2013 FINANCIAL REPORT

VANDERBILT UNIVERSITY

Contents

Letter from the Chancellor

Vanderbilt University continues to excel in a very challenging environment. We remain focused on our core mission and set our priorities with a keen eye on the important role that Vanderbilt plays in society. Educating amazing students with enormous potential, pursuing breakthroughs in research across the entire range of disciplinary inquiry, and providing new and more effective ways to prevent and treat disease determine how we invest in our people and infrastructure.

Vanderbilt’s impact and visibility reached new heights in the past year. Yet it did so despite the ever-challenging fiscal and economic environment in which the great research universities operate. The blunt and short-sighted cuts in research and Medicare through sequestration demanded prudence on both the operating and capital sides. Health care is undergoing rapid transformations, buffeted by market adaptations and political decisions at all levels of government. More than ever, quality and efficiency are driving not simply the rhetoric but the actions of payers and providers. Vanderbilt, with its focus on innovation, excellence in care, and quality outcomes is positioned well to thrive in this new health care world.

Long-term stewardship remains the lodestar for managing our finances and meeting our mission. While this perspective is increasingly rare in our society, we feel fortunate to be able to manage through short-term disruptions knowing that our responsibilities are inter-generational. This past year has been a strong one, for the many successes but also for maintaining our strong foundation for the future.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009
STUDENTS					
Undergraduate	6,796	6,817	6,879	6,794	6,637
Graduate and professional	5,914	6,019	5,835	5,712	5,455
Total fall enrollment	12,710	12,836	12,714	12,506	12,092
Undergraduate admissions					
Applied	28,348	24,837	21,811	19,353	16,944
Accepted	4,034	4,078	3,914	3,899	4,292
Enrolled	1,608	1,601	1,600	1,599	1,569
Selectivity	14.2%	16.4%	17.9%	20.1%	25.3%
Yield	39.9%	39.3%	40.9%	41.0%	36.6%
Degrees conferred					
Baccalaureate	1,675	1,673	1,735	1,583	1,568
Master's	1,421	1,432	1,252	1,280	1,235
M.D.	111	99	97	118	103
Other doctoral	551	516	556	515	477
Total degrees conferred	3,758	3,720	3,640	3,496	3,383
Undergraduate six-year graduation rate	92.5%	92.2%	91.9%	90.6%	90.7%
Undergraduate tuition	$ 41,088	$ 40,320	$ 38,952	$ 37,632	$ 36,100
% increase over prior year	1.9%	3.5%	3.5%	4.2%	4.9%
HOSPITALS AND CLINICS					
Licensed beds	1,019	985	916	916	836
Inpatient days	307,292	285,270	282,547	272,731	265,733
Discharges	57,768	53,818	52,453	51,874	51,575
Average daily census	842	782	774	747	728
Average length of stay (days)	5.3	5.3	5.4	5.3	5.2
Average occupancy level	83.3%	83.6%	84.5%	83.6%	87.1%
Hospital surgical operations - inpatient	22,396	22,183	22,246	21,702	21,283
Hospital surgical operations - outpatient	30,023	28,815	25,650	23,790	18,597
Ambulatory visits	1,833,337	1,725,901	1,586,395	1,450,196	1,266,255
Emergency visits	119,225	114,051	109,987	108,398	102,631
LifeFlight (helicopter) missions	2,359	2,550	2,203	2,152	2,112
Case mix index	1.93	1.90	1.93	1.93	1.89
FACULTY AND STAFF					
Full-time faculty	3,672	3,551	3,448	3,309	3,131
Full-time staff	20,160	20,119	19,192	18,089	17,160
Part-time faculty	430	439	396	424	402
Part-time staff	764	768	798	683	676
Total headcount	25,026	24,877	23,834	22,505	21,369
RESEARCH EXPENDITURES FUNDING (in thousands)					
Federal grants and contracts	$ 312,312	$ 310,786	$ 320,211	$ 279,282	$ 250,431
Nonfederal grants, contracts, and other	62,982	57,625	54,694	57,880	64,061
Facilities and administrative costs recovery	137,719	142,663	140,205	125,526	114,509
Institutional resources, including cost sharing	58,329	48,042	47,959	48,115	45,990
Total research expenditures	$ 571,342	$ 559,116	$ 563,069	$ 510,803	$ 474,991
ENDOWMENT					
Market value (in thousands)	$ 3,635,343	$ 3,360,036	$ 3,375,153	$ 3,007,607	$ 2,833,614
Endowment return	9.3%	1.3%	13.6%	8.9%	-16.3%
Endowment per student	$ 286,022	$ 261,767	$ 265,467	$ 240,493	$ 234,338
Endowment payout (spending formula)	4.3%	4.4%	4.8%	5.2%	4.7%
Endowment payout (strategic initiatives)	-	-	-	0.1%	0.1%
Total endowment payout	4.3%	4.4%	4.8%	5.3%	4.8%

Financial Overview

Vanderbilt manages its operations with a focus on achieving long-term financial equilibrium. In an unpredictable external environment with such challenges as uncertain research funding levels, concerns about rising health care costs, and the impact of market changes, Vanderbilt remains steadfast in setting priorities in an effort to excel at research, discovery, service, and education for generations to come. Fiscal 2013 was a challenging year that produced sound financial results.

The university's total net assets grew $320 million in fiscal 2013, compared to a decrease of $71 million in fiscal 2012, as positive investment returns were experienced and LIBOR rates improved, positively impacting the value of interest rate exchange agreements. The university's change in unrestricted net assets from operating activities in fiscal 2013 was negative $44 million, a decrease from $158 million in fiscal 2012. This decrease primarily was related to a change in the balance sheet estimate of the net realizable value of patient receivables.

The demand for a Vanderbilt education remains strong. The number of applications received for both undergraduate and professional schools achieved new records. Undergraduate applications for the fall of 2012 grew 14.1% to a total of 28,348 with a selectivity rate of 14.2%, compared to 16.4% for the fall of 2011—and the fall of 2013 selectivity rate was at a record 12.7% level.

Vanderbilt remains committed to ensuring that young people of every background can attend the university, creating a dynamic learning community that benefits every student. Vanderbilt's decision to replace need-based loans with scholarship support through Opportunity Vanderbilt (OV) gives talented undergraduates opportunities to consider career choices and educational dreams without the prospect of significant debt.

Vanderbilt continues to lead in research. Faculty recruiting and retention remain vibrant, enhancing the overall educational experience for all Vanderbilt students. Fundraising continues to grow and expand in support of Vanderbilt's long-term priorities.

Despite current environmental challenges, Vanderbilt is positioned to remain a distinguished research institution with world-class faculty and staff, topnotch students, and outstanding health care services. While the university is well-positioned to sustain excellence and take advantage of future opportunities, it is important to remain keenly aware of the challenges ahead.

Financial Position

As of June 30, 2013, Vanderbilt's financial position consisted of assets totaling $7,606 million and liabilities totaling $2,267 million, resulting in net assets of $5,339 million.

Summary of Financial Position
as of June 30, in millions

	2013	2012
ASSETS		
Working capital cash and investments	$ 1,120	$ 1,210
Endowment and other cash and investments	4,054	3,776
Accounts and contributions receivable	565	675
Property, plant, and equipment, net	1,781	1,728
Prepaid expenses and other assets	86	82
Total assets	**$ 7,606**	**$ 7,471**
LIABILITIES		
Payables and accrued liabilities	$ 626	$ 636
Deferred revenue	93	119
Interest rate exchange agreements	207	316
Taxable debt for liquidity	250	250
Project and equipment-related debt	1,091	1,131
Total liabilities	**2,267**	**2,452**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt University	2,785	2,560
Unrestricted net assets related to non-controlling interests	187	201
Temporarily restricted net assets	1,235	1,191
Permanently restricted net assets	1,132	1,067
Total net assets	**5,339**	**5,019**
Total liabilities and net assets	**$ 7,606**	**$ 7,471**

Total net assets include Vanderbilt's endowment valued at $3,635 million as of June 30, 2013. Net assets associated with capital infrastructure totaled $690 million, which represents the university's property, plant, and equipment, net of accumulated depreciation and capital-related debt. Other net assets, which totaled $1,014 million as of June 30, 2013, 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 $7,606 million as of June 30, 2013, reflect a 1.8% increase from the prior year. This increase primarily is attributable to increases in the endowment.

