	55,264	38,161
Property, plant, and equipment	3,665,802	3,526,996
Less: Accumulated depreciation	1,938,191	1,772,472
Property, plant, and equipment, net	**$ 1,727,611**	**$ 1,754,524**

Purchases for the library collection are not included in the amounts above since they are expensed at the time of purchase. As of June 30, 2012, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled about $293 million.

Capitalized interest of $0.8 million in fiscal 2011 was added to construction in progress and/or buildings and improvements; no interest was capitalized in fiscal 2012.

Internally developed software costs of $5.8 million and $5.4 million were capitalized in fiscal 2012 and 2011, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $20.0 million and $19.3 million as of June 30, 2012 and 2011, respectively. These liabilities, which are estimated using an inflation rate of 4.0% and a discount rate of 5.0% based on relevant factors at origination, are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

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

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

	Years to Nominal Maturity	Outstanding Fixed Coupon Interest Rates as of June 30, 2012	Fiscal 2012 Effective Interest Rate[2]	Outstanding Principal 2012	Outstanding Principal 2011
FIXED-RATE DEBT					
Series 1998B	17	-	5.0%	$ -	$ 29,705
Series 1998C[1]	3	-	5.0%	-	8,850
Series 2001A	4	-	5.0%	-	7,660
Series 2001B[1]	11	-	5.0%	-	42,585
Series 2008A	7	4.50%-5.00%	4.0%	122,600	127,600
Series 2008B[1]	7	4.00%-5.00%	3.9%	105,710	111,400
Series 2009A	28	4.00%-5.50%	4.9%	97,100	97,100
Series 2009B[1]	28	5.00%-5.50%	5.0%	232,900	232,900
Series 2009A Taxable	7	5.25%	5.0%	250,000	250,000
Series 2012C	6	2.00%-5.00%	0.8%	42,315	-
Fixed-rate debt			4.7%	**850,625**	**907,800**
VARIABLE-RATE DEBT					
Series 2000A	19		0.2%	53,300	54,900
Series 2000B	19		0.2%	-	54,900
Series 2002A	21		0.2%	-	19,260
Series 2003A[1]	7		0.2%	-	20,900
Series 2005A	33		0.2%	68,000	113,300
Series 2012A	27		0.6%	67,000	-
Series 2012B	27		0.8%	67,000	-
Variable-rate debt			0.2%	**255,300**	**263,260**
Par amount of long-term debt			3.7%	1,105,925	1,171,060
Net unamortized premium			-	9,115	3,768
Total long-term debt			3.7%	1,115,040	1,174,828
Capital leases	1 to 3		4.7%	1,989	3,703
Total long-term debt and capital leases			**3.7%**	**1,117,029**	**1,178,531**
Tax-exempt commercial paper	<1		0.3%	149,205	150,000
Taxable commercial paper	<1		0.3%	114,870	114,862
Total commercial paper			**0.3%**	**264,075**	**264,862**
Total long-term debt, capital leases, and commercial paper			**3.1%**	**$ 1,381,104**	**$ 1,443,393**

[1] Issued under Master Trust Indenture structure.
[2] Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 4.9%.

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

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

All debt instruments are general obligations of Vanderbilt. No assets are pledged as collateral for such debt.

Included in the foregoing table are hospital and clinic (patient care) bonds, with a principal balance outstanding of $338.6 million as of June 30, 2012, that were issued under a Master Trust Indenture (MTI) structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group; presently, Vanderbilt's hospitals and clinics have no other members participating in the obligated group. Bonds issued under the MTI are payable from hospital revenues. All outstanding MTI bonds are also supplemented by a Vanderbilt guarantee of debt service.

Trust indentures for certain bond issues contain covenants and restrictions involving the issuance of additional debt, maintenance of a specified debt service coverage ratio, and the maintenance of liquidity facilities. Vanderbilt was in compliance with such covenants and restrictions as of June 30, 2012.