Total liabilities decreased by $185 million to $2,267 million as of June 30, 2013. This decrease is attributable largely to a decrease 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. The summary segregates debt 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 $1,120 million as of June 30, 2013.

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, 2013, $1,865 million of operating and endowment assets were available within 30 days, including $726 million available on a same-day basis. Based largely on this very strong liquidity position, Vanderbilt maintains the highest short-term ratings from the major credit rating agencies.

To provide supplemental liquidity support, Vanderbilt maintains an agreement with one bank to provide a general operating line of credit with a maximum available commitment totaling $100 million. In addition, Vanderbilt carries $400 million of revolving credit facilities with two additional banks to provide dedicated self-liquidity support for the debt portfolio; one of these lines, totaling $200 million, includes a general use provision.

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 exposure within the university's debt portfolio.

In accordance with our strategic capital plan, Vanderbilt did not issue incremental debt during fiscal 2013. Scheduled principal payments on long-term debt reduced total outstanding debt by $40 million to a balance of $1,341 million as of June 30, 2013. This amount consisted of $1,091 million of capital project-related debt and $250 million of taxable debt for liquidity support.

During fiscal 2013, Vanderbilt refinanced $120 million of weekly-remarketed variable-rate debt with fixed-rate bonds having a maturity of 25 years, which eliminated weekly remarketing risk. Also, to further reduce remarketing risk, Vanderbilt refinanced $50 million of tax-exempt commercial paper with fixed-rate notes having a maturity of seven years.

Statements of Activities

Vanderbilt's total operating and nonoperating activity resulted in a $320 million increase in net assets in fiscal 2013, which follows a $71 million decrease in fiscal 2012.

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

	2013	2012
CONSOLIDATED REVENUES		
Tuition and educational fees, net of financial aid	$ 266	$ 250
Government grants and contracts and F&A costs recovery	520	545
Private grants and contracts	62	55
Contributions	111	83
Endowment distributions	151	148
Investment income	22	19
Health care services	2,394	2,462
Room, board, and other auxiliary services, net of financial aid	113	110
Other sources	53	39
Total consolidated revenues	**3,692**	**3,711**
CONSOLIDATED EXPENSES		
Instruction, academic support, and student services	689	658
Research	447	435
Health care services	2,326	2,221
Public service	34	46
Institutional support	52	38
Room, board, and other auxiliary services	121	109
Total consolidated expenses	**3,669**	**3,507**
OTHER CHANGES IN NET ASSETS		
Changes in appreciation of endowment, net of distributions	169	(95)
Gains (losses) on interest rate exchange agreements	109	(181)
(Decrease) increase in net assets related to noncontrolling interests	(14)	2
Other nonoperating activity	33	(1)
Total other changes in net assets	**297**	**(275)**
Increase (decrease) in net assets	**$ 320**	**$ (71)**

During fiscal 2013, the increase in total net assets primarily resulted from strong endowment investment returns and mark-to-market gains on interest rate exchange agreements. In comparison, the decrease in fiscal 2012 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 investment return.

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 in the unrestricted operating activity section. In addition to unrestricted operating activity, consolidated revenues include activity in *temporarily restricted* and *permanently restricted* net assets.

Consolidated Revenues

Consolidated revenues decreased $19 million or 0.5% to $3,692 million in fiscal 2013, as compared to $3,711 million in fiscal 2012. This decrease was driven primarily by a $68 million, or 2.8%, decrease in health care services revenue largely due to a change in balance sheet estimate of the net realizable value of patient receivables during fiscal 2013. Vanderbilt's health care services are discussed further in a subsequent section.

Vanderbilt remains firmly committed to student access and affordability. To facilitate this, the university provides significant financial aid to students and their families. In fiscal 2013, Vanderbilt provided $239 million in aid support to its students for tuition and room and board, as shown in the table below.

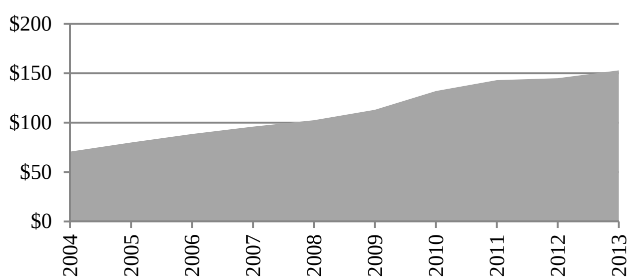
Tuition, Room and Board (R&B) and Financial Aid
fiscal 2013, in millions

	Gross tuition and fees and R&B	Financial aid[1]	Net tuition and fees and R&B
Undergraduate (6,796 students)	$ 358	$ 153	$ 205
Graduate and Professional (5,914 students)	183	86	97
Total	**$ 541**	**$ 239**	**$ 302**

[1] The financial aid number above excludes Pell Grants of $4 million. Pell Grants are considered agency funds and are excluded from the GAAP financial statements.

Over the past decade, Vanderbilt has more than doubled its level of support for undergraduate aid, as shown in the graph below.

Undergraduate Financial Aid
fiscal 2004 - 2013, $ million



For undergraduates, aid as a percentage of gross tuition, room and board, and educational fees in fiscal 2013 was 43%. That aid is funded in part by endowments, gifts and external agencies. Critical to this support is the university's OV fundraising initiative begun in fiscal 2009 to support undergraduate financial aid. As of June 30, 2013, that initiative had raised $154 million.

Contributions revenue within the consolidated financial statements is calculated based on Generally Accepted Accounting Principles (GAAP). This is a different basis for measurement than reported using guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines represent the development reporting standard for colleges and universities and focus on philanthropic distributions of private resources to benefit the public.

On a GAAP-basis, in fiscal 2013, Vanderbilt recorded $116 million in contributions revenue, including pledges, a 34% increase over the $85 million in fiscal 2012. A reconciliation of the CASE and GAAP totals is provided below:

GAAP to CASE Reconciliation
in millions

	2013
Total consolidated GAAP contributions	$ 116
Grants and similar agreements meeting CASE guidelines (gifts per CASE standards)	29
Decrease in net contributions receivable (fiscal 2012 to 2013)	2
CASE reported gifts (cash basis)	**$ 147**

Consolidated Expenses

Consolidated expenses increased 4.6% to $3,669 million in fiscal 2013, as compared to $3,507 million in fiscal 2012. This increase was driven primarily by a 4.7% increase in health care services expenses, and a 4.7% 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 $169 million in fiscal 2013 and negative $95 million in fiscal 2012. The fiscal 2013 change in appreciation for the endowment resulted from a 9.3% investment return offset by 4.3% of the endowment utilized for distributions.

In fiscal 2013, Vanderbilt incurred net unrealized gains totaling $109 million on interest rate exchange agreements. These gains are based on mark-to-market valuations of the university's portfolio of interest rate exchange agreements, especially fixed-payor exchange contracts. Adjustments to annual interest expense occur for net cash settlements as Vanderbilt *pays* an average of 3.8% on its fixed-payor 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 increased to 3.5% as of June 30, 2013—up from 2.5% as of June 30, 2012—which resulted in a decrease to the fair value of the liability for the agreements.

Net assets related to noncontrolling interests decreased $14 million due to the change in appreciation allocable to noncontrolling interests combined with a planned write-down of assets related to the contractual obligations set forth in the partnership agreement. Finally, net other nonoperating activity totaled $33 million in fiscal 2013 compared to negative $1 million in fiscal 2012. This increase primarily was the result of net gains on working capital invested alongside the endowment and other nonoperating investments.

Summary of Changes in Net Assets
in millions

	2013	2012
Revenues and expenses:		
Unrestricted operating revenues	$ 3,625	$ 3,665
Unrestricted operating expenses	(3,669)	(3,507)
Unrestricted operating activity	(44)	158
Contribution activity in temporarily restricted and permanently restricted net assets	59	36
Investment income and endowment distributions in temporarily restricted and permanently restricted net assets	8	10
Other changes in net assets:		
Change in appreciation of endowment, net of distributions	169	(95)
(Gains) losses on interest rate exchange agreements	109	(181)
(Decrease) increase in net assets related to non-controlling interests	(14)	2
Other nonoperating activity	33	(1)
Increase (decrease) in net assets	**$ 320**	**$ (71)**
Ending balance of net assets	**$ 5,339**	**$ 5,019**

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 negative $44 million in fiscal 2013 and $158 million in fiscal 2012.