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

	2012	2011
Payments for interest costs	$ 72,125	$ 79,126
Accrued interest expense	$ 67,977	$ 74,794

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

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

2013	$ 33,190
2014	34,530
2015	36,200
2016	50,065
2017	40,505
Thereafter	911,435
Total long-term debt principal retirements	**$ 1,105,925**

In addition to scheduled principal and interest payments on long-term debt obligations, Vanderbilt's capital lease agreements outstanding as of June 30, 2012, will require payments of $1.5 million during fiscal 2013. Of those payments, $1.4 million will be allocated toward amortizing the $1.9 million capital lease obligation. Furthermore, requirements noted in the preceding table could be greater if Vanderbilt must purchase either a portion or all of its variable-rate demand obligations, floating-rate notes, and CP in the event of failed remarketings on the respective weekly reset dates, mandatory tender dates, or scheduled maturities as described in the following paragraphs.

Vanderbilt had $255.3 million of variable-rate bonds outstanding as of June 30, 2012, consisting of $121.3 million of weekly variable-rate demand obligations and $134.0 million of floating-rate notes with mandatory tender dates of October 1, 2015 and 2017. During fiscal 2011, all of Vanderbilt's variable-rate bonds were in weekly interest rate reset modes. In the event that Vanderbilt receives notice of an optional tender on its variable-rate demand obligations, the purchase price of the bonds will be paid from the remarketing of such bonds. If the remarketing proceeds are insufficient, Vanderbilt will have a current obligation to purchase the bonds tendered.

As of June 30, 2012, Vanderbilt had $149.2 million of tax-exempt CP outstanding and $114.9 million of taxable CP outstanding. Vanderbilt can issue up to a combined $675.0 million under its tax-exempt and taxable CP programs. However, issuance of incremental taxable CP beyond that outstanding as of June 30, 2012, would require approval by Vanderbilt's Board of Trust, and issuance of incremental tax-exempt CP would require approval by both Vanderbilt's Board of Trust and the HEFB as conduit issuer.

The weighted average duration of Vanderbilt's CP portfolio totaled 151 days as of June 30, 2012, and 96 days as of June 30, 2011.

Liquidity support for debt with short-term remarketing periods (weekly reset variable-rate bonds and CP totaling $385.4 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2012, Vanderbilt estimates that $792.4 million of liquid assets were available on a same-day basis and an additional $893.1 million was available within 30 days.

A second tier of liquidity support consists of two bank revolving credit facilities with maximum available commitments totaling $200.0 million as of June 30, 2012, dedicated solely to Vanderbilt's debt portfolio liquidity support. These commitments expire in March 2013 and March 2014. Maximum repayment periods, which may extend beyond the expiration dates, range from 90 days to three years. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has also entered into agreements with two banks to provide general use lines of credit with maximum available commitments totaling $300.0 million as of June 30, 2012. These lines of credit, which may be drawn upon for general operating purposes, expire in June 2013 and October 2014. No amounts were drawn on these credit facilities as of June 30, 2012 or June 30, 2011.

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

	2012	**2011**
Carrying value of long-term debt	$ 1,115,040	$ 1,174,828
Market value of long-term debt	$ 1,205,749	$ 1,237,561

The estimated market value of Vanderbilt's long-term debt is based on market conditions prevailing at fiscal year-end reporting dates. Besides potentially volatile market conditions, market value estimates typically also reflect limited secondary market trading. Vanderbilt's capital leases and commercial paper are also reported at carrying value, which closely approximates market value for those liabilities.

On October 1, 2011, Vanderbilt fully redeemed the remaining principal maturities of the Series 1998B and 1998C fixed-rate bonds

On March 29, 2012, Vanderbilt issued the Series 2012A, 2012B, and 2012C bonds aggregating $176.3 million for the purpose of redeeming weekly reset variable-rate debt and callable fixed-rate debt. The Series 2012A and 2012B variable-rate bonds (floating-rate notes) were issued in the amount of $134.0 million and bear interest initially at fixed spreads to weekly SIFMA resets of 0.40% and 0.60%, respectively, through the initial mandatory tender dates of October 1, 2015 and October 1, 2017, respectively, and final maturity dates of October 1, 2038. Series 2012A and 2012B proceeds were used to fund the full redemption of Vanderbilt's variable-rate Series 2000B, 2002B, and 2003A and a partial redemption of Series 2005A. The Series 2012C fixed-rate bonds were issued in the par amount of $42.3 million and include an original issue premium of $3.9 million. The Series 2012C bonds are noncallable with an an average coupon of 4.7% and a final maturity of October 1, 2017. Par and premium proceeds from the Series 2012C issuance fully funded the redemption of Series 2001A and 2001B fixed-rate principal maturities due after May 1, 2012. This refunding produced a $0.8 million accounting loss reported as other nonoperating in the consolidated statement of activities and resulted in present value savings of $6.7 million.