Operating Revenues

Unrestricted operating revenues totaled $3,625 million in fiscal 2013, reflecting a 1.1% decrease from the prior year.

Operating Revenues by Source
unrestricted net assets, in millions

	2013	2012
Tuition and educational fees, net of financial aid	$ 266	$ 250
Government grants and contracts	378	397
Private grants and contracts	62	55
F&A costs recovery	142	148
Contributions, including net assets released from restrictions	52	47
Endowment distributions	145	137
Investment income	20	20
Health care services	2,394	2,462
Room, board, and other auxiliary services, net of financial aid	113	110
Other sources	53	39
Total operating revenues	**$ 3,625**	**$ 3,665**

Due largely to governmental budgetary constraints, government and private grants and contracts revenue, predominantly for research activities, and facilities and administrative (F&A) costs recovery declined 2.7% from fiscal 2012 to 2013 (from $452 million to $440 million). Within the pool of direct grant revenues, while government grants and contracts declined by 4.8% from fiscal 2012 to 2013 (from $397 million to $378 million), private grants and contracts direct revenues increased 12.7% over the same time period (from $55 million to $62 million).

As shown in the table below, the largest portion of the $440 million in total direct grant and contract revenue for fiscal 2013 was funded by the Department of Health and Human Services. Other external sources include state and local governments, industry, foundations, and private sources.

Grants and Contracts Revenues by Funding Source
in millions

	2013	%
Dept. of Health and Human Services	$ 294	67%
Dept. of Defense	28	6%
Associations and foundations	26	6%
Corporations	25	6%
Dept. of Education	22	5%
National Science Foundation	17	4%
Other government and private agencies	28	6%
Total sponsored research and project awards	**$ 440**	**100%**

Sponsored research and project awards (awards represent research funding commitments that have not yet been expended by Vanderbilt), which include multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled $616 million in fiscal 2013 and $571 million in fiscal 2012.

Sponsored Research and Project Awards
in millions

	2013	2012
Government awards	$ 477	$ 456
Non-government awards	139	115
Total sponsored research and project awards	**$ 616**	**$ 571**

Federal and state awards accounted for approximately 77% of the total sponsored funding during fiscal 2013 and increased to $477 million, or 5%, in fiscal 2013 from $456 million in fiscal 2012. Non-federal awards increased to $139 million, or 21%, in fiscal 2013 from $115 million in fiscal 2012. The growth in federal awards is particularly impressive given the pressures on federal funding, while growth in non-federal awards signals Vanderbilt's continued success in diversifying its research award pipeline.

Operating Expenses

Operating expenses totaled $3,669 million in fiscal 2013, reflecting a 4.6% increase from the prior year.

Operating Expenses by Function

unrestricted net assets, in millions

	2013	2012
Instruction, academic support, and student services	$ 689	$ 658
Research	447	435
Health care services	2,326	2,221
Public service	34	46
Institutional support	52	38
Room, board, and other auxiliary services	121	109
Total operating expenses	**$ 3,669**	**$ 3,507**

Expenses for instruction, academic support, and student services increased $31 million, or 4.7%, in fiscal 2013. These expenses substantially exceed net tuition revenues, which are noted in the operating revenues by source table. 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 increased $12 million, or 2.8%, to $447 million in fiscal 2013 from $435 million in fiscal 2012.

Health care services expenses increased $105 million, or 4.7%, to $2,326 million in fiscal 2013 from $2,221 million in fiscal 2012. This increase is attributable largely to an overall increase in patient volumes. Inpatient volumes increased 7.7% and outpatient volumes increased 6.2% from fiscal 2012 to fiscal 2013. Vanderbilt's health care services are discussed further in the next section.

Health Care

Health care is an industry that is poised to change dramatically in years to come with the full implementation of the 2010 Patient Protection and Affordable Care Act, occurring in 2014. Collaboration with other health care providers is a key success factor in this new environment. In fiscal 2013, Vanderbilt University Medical Center (VUMC) launched the Vanderbilt Health Affiliated Network (VHAN), one of the largest clinically integrated networks of doctors, regional health systems, and other health care providers in Tennessee and surrounding states. In the VHAN clinically integrated network, academic medical centers, community hospitals, physicians, insurers, and ancillary health service providers remain independent but affiliated to actively collaborate to provide patients with high-quality, efficiently coordinated, and cost—effective health care services. As a result of these affiliations, VUMC and its affiliated medical centers have created a new health plan of clinicians and hospitals which will allow employees the opportunity to receive health care at any of the participating affiliated medical centers or through participating providers in the community. During fiscal 2013, VHAN was offered as an alternative health plan administered by Aetna to Vanderbilt employees. As of June 30, 2013, the VHAN participating affiliates included 14 hospitals and 3,000 providers.

In fiscal 2013, the Centers for Medicare and Medicaid Services (CMS) awarded VUMC a three-year $18.8 million grant to improve chronic disease management for patients with high blood pressure, heart failure, and diabetes. This Health Care Innovation Award is one of the largest federal research grants awarded to VUMC investigators. VUMC is joined in this grant by several of the VHAN affiliated hospitals.

Like many of its peers, Vanderbilt is also responding to the pressure of flat revenue streams by focusing on efficiency in patient care processes to reduce costs and improve outcomes. Strategies include developing flexible staffing models to more efficiently staff to demand, standardizing clinical operations to reduce costs and improve quality, supply chain standardization, and reductions in administrative overhead costs.

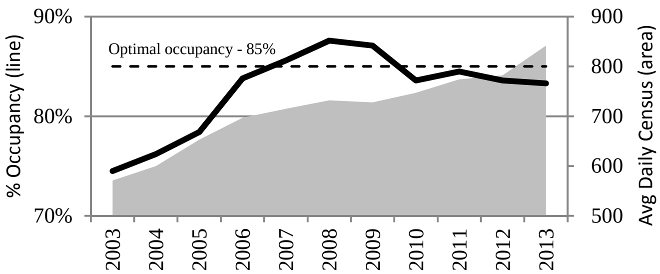
VUMC finished fiscal 2013 in the *U.S. News & World Report* annual ranking of America's Best Hospitals with 11 ranked specialties out of a possible 16 categories. Specialty programs ranking among the top 50 in their respective fields: cancer; cardiology and heart surgery; ear, nose, and throat; gastroenterology; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopedics; pulmonology; and urology. Vanderbilt was among only 3% of 4,806 facilities analyzed 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 nine out of 10 specialties: cancer; cardiology and heart surgery; diabetes and endocrinology; gastroenterology; neonatology; neurology and neurosurgery; orthopedics; pulmonology; and urology.

VUMC has been granted Magnet® status by the American Nurses Credentialing Center's Magnet Recognition Program®. The Magnet Recognition Program® recognizes organizations for quality patient care, nursing excellence and innovations in professional nursing practice. In addition, Vanderbilt University Hospital received an "A" for its Hospital Safety Score from the Leapfrog Group, a coalition of public and private purchasers of employee health coverage aiming to promote health care safety, quality, and affordability. The Leapfrog Group surveyed about 2,500 hospitals, awarding them scores of A, B, C, D, or F.

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 83.3% in fiscal 2013, an anticipated slight decrease from 83.6% in fiscal 2012, due to the addition of 34 licensed beds during fiscal 2013.

Vanderbilt completed construction of the 10th floor of the Critical Care Tower in November 2012 resulting in the addition of 34 beds. The 5th floor of the Critical Care Tower is currently under construction as a procedural area for Vanderbilt Heart Institute. The relocation of services to the Critical Care Tower will enable the addition of 12 beds in adjacent areas by the end of calendar 2013. The bed expansions are necessary to manage occupancy approaching the 85% range and to avoid overcrowding and long wait times for patients in the emergency room, recovery rooms, and other procedural staging areas.

Percentage Occupancy and Average Daily Census



Inpatient hospital surgical operations increased 1.0% in fiscal year 2013 compared to the prior year while surgeries for outpatients increased 4.2%. In the outpatient clinics, ambulatory visits increased 6.2% to a total 1,833,337 in fiscal 2013 as Vanderbilt continued its expansion of health care services offered outside the medical center's main campus. Approximately 45% of outpatient visits occurred at off-campus locations. Growth in ambulatory visits also occurred as the result of physician practice expansions in obstetrics and gynecology and pediatrics in nearby Williamson and Wilson counties.