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

11. Interest Rate Exchange Agreements

Vanderbilt has entered into interest rate exchange agreements as part of its debt portfolio management strategy. These agreements result in periodic net cash settlements paid to, or received from, counterparties. Net settlements due to counterparties totaled $25.5 million and $29.9 million in fiscal 2012 and 2011, respectively, and were reflected as adjustments to interest expense.

The fair value of interest rate exchange agreements is based on the present value sum of future net cash settlements that reflect market yields as of the measurement date and reflects estimated amounts that Vanderbilt would pay, or receive, to terminate the contracts as of the report date. The estimated fair value of Vanderbilt's outstanding interest rate exchange agreements was a liability of $315.6 million and a liability of $135.0 million as of June 30, 2012 and 2011, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2012 or 2011. Vanderbilt allowed a $500.0 million fixed-receiver interest rate exchange contract option to expire. This option had zero intrinsic value on the expiration date of December 1, 2010.

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

Gains and losses from changes in the fair value of interest rate exchange agreements are reported in the nonoperating section of the consolidated statements of activities. These changes resulted in net losses of $180.6 million in fiscal 2012 and net gains of $72.1 million in fiscal 2011.

The interest rate exchange agreements include collateral pledging requirements based on the fair value of the contracts. Collateral held by counterparties as of June 30, 2012 and 2011, totaled $236.2 million and $81.4 million, respectively. Vanderbilt estimates that a decline in long-term LIBOR rates to approximately 2% would result in the fair value of the portfolio being a liability of approximately $400 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $310 million. As of June 30, 2012, 30-year LIBOR was 2.51%.

As of June 30, 2012, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was approximately 115% fixed.

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

Description	**Rate Paid**	**Rate Received**	**Maturity**	**2012**	**2011**
Fixed-payer interest rate exchange agreements[1]	Avg fixed rate of 3.72%	Avg of 68.3% of one-month LIBOR[2]	19 to 33 years	$ 721,600	$ 724,800
Basis interest rate exchange agreements	SIFMA[3]	Avg of 81.5% of one-month LIBOR[2]	23 to 24 years	$ 500,000	$ 500,000

[1] For one amortizing fixed-payer interest rate exchange agreement that will have a notional balance of $51.6 million in October 2012, the counterparty may exercise an option to terminate the contract, in whole or in part and at no cost, at any time from that date until the final maturity in October 2030.
[2] LIBOR (London Interbank Offered Rate) is a reference rate based on interest rates at which global banks borrow funds from other banks in the London interbank lending market.
[3] SIFMA (Securities Industry and Financial Markets Association) is a seven day high-grade market index rate based upon tax-exempt variable rate debt obligations.

12. Net Assets

Unrestricted net assets are internally designated into the following groups:

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

Designated gifts and grants are composed of gift and grant funds.

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

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

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

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

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

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

Fair value of interest rate exchange agreements, net represents the mark-to-market valuation for such contracts. Because these agreements are intended to manage interest rate risks within the debt portfolio, segregation from other designations is maintained.

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

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

	2012	2011
Designated for operations	$ 693,025	$ 531,460
Designated gifts and grants	118,023	164,683
Designated for student loans	22,480	25,851
Designated for plant facilities	714,944	685,102
Reinvested distributions of donor-restricted endowments at historical value	133,836	129,010
Accumulated net appreciation of reinvested distributions	144,321	177,185
Institutional endowments at historical value	208,716	177,826
Accumulated net appreciation of institutional endowments	840,034	847,306
Fair value of interest rate exchange agreements, net	(315,577)	(135,026)
Net assets related to noncontrolling interests	201,386	199,249
Total unrestricted net assets	**$ 2,761,188**	**$ 2,802,646**

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

	2012	2011
Donor-restricted endowments at historical value	$ 26,889	$ 26,564
Accumulated net appreciation of donor-restricted endowments	1,040,036	1,102,607
Reinvested distributions of donor-restricted endowments at historical value	1,641	1,727
Accumulated net appreciation of reinvested distributions	1,767	2,178
Contributions	101,603	102,749
Interests in trusts held by others	6,826	6,991
Life income and gift annuities	12,454	19,455
Total temporarily restricted net assets	**$ 1,191,216**	**$ 1,262,271**

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

	2012	2011
Student scholarships	$ 223,133	$ 301,756
Instruction	463,067	518,648
Capital improvements	16,183	11,831
Subsequent period operations and other	488,833	430,036
Total temporarily restricted net assets	**$ 1,191,216**	**$ 1,262,271**

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

	2012	2011
Donor-restricted endowments at historical value	$ 962,796	$ 910,750
Contributions	40,101	53,125
Interests in trusts held by others	32,431	32,370
Life income and gift annuities	31,816	29,357
Total permanently restricted net assets	**$ 1,067,144**	**$ 1,025,602**

Based on relative fair values as of June 30, 2012, approximately 21% of donor-restricted endowments support scholarships, 20% support endowed chairs, 23% support operations, and 36% were for other purposes.

13. Fair Value Measurement

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

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

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

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

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

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

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

	June 30, 2011	**Realized and unrealized gains (losses)**	**Purchases**	**Sales**	**Transfers into and (out) of level 3**	**June 30, 2012**	**Change in unrealized gains (losses) for investments still held at June 30, 2012**
LEVEL 3 ASSETS							
Developed market equities	$ 70,225	(7,295)	7,867	(38,274)	-	32,523	(3,014)
Emerging market equities	134,448	(19,855)	-	(6,250)	-	108,343	(19,856)
Fixed income	19,706	581	6,981	(7,514)	-	19,754	(1,249)
Absolute return	612,815	(24,022)	5,773	(86,577)	-	507,989	(122,215)
Other hedge funds	182,937	8,751	-	-	-	191,688	8,751
Private equity	754,233	4,088	89,647	(102,832)	-	745,136	43,423
Venture capital	395,621	35,724	69,996	(68,035)	-	433,306	2,125
Real estate	269,553	43,565	45,694	(35,956)	-	322,856	170,196
Natural resources	255,343	11,695	37,948	(30,803)	-	274,183	(10,629)
Equity method securities and trusts	18,367	7,847	3,609	(3,424)	(8,317)	18,082	(7,032)
Other investments	23,779	(6,344)	2,793	(8,133)	214	12,309	17,325
Interests in trusts held by others	39,362	(105)	-	-	-	39,257	(105)
Total Level 3	**$ 2,776,389**	**$ 54,630**	**$ 270,308**	**$ (387,798)**	**$ (8,103)**	**$ 2,705,426**	**$ 77,720**

	June 30, 2010	**Realized and unrealized gains (losses)**	**Purchases**	**Sales**	**Transfers into and (out) of level 3**	**June 30, 2011**	**Change in unrealized gains (losses) for investments still held at June 30, 2011**
LEVEL 3 ASSETS							
Developed market equities	$ 217,019	$ 8,564	$ $ 7,208	$ (133,365)	$ (29,201)	$ 70,225	$ (24,860)
Emerging market equities	211,945	33,083	3,750	(80,797)	(33,533)	134,448	32,287
Fixed income	20,294	228	2,519	(3,335)	-	19,706	-
Absolute return	548,293	52,417	83,962	(114,226)	42,369	612,815	39,814
Other hedge funds	193,755	9,243	-	(20,061)	-	182,937	9,243
Private equity	562,285	154,906	117,747	(80,705)	-	754,233	65,502
Venture capital	253,419	96,003	91,851	(45,652)	-	395,621	83,916
Real estate	219,044	19,191	47,335	(16,017)	-	269,553	19,803
Natural resources	214,468	27,053	46,539	(32,717)	-	255,343	25,203
Equity method securities and trusts	21,368	10,692	-	(10,870)	(2,823)	18,367	-
Other investments	24,823	(874)	154	(324)	-	23,779	276
Interests in trusts held by others	36,393	2,969	-	-	-	39,362	-
Total Level 3	**$ 2,523,106**	**$ 413,475**	**$ 401,065**	**$ (538,069)**	**$ (23,188)**	**$ 2,776,389**	**$ 251,184**

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

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

As of June 30, 2012, 87% of cash and cash equivalents were available on a same-day basis.