The average length of stay for patients in Vanderbilt's hospitals remained consistently low at 5.3 days in fiscal 2013, the same length of stay as in fiscal 2012.

The medical center's overall case mix index (CMI) increased to 1.93 in fiscal 2013 from 1.90 in fiscal 2012, due to significant growth in surgical CMI, primarily within Vanderbilt Heart Institute. The surgical case mix index was 3.46 in fiscal 2013 as compared to 3.28 in fiscal 2012.

The following table shows payor mix percentages based on gross patient revenues for Vanderbilt's hospitals and clinics in fiscal 2013 and fiscal 2008 (five years prior). The increase in Medicare patients is due to aging population demographics and is consistent with Medicare growth of other hospital systems in Middle Tennessee. The patient increase in Tenncare/Medicaid is driven by high growth in obstetrics and pediatric services, which have a higher Tenncare/Medicaid payor mix than other service lines.

Payor Mix

Vanderbilt hospitals and clinics (% of gross patient revenues)

	2013	**2008**
Commercial/Managed Care	45.5%	47.9%
Medicare/Managed Medicare	28.8	26.8
TennCare/Medicaid	19.4	18.8
Uninsured (self-pay)	6.3	6.5
Total payor mix	**100.0%**	**100.0%**

Vanderbilt remains committed to providing high quality health care services 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.

VUMC 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. Charity care services, at established charges, represent 5.3% of total patient services revenue in fiscal 2013 and 2012, respectively.

The total cost of uncompensated care (comprising charity care and bad debt) was $137.8 million and $134.3 million for fiscal 2013 and 2012, respectively. Of the total uncompensated care, charity care represented 85.3% and 84.8% in fiscal 2013 and 2012, respectively.

Charity Care and Bad Debt Costs

in millions

	2013	**2012**
Unreimbursed charity care cost	$ 117,614	$ 113,833
Unreimbursed bad debt cost	20,212	20,429
Total uncompensated care	**$ 137,826**	**$ 134,262**
Charity care as % of total uncompensated care	*85.3%*	*84.8%*

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. Vanderbilt also provides other substantial community benefits in the form of clinical and laboratory research support. This activity primarily is conducted by the schools of medicine and nursing and includes direct and indirect costs of research funded by other organizations, government entities, and internal funding sources.

A summary of costs for the 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 Assistance, Community Benefits, and Other Unrecovered Costs

in millions

	2013	**2012**
Charity care and community benefits		
Unreimbursed charity care cost	$ 117,614	$ 113,833
Resident and Allied Health education	89,130	82,552
Unreimbursed cost of TennCare/ Medicaid	60,902	47,213
Other community health programs	5,678	5,386
Behavioral health hospital services	-	806
Clinical and laboratory research support	496,201	515,018
Total costs of charity care and community benefits	769,525	764,808
Other unrecovered costs using IRS Form 990 Schedule H guidelines but not includable as community benefits		
Unreimbursed cost of Medicare	50,030	54,662
Unreimbursed bad debt costs	20,212	20,429
Unreimbursed cost of TRICARE	3,792	8,701
Total other unrecovered costs	74,034	83,792
Total cost of charity care, community benefits, and other unrecovered costs	**$ 843,559**	**$ 848,600**

In the preceding table, clinical and laboratory expense of $496 million includes sponsored research, primarily from the National Institutes of Health (NIH), as well as other federal and non-federal agencies, for the support of basic and clinical research. In addition, institutional funds are included to provide support for unfunded research such as bridge funds for faculty between grant periods, and for new ideas or new science that may receive funding in future years.

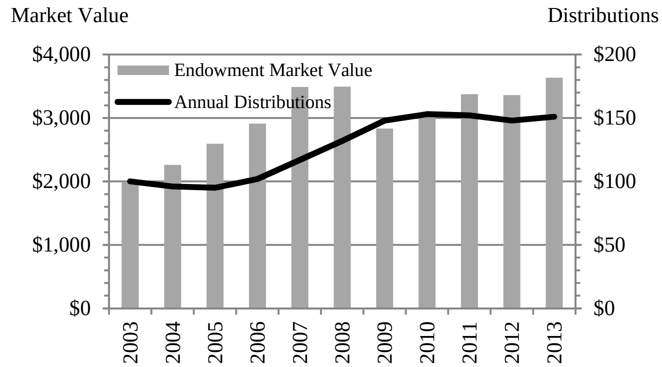
Endowment

For fiscal 2013, Vanderbilt's endowment portfolio returned 9.3%. The endowment ended fiscal 2013 with a $3,635 million total market value compared to $3,360 million in fiscal 2012. The difference between the investment return and change in absolute value of the endowment reflects the net impact of new endowment gifts, additions to institutional endowments (quasi-endowments), investment returns, costs for managing the endowment, and the distribution of endowment funds to support university operations. During fiscal 2013, the university added $117 million to the endowment portfolio through new gifts and additions to institutional endowments (quasi-endowments). Endowment distributions totaled $151 million in fiscal 2013, compared to $148 million in fiscal 2012. These distributions were used to support the university's education, research, and public service missions.

The last 12 months saw a continuation of the equity bull market that began in March 2009 on the back of unprecedented accommodative monetary policies by central banks across the world, particularly the U.S. Federal Reserve. Global equity markets rallied 17%, with the United States, Japan, and Europe excluding UK each posting returns greater than 20% and significantly outperforming the so-called BRICs (Brazil, Russia, India, and China) which collectively posted another lackluster year. Treasuries struggled with the long end of the yield curve declining almost -9% while gold and silver both lost their shine, declining –27% and –36%, respectively.

Vanderbilt's endowment benefited from the market rally as most asset classes posted positive returns. As we look to the future, we believe there are multiple headwinds still ahead—U.S. unemployment remains stubbornly high, the fiscal crisis in Europe still looms large, emerging markets continue to face increased inflationary pressures and sluggish growth, and there does not seem to be an end in sight to the multiple geopolitical crises confronting the world. In addition, conversations about when the U.S. Federal Reserve will end its asset buying program continue to drive recent market volatility. That said, we believe these challenges will present great opportunities as we lay the foundation for a resilient portfolio by focusing on strong risk management and partnering with best-in-class investment managers across the globe.

Endowment Market Value and Annual Distributions
in millions



Endowment Asset Allocation
June 2013 (% of portfolio)

	Actual	Target
Global equities	28.1%	35.0%
Absolute return	22.8	25.0
Fixed income	5.1	10.0
Cash and cash equivalents	0.4	-
Total marketable	**56.4**	**70.0**
Private markets	28.3	15.0
Real estate	6.7	7.5
Natural resources	8.6	7.5
Total nonmarketable	**43.6**	**30.0**
Total endowment	**100.0%**	**100.0%**

Conclusion

Although the economy still holds its challenges for the future, especially related to uncertainty surrounding government funding and health care reform, we continue to stay focused on operating effectively and efficiently to protect Vanderbilt's financial health and provide resources to areas of high importance to continue to fulfill our mission and serve the community.

Vanderbilt ended fiscal 2013 in a strong financial position with $5.3 billion in net assets. This is a strong platform to build upon to sustain our excellence. Vanderbilt's audited financial statements, financial ratios, and other key financial metrics are included in the pages that follow.

Financial Ratios

Expendable Net Assets to Debt
Expendable Net Assets / Project Debt and Lease Commitments

2009	2010	2011	2012	2013
1.9x	2.1x	2.3x	2.4x	2.7x

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 in fiscal 2013 as the result of a net increase in endowment market value, a decrease in interest rate exchange agreements portfolio liability, and a decline in outstanding debt, tempered by a net operating loss. The improvement in fiscal 2012 was the result of positive operating results and a decline in outstanding debt, tempered by a net decrease in endowment market value and an increase in interest rate exchange agreements portfolio liability. 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

2009	2010	2011	2012	2013
3.2x	3.6x	4.0x	4.1x	2.1x

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 decreased in fiscal 2013 as the result of a decrease in operating results tempered by a slight decrease in normalized debt service. Although the debt portfolio's effective interest rate, which includes the impact of interest rate exchange agreements, increased slightly in fiscal 2013, average outstanding debt decreased in fiscal 2013 resulting in a favorable impact on normalized annual debt service. The improvement in fiscal 2012 was primarily the result of positive operating results. Vanderbilt aims to maintain a debt service coverage ratio of at least 2.0.

Debt Service Burden
Normalized Annual Debt Service / Unrestricted Operating Expenses

2009	2010	2011	2012	2013
2.7%	3.3%	2.9%	2.8%	2.6%

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 2013 and 2012 primarily due to an increase in operating expenses. Normalized debt service decreased slightly in fiscal 2013. Vanderbilt aims to maintain a debt service burden below 5.0%.

Operating Cash Flow Margin
Unrestricted Operating Results before Interest and Depreciation / Unrestricted Operating Revenues

2009	2010	2011	2012	2013
8.7%	11.4%	11.1%	10.9%	5.5%

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 2013, Vanderbilt's unrestricted operating results before interest and depreciation decreased 50.0% to $199 million from $398 million in fiscal 2012. Fiscal 2013 unrestricted operating revenues, at $3,625 million, represent a 1.1% decrease from $3,665 million in fiscal 2012.

Capital Intensiveness Ratio
Acquisitions of Property, Plant, and Equipment / Unrestricted Operating Revenues

2009	2010	2011	2012	2013
8.5%	5.2%	3.6%	3.9%	6.2%

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 2013 as spending on major capital projects increased in accordance with the university's capital plan.

Average Age of Plant
Accumulated Depreciation / Depreciation Expense

2009	2010	2011	2012	2013
9.5 yrs	10.0 yrs	10.2 yrs	11.2 yrs	11.8 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.

During fiscal 2013, Vanderbilt's spending on major capital projects increased in accordance with the university's capital plan; however, construction was still in progress for the Critical Care Tower Phase 2, College Halls at Kissam, and Alumni Hall renovation as of June 30, 2013.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

pwc

Independent Auditor's Report
Board of Trust
Vanderbilt University

We have audited the accompanying consolidated financial statements of Vanderbilt University (the "University"), which comprise the consolidated statement of financial position as of June 30, 2013 and June 30, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanderbilt University at June 30, 2013 and June 30, 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 18, 2013

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
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Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2013 and 2012 (in thousands)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 845,472	$ 912,419
Accounts receivable, net	413,172	518,566
Prepaid expenses and other assets	85,675	82,167
Contributions receivable, net	70,302	72,334
Student loans and other notes receivable, net	43,582	45,409
Investments	4,141,408	3,872,014
Investments allocable to noncontrolling interests	186,901	201,386
Property, plant, and equipment, net	1,781,293	1,727,611
Interests in trusts held by others	38,091	39,257
Total assets	**$ 7,605,896**	**$ 7,471,163**
LIABILITIES		
Accounts payable and accrued liabilities	$ 226,643	$ 228,422
Accrued compensation and withholdings	235,169	245,859
Deferred revenue	93,029	118,826
Actuarial liability for self-insurance	107,514	105,543
Actuarial liability for split-interest agreements	33,968	34,171
Government advances for student loans	22,052	22,113
Commercial paper	214,011	264,075
Long-term debt and capital leases	1,127,458	1,117,029
Fair value of interest rate exchange agreements, net	206,733	315,577
Total liabilities	**2,266,577**	**2,451,615**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	2,784,933	2,559,802
Unrestricted net assets related to noncontrolling interests	186,901	201,386
Total unrestricted net assets	2,971,834	2,761,188
Temporarily restricted net assets	1,235,066	1,191,216
Permanently restricted net assets	1,132,419	1,067,144
Total net assets	**5,339,319**	**5,019,548**
Total liabilities and net assets	**$ 7,605,896**	**$ 7,471,163**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2013 (in thousands)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 265,962	$ -	$ -	$ 265,962
Grants and contracts:				
Government sponsors	377,839	-	-	377,839
Private sponsors	61,714	-	-	61,714
Facilities and administrative costs recovery	142,609	-	-	142,609
Total grants and contracts	582,162	-	-	582,162
Contributions	37,940	12,388	60,340	110,668
Endowment distributions	144,801	4,476	1,279	150,556
Investment income	19,675	854	1,337	21,866
Health care services	2,394,341	-	-	2,394,341
Room, board, and other auxiliary services, net	112,929	-	-	112,929
Other sources	53,285	-	-	53,285
Net assets released from restrictions	14,322	(14,322)	-	-
Total revenues and other support	**3,625,417**	**3,396**	**62,956**	**3,691,769**
EXPENSES				
Instruction	489,458	-	-	489,458
Research	447,251	-	-	447,251
Health care services	2,326,339	-	-	2,326,339
Public service	34,039	-	-	34,039
Academic support	158,581	-	-	158,581
Student services	40,921	-	-	40,921
Institutional support	51,518	-	-	51,518
Room, board, and other auxiliary services	120,993	-	-	120,993
Total expenses	**3,669,100**	**-**	**-**	**3,669,100**
Change in unrestricted net assets from operating activity	**(43,683)**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	73,019	96,231	-	169,250
Change in appreciation of self-insurance assets	5,232	-	-	5,232
Change in appreciation of other investments	23,149	-	-	23,149
Change in appreciation of interest rate exchange agreements	108,844	-	-	108,844
Contributions for plant	3,757	1,779	-	5,536
Net assets released from restrictions for plant	49,262	(49,262)	-	-
Donor designation changes	5,975	(8,294)	2,319	-
Other	(424)	-	-	(424)
Total other changes in net assets	**268,814**	**40,454**	**2,319**	**311,587**
Increase in net assets controlled by Vanderbilt	**225,131**	**43,850**	**65,275**	**334,256**
Decrease in net assets related to noncontrolling interests	**(14,485)**	**-**	**-**	**(14,485)**
Total increase in net assets	**$ 210,646**	**$ 43,850**	**$ 65,275**	**$ 319,771**
Net assets, June 30, 2012	**$ 2,761,188**	**$ 1,191,216**	**$ 1,067,144**	**$ 5,019,548**
Net assets, June 30, 2013	**$ 2,971,834**	**$ 1,235,066**	**$ 1,132,419**	**$ 5,339,319**

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

Vanderbilt University
Consolidated 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	477,749	-	-	477,749
Research	435,510	-	-	435,510
Health care services	2,220,928	-	-	2,220,928
Public service	45,702	-	-	45,702
Academic support	145,317	-	-	145,317
Student services	35,897	-	-	35,897
Institutional support	37,743	-	-	37,743
Room, board, and other auxiliary services	108,554	-	-	108,554
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 Statements of Cash Flows

Years Ended June 30, 2013 and 2012 (in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in total net assets	**$ 319,771**	**$ (70,971)**
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Decrease (increase) in net assets related to noncontrolling interests	14,485	(2,137)
Net realized gains on investments	(212,662)	(56,783)
Net decrease in unrealized appreciation on investments	15,035	39,985
Contributions for plant and endowment	(72,180)	(59,069)
Contributions of securities other than for plant and endowment	(14,577)	(10,095)
Depreciation and amortization	174,330	172,718
Amortization and reclassification of bond discounts and premiums	(4,922)	1,430
Net (increase) decrease in fair value of interest rate exchange agreements	(108,844)	180,551
(Increase) decrease in:		
Accounts receivable, net of accrued investment income	105,463	(81,640)
Prepaid expenses and other assets	(3,508)	(3,411)
Contributions receivable	2,032	6,238
Interests in trusts held by others	1,166	105
Increase (decrease) in:		
Accounts payable and accrued liabilities, net of nonoperating items	(9,807)	(14,126)
Accrued compensation and withholdings	(10,690)	20,499
Deferred revenue	(25,797)	(6,632)
Actuarial liability for self-insurance	1,971	(5,805)
Actuarial liability for split-interest agreements	(203)	1,396
Net cash provided by operating activities	**171,063**	**112,253**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,770,165)	(2,412,099)
Proceeds from sales of investments	3,712,975	2,231,160
Purchases of investments allocable to noncontrolling interests	(16,398)	(38,707)
Proceeds from sales of investments allocable to noncontrolling interests	65,208	40,815
Increase in accrued investment income	(69)	(239)
Acquisitions of property, plant, and equipment	(223,968)	(143,089)
Proceeds from disposals of property, plant, and equipment	3,984	3,404
Student loans and other notes receivable disbursed	(3,747)	(10,090)
Principal collected on student loans and other notes receivable	5,574	4,888
Net cash used in investing activities	**(226,606)**	**(323,957)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for plant and endowment	72,180	59,069
(Decrease) increase in government advances for student loans	(61)	1,077
Proceeds from debt issuances	169,603	180,231
Payments to retire or defease debt	(204,316)	(243,950)
Proceeds from noncontrolling interests in investment partnerships	16,398	38,707
Payments to noncontrolling interests in investment partnerships	(65,208)	(40,815)
Net cash used in financing activities	**(11,404)**	**(5,681)**
Net decrease in cash and cash equivalents	**$ (66,947)**	**$ (217,385)**
Cash and cash equivalents at beginning of year	**$ 912,419**	**$ 1,129,804**
Cash and cash equivalents at end of year	**$ 845,472**	**$ 912,419**

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

Vanderbilt University
Notes to the Consolidated Financial Statements

1. Organization

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

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 plan; and Vanderbilt Health Services, Inc. (VHS), which includes wholly owned and joint ventured businesses primarily comprised of community physician practices, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, and a rehabilitation hospital.