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

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

Equities and fixed income provide varying levels of liquidity as defined in the following tables. As of June 30, 2012, 47%, 63%, and 85% of developed market equities value, emerging market equities value, and fixed income value, respectively, were available for daily redemption requests with liquidity within 30 days.

Absolute return and other hedge funds includes daily, quarterly, and annual redemption frequencies. Notice may be provided to the fund managers to exit from the respective funds in the time periods noted.

As of June 30, 2012, 21% of absolute return investments were comprised of hedge funds in "hard lockup" periods of up to 36 months, during which redemptions or liquidations are not allowed per terms of the respective agreements with fund managers. Additionally, 5% of absolute return investments were in "soft lockup" periods of up to nine months, during which redemptions or liquidations may occur but are subject to withdrawal penalties of up to 4.5%.

The total fair values for private equity, venture capital, real estate, natural resources, and other investments were reported as illiquid as of June 30, 2012. These amounts predominantly consist of limited partnerships. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions relative to the timing for disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Vanderbilt cannot anticipate such changes because they are based on unforeseen events. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related market values are reported as illiquid.

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

2012

	Fair Value Measurements					Redemption	
	Level 1	**Level 2**	**Level 3**	**Total**	**Group %**	**or Liquidation Frequency**	**Days Notice**
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 912,419	$ -	$ -	$ 912,419	**87%**	**Daily**	**same-day**
					13%	**Daily**	**2-90 days**
Derivative contract collateral and short-term securities	259,835	-	-	259,835	**100%**	**n/a**	**n/a**
Equity investments:							
Developed market equities	101,637	4,240	32,523	138,400	**47%**	**Daily**	**2-30 days**
					43%	**Daily**	**>30 days**
					3%	**Annually**	**>30 days**
					7%	**n/a**	**n/a**
Emerging market equities	271,156	-	108,343	379,499	**63%**	**Daily**	**2-30 days**
					22%	**Monthly**	**>30 days**
					15%	**Quarterly**	**>30 days**
Fixed income	431,466	-	19,754	451,220	**51%**	**Daily**	**next-day**
					34%	**Daily**	**2-30 days**
					15%	**Daily**	**>30 days**
Absolute return	82,847	87,228	507,989	678,064	**5%**	**Daily**	**2-30 days**
					57%	**Quarterly**	**>30 days**
					9%	**Annually**	**>30 days**
					26%	**Lockup**	**>30 days**
					3%	**n/a**	**n/a**
Other hedge funds	-	168,681	191,688	360,369	**28%**	**Daily**	**>30 days**
					27%	**Quarterly**	**>30 days**
					45%	**Annually**	**>30 days**
Private equity	-	-	745,136	745,136	**100%**	**>1yr**	**n/a**
Venture capital	-	-	433,306	433,306	**100%**	**>1yr**	**n/a**
Real estate	-	-	322,856	322,856	**100%**	**>1yr**	**n/a**
Natural resources	-	-	274,183	274,183	**100%**	**>1yr**	**n/a**
Equity method securities and trusts	-	-	18,082	18,082	**100%**	**n/a**	**n/a**
Other investments	141	-	12,309	12,450	**100%**	**>1yr**	**n/a**
Interests in trusts held by others	-	-	39,257	39,257	**100%**	**n/a**	**n/a**
Total assets reported at fair value	**$ 2,059,501**	**$ 260,149**	**$ 2,705,426**	**$ 5,025,076**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ -**	**$ 315,577**	**$ -**	**$ 315,577**			