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 2013 and 56.0% in fiscal

2012. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2013 and 2012.

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.

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.

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.

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

Reclassifications within functional expenses and accounts receivable have been made to prior year amounts to conform to the current year presentation.

Subsequent Events

On September 10, 2013, Vanderbilt terminated a $40.0 million notional fixed-payor interest rate exchange agreement with Goldman Sachs at a cost of $6.5 million to reduce interest rate exchange collateral exposure and to eliminate ongoing carrying costs.

3. Accounts Receivable

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

	2013	2012
Patient care	$ 439,999	$ 535,654
Tuition/fees, grants, and other	95,086	103,861
Accrued investment income	2,079	2,010
Accounts receivable, gross	537,164	641,525
Less: Allowance for bad debts	123,992	122,959
Accounts receivable, net	**$ 413,172**	**$ 518,566**
Days receivable	*41.6*	*51.0*

Gross patient care receivables represented 81.9% and 83.5% of total gross receivables as of June 30, 2013 and 2012, 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, or other commercial insurance policies).

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

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

	2013	2012
Medicare	$ 54,221	$ 52,282
TennCare/Medicaid	40,480	65,860
Blue Cross	64,910	79,578
Other commercial carriers	84,707	136,195
Patient responsibility	30,941	43,571
Total Hospital receivables, net	**$ 275,259**	**$ 377,486**

Patient care bad debt charges, reported as a reduction to health care services revenue on the consolidated statements of activities, totaled $65.3 million and $65.7 million as of June 30, 2013 and 2012, respectively (both recorded at gross charge level).

4. Contributions Receivable

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

	2013	2012
Unconditional promises expected to be collected:		
in one year or less	$ 32,285	$ 31,621
between one year and five years	48,229	50,659
in more than five years	1,122	3,509
Contributions receivable	81,636	85,789
Less: Unamortized discount	1,065	1,798
Less: Allowance for uncollectible promises	10,269	11,657
Contributions receivable, net	**$ 70,302**	**$ 72,334**

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2013, and June 30, 2012, generally were discounted at rates ranging from 0.5% to 1.5%.

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 had cumulative bequest intentions of approximately $244.0 million and $246.5 million as of June 30, 2013 and 2012, 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)*:

	2013	2012
Contributions receivable, net:		
Temporarily restricted	$ 26,555	$ 32,741
Permanently restricted	43,747	39,593
Total	**$ 70,302**	**$ 72,334**

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)*:

	2013		2012	
	Net Receivable	**Related Allowance**	**Net Receivable**	**Related Allowance**
Federal loans	$ 18,223	$ 1,765	$ 17,979	$ 1,780
Institutional loans	18,376	2,752	20,240	2,733
Faculty mortgages	6,983	-	7,190	-
Student loans and other notes receivable, net	**$ 43,582**		**$ 45,409**	

Vanderbilt remains committed to "no-loans" for its undergraduate students, meaning that the university is meeting full demonstrated financial need with scholarship and grant assistance. For other groups (e.g., professional school 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.

Included in institutional loans as of June 30, 2013, is an outstanding note receivable of $3.6 million from McKendree Village, LLC, an affiliate of Vanderbilt that has sold all of its operations and is in the process of dissolving. Because it is unlikely McKendree Village, LLC, will be able to repay this debt, it has been fully reserved in the consolidated financial statements.

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 $7.0 million were outstanding at June 30, 2013. 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)*:

	2013	2012
Derivative contract collateral and short-term securities[1]	$ 93,632	$ 259,835
Equity investments		
Developed market equities [2]	652,091	138,400
Emerging market equities [2]	367,423	379,499
Fixed income [1]	268,710	451,220
Absolute return [2]	905,344	678,064
Other hedge funds [2]	92,596	360,369
Private equity [3]	766,243	745,136
Venture capital [3]	488,936	433,306
Real estate [3]	320,124	322,856
Natural resources [3]	341,942	274,183
Equity method securities and trusts[4]	19,853	18,082
Other investments[4]	11,415	12,450
Total fair value	**$ 4,328,309**	**$ 4,073,400**
Total cost	**$ 3,849,347**	**$ 3,570,332**

[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 2013, the minority limited partners funded capital commitments totaling $16.4 million. Additionally, Vanderbilt made payments to the minority limited partners of $65.2 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2013, the minority limited partners' interests in the results of the underlying returns from the private fund assets were $210.4 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $186.9 million as of June 30, 2013.

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, 2013, $725.8 million was available on a same-day basis and an additional $1,139.3 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 $278.7 million and $729.2 million as of June 30, 2013 and 2012, 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

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 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 2013 and 2012, 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*):

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 23,454	$ 1,021,892	$ 1,045,346
Accumulated net appreciation of donor-restricted endowments	-	1,136,106	-	1,136,106
Reinvested distributions of donor-restricted endowments				
At historical value	137,686	1,642	-	139,328
Accumulated net appreciation	156,864	1,927	-	158,791
Institutional endowments				
At historical value	265,684	-	-	265,684
Accumulated net appreciation	890,088	-	-	890,088
Endowment net assets as of June 30, 2013	**$ 1,450,322**	**$ 1,163,129**	**$ 1,021,892**	**$ 3,635,343**

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**

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

	2013	2012
Net realized appreciation less endowment distributions	$ 1,838,135	$ 1,644,115
Net unrealized appreciation	346,850	382,043
Total	**$ 2,184,985**	**$ 2,026,158**

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, 2013 and 2012, Vanderbilt had deficiencies of this nature of approximately $6 million consisting of 139 endowments and $11 million consisting of 328 endowments, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature.

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

2013

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

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**

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)*:

	2013	2012
OPERATING		
Unrestricted:		
Endowment distributions	$ 144,801	$ 136,883
Investment income	19,675	19,831
Total operating return	**164,476**	**156,714**
NONOPERATING		
Unrestricted:		
Change in appreciation of institutional endowments, net of distributions	73,019	(31,447)
Change in appreciation of self-insurance assets	5,232	876
Investment (loss) income	23,149	(2,476)
Temporarily restricted:		
Endowment distributions	4,476	8,565
Investment income	854	276
Change in appreciation of donor-restricted endowments, net of distributions	96,231	(62,982)
Permanently restricted:		
Endowment distributions	1,279	2,447
Investment (loss) income	1,337	(969)
Total nonoperating return	**205,577**	**(85,710)**
Total investment return	**$ 370,053**	**$ 71,004**

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

	2013	2012
Net interest, dividend, and partnership income	$ 173,743	$ 54,210
Net realized gains from original cost	212,662	56,783
Change in unrealized appreciation	(16,352)	(39,989)
Total investment return	**$ 370,053**	**$ 71,004**

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 $10.4 million in fiscal 2013 and $8.7 million in fiscal 2012.

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $9.6 million and $9.0 million in fiscal 2013 and 2012, respectively.

9. Property, Plant, and Equipment

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

	2013	2012
Land	$ 73,897	$ 73,859
Buildings and improvements	2,714,757	2,657,197
Moveable equipment	892,230	879,482
Construction in progress	160,893	55,264
Property, plant, and equipment	3,841,777	3,665,802
Less: Accumulated depreciation	2,060,484	1,938,191
Property, plant, and equipment, net	**$ 1,781,293**	**$ 1,727,611**

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, 2013, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled about $359 million.

No interest was capitalized in either fiscal 2013 or fiscal 2012.