2011

	Fair Value Measurements				Group	Redemption or Liquidation	Days
	Level 1	Level 2	Level 3	Total	%	Frequency	Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 1,129,804	$ -	$ -	$ 1,129,804	98%	Daily	same-day
					2%	Daily	2-90 days
Derivative contract collateral and short-term securities	95,249	-	-	95,249	100%	n/a	n/a
Equity investments:							
Developed market equities	89,052	5,790	70,225	165,067	20%	Daily	next-day
					10%	Daily	2-30 days
					38%	Daily	>30 days
					17%	Quarterly	>30 days
					3%	Annually	>30 days
					12%	n/a	n/a
Emerging market equities	308,631	30,647	134,449	473,727	58%	Daily	2-30 days
					6%	Bi-Weekly	2-30 days
					22%	Monthly	>30 days
					14%	Quarterly	>30 days
Fixed income	339,874	-	19,706	359,580	40%	Daily	next-day
					41%	Daily	2-30 days
					19%	Daily	>30 days
Absolute return	138,707	-	612,815	751,522	8%	Daily	next-day
					58%	Quarterly	>30 days
					31%	Lockup	>30 days
					3%	n/a	n/a
Other hedge funds	-	118,100	182,937	301,037	25%	Quarterly	>30 days
					44%	Annually	>30 days
					31%	Lockup	>30 days
Private equity	-	-	754,233	754,233	100%	>1yr	n/a
Venture capital	177	-	395,621	395,798	100%	>1yr	n/a
Real estate	-	-	269,553	269,553	100%	>1yr	n/a
Natural resources	-	-	255,343	255,343	100%	>1yr	n/a
Equity method securities and trusts	-	-	18,367	18,367	100%	n/a	n/a
Other investments	177	-	23,778	23,955	1%	Daily	>30 days
					99%	n/a	n/a
Interests in trusts held by others	-	-	39,362	39,362	100%	n/a	n/a
Total assets reported at fair value	**$ 2,101,671**	**$ 154,537**	**$ 2,776,389**	**$ 5,032,597**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ -**	**$ 135,026**	**$ -**	**$ 135,026**			

14. Natural Classification of Expenses and Allocations

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

	2012	2011
Salaries, wages, and benefits	$ 2,195,716	$ 2,056,804
Services	188,488	188,372
General expenses and supplies	726,116	692,735
Depreciation and amortization	172,718	173,195
Interest	67,977	74,794
Utilities, operating leases, and other	156,385	154,981
Total operating expenses	**$ 3,507,400**	**$ 3,340,881**

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

2012

	Depreciation	Interest
Instruction	$ 19,295	$ 3,359
Research	27,080	6,276
Health care services	78,548	42,731
Public service	816	100
Academic support	8,241	1,210
Student services	1,207	428
Institutional support	15,117	1,781
Room, board, and other auxiliary services	22,414	12,092
Total	**$ 172,718**	**$ 67,977**

2011

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

15. Retirement Plans

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

Vanderbilt's obligations under these plans are fully funded by monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2012 and 2011 were $59.8 million and $56.2 million, respectively.

16. Student Financial Aid

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

In fiscal 2012 and 2011, financial aid for tuition and educational fees of $199.3 million and $193.5 million was applied to gross tuition and educational fees of $449.4 million and $437.4 million, respectively. In fiscal 2012 and 2011, financial aid for room and board of $28.8 million and $27.2 million was applied to gross room and board of $70.1 million and $67.1 million, respectively.

Loans to students from Vanderbilt funds are carried at cost, which, based on secondary market information, approximates the fair value of educational loans with similar interest rates and payment terms. Loans to qualified students historically have been funded principally with government advances to Vanderbilt under the Perkins, Nursing, and Health Professions Student Loan Programs. Loans receivable from students under governmental loan programs, also carried at cost, can only be assigned to the federal government or its designees. Student loan receivables are reported net of allowances for estimated uncollectible accounts of $4.5 million as of June 30, 2012 and 2011.

17. Charity Care Assistance and Community Benefits

Consistent with Vanderbilt's mission, the university's medical center (including hospitals, clinics, and physician practice units) maintains a policy which sets forth the criteria pursuant to those health care services that are provided without expectation of payment, or, at a reduced payment rate to patients who have minimal financial resources to pay for their medical care. These services represent charity care and are not reported as revenue.

The medical center maintains records to identify and monitor the level of charity care it provides, and these records include the amount of gross charges and patient deductibles, co-insurance and co-payments forgone for services furnished under its charity care policy, and the estimated cost of those services. Charity care assistance is offered on a tiered grid, which is based on federal poverty guidelines. In addition to charity care assistance, all uninsured patients are eligible for a discount from billed charges for medically necessary services that is mandated under state of Tennessee law. For those patients with a major catastrophic medical event that does not qualify for full charity assistance, additional discounts are given based on the income level of the patient household using a sliding scale.