Internally developed software costs of $5.4 million and $7.5 million were capitalized in fiscal 2013 and 2012, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $19.9 million and $20.0 million as of June 30, 2013 and 2012, 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, 2013	Fiscal 2013 Effective Interest Rate[2]	Outstanding Principal 2013	Outstanding Principal 2012
FIXED-RATE DEBT					
Series 2008A	6	4.50%-5.00%	4.0%	$ 117,600	$ 122,600
Series 2008B[1]	6	4.00%-5.00%	3.9%	95,660	105,710
Series 2009A	27	4.00%-5.50%	4.9%	97,100	97,100
Series 2009B[1]	27	5.00%-5.50%	5.0%	232,900	232,900
Series 2009A Taxable	6	5.25%	5.3%	250,000	250,000
Series 2012C	5	2.00%-5.00%	1.1%	25,875	42,315
Series 2012D	25	3.00%-5.00%	3.2%	106,230	-
Series 2012E	7	2.00%-5.00%	0.8%	45,225	-
Fixed-rate debt			4.4%	**970,590**	**850,625**
VARIABLE-RATE DEBT					
Series 2000A			0.3%	-	53,300
Series 2005A			0.3%	-	68,000
Series 2012A	26		0.5%	67,000	67,000
Series 2012B	26		0.7%	67,000	67,000
Variable-rate debt			0.6%	**134,000**	**255,300**
Par amount of long-term debt			3.8%	1,104,590	1,105,925
Net unamortized premium			-	22,341	9,115
Total long-term debt			3.8%	1,126,931	1,115,040
Capital leases	1 to 2		6.0%	527	1,989
Total long-term debt and capital leases			**3.8%**	**1,127,458**	**1,117,029**
Tax-exempt commercial paper	<1		0.3%	99,205	149,205
Taxable commercial paper	<1		0.3%	114,806	114,870
Total commercial paper			**0.3%**	**214,011**	**264,075**
Total long-term debt, capital leases, and commercial paper			**3.2%**	**$ 1,341,469**	**$ 1,381,104**

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

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements. 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 $328.6 million as of June 30, 2013, 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, 2013.

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

	2013	2012
Payments for interest costs	$ 71,475	$ 72,125
Accrued interest expense	$ 68,108	$ 67,977

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)*:

2014	$ 38,465
2015	40,240
2016	54,245
2017	44,875
2018	47,070
Thereafter	879,695
Total long-term debt principal retirements	**$ 1,104,590**

In addition to scheduled principal and interest payments on long-term debt obligations, Vanderbilt's capital lease agreements outstanding as of June 30, 2013, will require payments of $0.4 million during fiscal 2014. Of those payments, $0.4 million will be allocated toward amortizing the $0.5 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 floating-rate notes or CP in the event of failed remarketings, on mandatory tender dates, or scheduled maturities as described in the following paragraphs.

Vanderbilt had $134.0 million of variable-rate bonds outstanding as of June 30, 2013, consisting entirely of floating-rate notes with mandatory tender dates of October 1, 2015 and 2017.

As of June 30, 2013, Vanderbilt had $99.2 million of tax-exempt CP outstanding and $114.8 million of taxable CP outstanding. Vanderbilt can issue up to a combined $675.0 million under its tax-exempt and taxable CP programs. However, issuance of incremental taxable CP beyond that outstanding as of June 30, 2013, 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 106 days as of June 30, 2013, and 151 days as of June 30, 2012.

Liquidity support for debt with short-term remarketing periods (CP totaling $214.0 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2013, Vanderbilt estimates that $725.8 million of liquid assets were available on a same-day basis and an additional $1,139.3 million was available within 30 days.

A second tier of liquidity support consists of two bank revolving credit facilities with maximum available commitments totaling $400.0 million as of June 30, 2013, dedicated to Vanderbilt's debt portfolio liquidity support; one of these lines totaling $200.0 million includes a general use provision. These commitments expire in March 2014 and March 2016. The maximum repayment period, which may extend beyond the expiration date, ranges from 90 days to three years. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has also entered into an agreement with one bank to provide a general use line of credit with a maximum available commitment totaling $100.0 million as of June 30, 2013. This line of credit expires in October 2014. No amounts were drawn on these credit facilities as of June 30, 2013, or June 30, 2012.

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*):

	2013	2012
Carrying value of long-term debt	$ 1,126,931	$ 1,115,040
Market value of long-term debt	$ 1,196,940	$ 1,205,749

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 November 29, 2012, Vanderbilt issued Series 2012D and 2012E bonds aggregating $151.4 million for the purpose of redeeming weekly reset variable-rate debt and tax-exempt commercial paper. The Series 2012D fixed-rate bonds were issued in the par amount of $106.2 million and include an original issue premium of $13.4 million. The proceeds from Series 2012D were used to fund the full redemption of Vanderbilt's variable-rate Series 2000A and 2005A-1. The Series 2012D bonds have an average coupon of 3.9% and a final maturity of October 1, 2037. The Series 2012E fixed-rate bonds were issued in the par amount of $45.2 million and include an original issue premium of $4.8 million. The proceeds from Series 2012E were used to refund $50.0 million of tax-exempt commercial paper. The Series 2012E bonds are noncallable with an average coupon of 3.5% and a final maturity of October 1, 2019.

None of Vanderbilt's fixed-rate debt has a mandatory tender date preceding the respective final maturity date. The Series 2008A and 2008B bonds include amortizing principal amounts each year but these bonds are noncallable before their October 2018 final maturity date. The Series 2009A and 2009B bonds include amortizing principal amounts each year beginning fiscal 2016 and 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 each year, excluding October 2015, until their final maturity in October 2017. The Series 2012D bonds include amortizing principal amounts each year beginning in fiscal 2021 and may be called at par beginning October 2023. The Series 2012E bonds include annual amortizing principal amounts beginning October 2013, until their final maturity in October 2019.

11. Interest Rate Exchange Agreements

Vanderbilt 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 $25.8 million and $25.5 million in fiscal 2013 and 2012, 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 $206.7 million and a liability of $315.6 million as of June 30, 2013 and 2012, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2013 or 2012. In October 2012, Vanderbilt novated $200 million of fixed-payor interest rate exchange agreements in order to diversify counterparty risk and reduce the university's aggregate collateral posting requirements. Following the novation and scheduled amortizations, Vanderbilt had $718.2 million of aggregate fixed-payor interest rate exchange agreements outstanding for which the university receives 68.3% of one-month LIBOR and pays a weighted average fixed rate of 3.78%.

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 gains of $108.9 million in fiscal 2013 and net losses of $180.6 million in fiscal 2012.

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, 2013 and 2012, totaled $95.1 million and $236.2 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 $420 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $280 million. As of June 30, 2013, 30-year LIBOR was 3.45%.

As of June 30, 2013, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payor interest rate exchange agreements, was approximately 128% 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**	**2013**	**2012**
Fixed-payor interest rate exchange agreements[1]	Avg fixed rate of 3.78%	Avg of 68.3% of one-month LIBOR[2]	18 to 32 years	$ 718,200	$ 721,600
Basis interest rate exchange agreements	SIFMA[3]	Avg of 81.5% of one-month LIBOR[2]	22 to 23 years	$ 500,000	$ 500,000

[1] For one amortizing fixed-payor interest rate exchange agreement that has a notional balance of $51.6 million as of June 30, 2013, 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)*:

	2013	2012
Designated for operations	$ 688,845	$ 693,025
Designated gifts and grants	103,438	118,023
Designated for student loans	23,096	22,480
Designated for plant facilities	725,965	714,944
Reinvested distributions of donor-restricted endowments at historical value	137,686	133,836
Accumulated net appreciation of reinvested distributions	156,864	144,321
Institutional endowments at historical value	265,684	208,716
Accumulated net appreciation of institutional endowments	890,088	840,034
Fair value of interest rate exchange agreements, net	(206,733)	(315,577)
Net assets related to noncontrolling interests	186,901	201,386
Total unrestricted net assets	**$ 2,971,834**	**$ 2,761,188**

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

	2013	2012
Donor-restricted endowments at historical value	$ 23,454	$ 26,889
Accumulated net appreciation of donor-restricted endowments	1,136,106	1,040,036
Reinvested distributions of donor-restricted endowments at historical value	1,642	1,641
Accumulated net appreciation of reinvested distributions	1,927	1,767
Contributions	52,335	101,603
Interests in trusts held by others	6,233	6,826
Life income and gift annuities	13,369	12,454
Total temporarily restricted net assets	**$ 1,235,066**	**$ 1,191,216**

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

	2013	2012
Student scholarships	$ 391,674	$ 353,543
Endowed chairs	332,416	301,373
Operations	258,606	234,383
Program support	90,481	81,097
Capital improvements	11,505	16,183
Subsequent period operations and other	150,384	204,637
Total temporarily restricted net assets	**$ 1,235,066**	**$ 1,191,216**

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

	2013	2012
Donor-restricted endowments at historical value	$ 1,021,892	$ 962,796
Contributions	44,255	40,101
Interests in trusts held by others	31,859	32,431
Life income and gift annuities	34,413	31,816
Total permanently restricted net assets	**$ 1,132,419**	**$ 1,067,144**

Based on relative fair values as of June 30, 2013, donor-restricted endowments supported the following:

	2013	2012
Financial aid	34%	34%
Endowed chairs	29%	29%
Operations	22%	21%
Program support	8%	8%
Research, lectureships, fellowships, and other	7%	8%
Total support	**100%**	**100%**

13. Fair Value Measurement

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

Level 1 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 is based on the lowest level input that is significant to the fair value measurement.