The cost of charity care provided by the medical center was $120.1 million and $104.2 million in fiscal 2012 and 2011, respectively. Of the total uncompensated care provided by the medical center (comprising charity care and bad debt reflected as deductions from gross revenue), 78% and 75% of the total in fiscal 2012 and 2011, respectively, was charity care. Charity care services represent 5.7% and 5.4%, respectively, of total patient services at the medical center in fiscal 2012 and 2011.

In addition to the charity care services described above, the medical center provides a number of other services to benefit the economically disadvantaged for which little or no payment is received. TennCare/Medicaid and state indigent programs do not cover the full cost of providing care to beneficiaries of those programs. As a result, in addition to direct charity care costs, the medical center provided services related to TennCare/Medicaid and state indigent programs substantially below the cost of rendering such services.

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

18. Related Parties

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

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

The policy extends to all members of the university community (including trustees, university officials, and faculty and staff and their immediate family members). Each applicable person is required to certify compliance with the conflict of interest policy on an annual basis. This certification includes specifically disclosing whether Vanderbilt conducts business with an entity in which he or she (or an immediate family member) has a material financial interest as well as any other situation that potentially could be perceived to conflict with Vanderbilt's best interests.

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

19. Lease Obligations

Vanderbilt leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms of up to 15 years. Total operating lease expense in fiscal 2012 and 2011 was $56.1 million and $51.8 million, respectively.

As of June 30, 2012, future committed minimum rentals by fiscal year on significant noncancelable operating leases with initial or remaining lease terms in excess of one year were as follows *(in thousands)*:

2013	$	43,681
2014		31,723
2015		28,539
2016		20,994
2017		16,227
Thereafter		32,803
Total future minimum rentals	**$**	**173,967**

Vanderbilt leases over 50% of the space in the approximately 850,000-square-foot One Hundred Oaks facility, located within five miles of the main campus, primarily for medical clinic and office uses. This operating lease commenced in fiscal 2008 with an initial lease term of 12 years. Minimum aggregate rental payments of $40.5 million related to this space are included in the preceding table.

20. Commitments and Contingencies

(A) *Construction.* As of June 30, 2012, approximately $145.1 million was contractually committed for projects under construction and equipment purchases. The largest components of these commitments were for the second phase of Vanderbilt's residential colleges program, College Halls at Kissam ($93.6 million); floor buildouts in the Critical Care Tower of the adult hospital ($19.8 million); and renovations to Alumni Hall ($11.1 million).

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

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

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

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

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

(G) *Health Care Services*. Revenue from health care services includes amounts paid under reimbursement agreements with certain third-party payers and is subject to examination and retroactive adjustments. Any differences between estimated year-end settlements and actual final settlements are reported in the year final settlements are known. Substantially all final settlements have been determined through the year ended June 30, 2007. Cahaba Government Benefit Administrators (Cahaba GBA), Vanderbilt's Medicare Administrative Contractor, has been unable to complete final settlements for more recent years due to data issues at the Centers for Medicare and Medicaid Services (CMS) and other factors such as Cahaba GBA audit backlogs. Final settlements relative to periods through June 30, 2010, are expected to be complete during fiscal 2013.

(H) *HIPAA Compliance*. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the federal government has authority to complete fraud and abuse investigations. HIPAA has established substantial fines and penalties for offenders. Vanderbilt continues to refine policies, procedures, and organizational structures to enforce and monitor compliance with HIPAA, as well as other government statutes and regulations.

(I) *Partnership Investment Commitments.* There were $632.8 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2012. These funds may be drawn down over the next several years upon request by the general partners. Vanderbilt expects to finance these commitments with available cash and expected proceeds from the sales of securities. In addition, Vanderbilt is a secondary guarantor for $33.5 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

(J) *McKendree Village, Inc. Debt Guaranty.* In July 1998, Vanderbilt and McKendree Village, Inc. (McKendree), a not-for-profit retirement community, entered into an affiliation agreement, including a guarantee of certain McKendree debt by the university, largely secured by asset liens on McKendree property. The assets of McKendree have been sold to a third party and as of June 30, 2012, the aforementioned McKendree debt has been fully retired. Expectations are that the university's affiliation with McKendree will cease during fiscal 2013.