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

All net realized and unrealized gains and losses on level 3 investments are reflected in the consolidated statements of activities as changes in endowment appreciation or 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, 2012	Realized and unrealized gains (losses)	Purchases	Sales	Transfers into and (out) of level 3	June 30, 2013	Change in unrealized gains (losses) for investments still held at June 30, 2013
LEVEL 3 ASSETS							
Developed market equities	$ 32,523	2,552	193,470	(206,288)	-	22,257	(96,679)
Emerging market equities	108,343	(2,354)	-	(13,000)	-	92,989	(2,354)
Fixed income	19,754	(652)	1,503	(2,339)	774	19,040	2,898
Absolute return	507,989	52,613	116,975	(147,536)	-	530,041	48,981
Other hedge funds	191,688	1,410	91,186	(191,688)	-	92,596	1,410
Private equity	745,136	83,745	114,456	(177,094)	-	766,243	18,218
Venture capital	433,306	55,894	61,968	(63,080)	-	488,088	28,053
Real estate	322,856	16,224	39,790	(58,194)	(552)	320,124	(17,864)
Natural resources	274,183	2,951	170,477	(105,669)	-	341,942	(1,763)
Equity method securities and trusts	18,082	11,265	853	(1,824)	(8,523)	19,853	4,878
Other investments	12,309	(1,193)	60	-	-	11,176	5
Interests in trusts held by others	39,257	(1,166)	-	-	-	38,091	(1,061)
Total Level 3	**$ 2,705,426**	**$ 221,289**	**$ 790,738**	**$ (966,712)**	**$ (8,301)**	**$ 2,742,440**	**$ (15,278)**

	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**

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, 2013, 86% 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, 2013, 74%, 64%, and 76% 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, 2013, 20% 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, 6% 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, 2013. 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)*:

2013

	-------------------- 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	$ 845,472	$ -	$ -	$ 845,472	**86%**	**Daily**	**same-day**
					14%	**Daily**	**2-90 days**
Derivative contract collateral and short-term securities	93,632	-	-	93,632	**100%**	**n/a**	**n/a**
Equity investments:							
Developed market equities	625,101	4,733	22,257	652,091	**74%**	**Daily**	**2-30 days**
					15%	**Daily**	**next day**
					10%	**Daily**	**>30 days**
					1%	**Annually**	**>30 days**
Emerging market equities	274,434	-	92,989	367,423	**64%**	**Daily**	**2-30 days**
					24%	**Monthly**	**>30 days**
					12%	**Quarterly**	**>30 days**
Fixed income	249,670	-	19,040	268,710	**76%**	**Daily**	**next-day**
					24%	**Daily**	**>30 days**
Absolute return	59,915	315,388	530,041	905,344	**44%**	**Quarterly**	**>30 days**
					16%	**Annually**	**>30 days**
					26%	**Lockup**	**>30 days**
					13%	**n/a**	**>30 days**
					1%	**n/a**	**n/a**
Other hedge funds	-	-	92,596	92,596	**100%**	**Annually**	**>30 days**
Private equity	-	-	766,243	766,243	**1%**	**n/a**	**>30 days**
					99%	**n/a**	**n/a**
Natural resources	-	-	341,942	341,942	**81%**	**n/a**	**n/a**
					19%	**Quarterly**	**>30 days**
Venture capital	848	-	488,088	488,936	**100%**	**>1yr**	**n/a**
Real estate	-	-	320,124	320,124	**100%**	**>1yr**	**n/a**
Equity method securities and trusts	-	-	19,853	19,853	**100%**	**>1yr**	**n/a**
Other investments	239	-	11,176	11,415	**100%**	**>1yr**	**n/a**
Interests in trusts held by others	-	-	38,091	38,091	**100%**	**n/a**	**n/a**
Total assets reported at fair value	**$ 2,149,311**	**$ 320,121**	**$ 2,742,440**	**$ 5,211,872**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ -**	**$ 206,733**	**$ -**	**$ 206,733**			

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**			

14. Retirement Plans

Vanderbilt's full-time faculty and staff members participate in defined contribution retirement plans administered by third-party investment and insurance firms. For eligible employees with one year of continuous service, these plans require employee and matching employer contributions. 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 2013 and 2012 were $63.0 million and $59.8 million, respectively.

15. 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 2013 and 2012, financial aid for tuition and educational fees of $209.9 million and $199.3 million was applied to gross tuition and educational fees of $475.9 million and $449.4 million, respectively. In fiscal 2013 and 2012, financial aid for room and board of $29.2 million and $28.8 million was applied to gross room and board of $69.0 million and $70.1 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, 2013 and 2012.

16. Natural Classification of Expenses and Allocations

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

	2013	2012
Salaries, wages, and benefits	$ 2,277,192	$ 2,195,716
Services	208,796	188,488
General expenses and supplies	780,529	726,116
Depreciation and amortization	174,330	172,718
Interest	68,108	67,977
Utilities, operating leases, and other	160,145	156,385
Total operating expenses	**$ 3,669,100**	**$ 3,507,400**

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)*:

2013

	Depreciation	Interest
Instruction	$ 19,274	$ 3,086
Research	26,784	6,022
Health care services	80,239	41,319
Public service	821	103
Academic support	8,419	1,155
Student services	1,249	355
Institutional support	14,809	1,948
Room, board, and other auxiliary services	22,735	14,120
Total	**$ 174,330**	**$ 68,108**

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**

17. Charity Care Assistance and Community Benefits

VUMC (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 total cost of uncompensated care (comprising charity care and bad debt) was $137.8 million and $134.3 million for fiscal 2013 and 2012, respectively. Of the total uncompensated care, charity care represented 85.3% and 84.8% in fiscal 2013 and 2012, respectively.

In addition to the charity care services described above, the medical center provides a number of other services to benefit the economically disadvantaged for which 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 2013 and 2012 was $64.7 million and $56.1 million, respectively.

As of June 30, 2013, 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)*:

2014	$ 40,428
2015	38,362
2016	30,270
2017	25,079
2018	19,879
Thereafter	37,315
Total future minimum rentals	**$ 191,333**

20. Commitments and Contingencies

(A) *Construction.* As of June 30, 2013, approximately $123.7 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 ($81.0 million); Vanderbilt Recreation and Wellness Center expansion ($14.0 million); and floor build-outs in the Critical Care Tower of the adult hospital ($10.8 million).

(B) *Litigation.* Vanderbilt is a defendant in several legal actions. One such legal action is a qui tam civil action related to billing and government reimbursement for certain professional health care services provided by the Vanderbilt University Medical Center. The lawsuit is related to an ongoing civil investigation by the U.S. Department of Justice and the Office of Inspector General for the Department of Health and Human Services and Vanderbilt is fully cooperating with the investigation. Vanderbilt believes that the outcome of these actions will not have a significant effect on its consolidated financial position.

(C) *Regulations.* Vanderbilt's compliance with regulations and laws is subject to future government reviews and interpretations, as well as regulatory actions unknown 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 payors 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, 2010. Final settlements relative to periods through June 30, 2011, are expected to be complete during fiscal 2014.

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

(I) *Partnership Investment Commitments.* There were $555.3 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2013. 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 $21.8 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.