Vanderbilt University | 2010 Financial Report

VANDERBILT UNIVERSITY

Vanderbilt University
Office of the Vice Chancellor for Finance and Chief Financial Officer
October 2010

Table of Contents

Letter from the Chancellor

As our nation and globe continue to struggle through the "Great Recession," it would be perfectly reasonable to expect Vanderbilt to have spent the past year retrenching or in a steady state—but we did much more. Compared to this time last year, we have done very well for ourselves. We have every reason to be proud.

Our bottom-line operating results were $134 million, the best year in Vanderbilt's history, and substantially better than last year. Importantly, the institution saw gains across all operating divisions—the schools of medicine and nursing, the hospitals and clinics, the provost's areas, athletics, and academic support units.

This year Vanderbilt was able to open the hospital's new Critical Care Tower and complete extensive renovations to the Old Gym and Cohen Memorial Hall. And thanks to record-level funding, including grants made possible by the American Recovery and Reinvestment Act of 2009, we have been able to sustain and advance many important research projects that have received national attention.

I am pleased to say that even with several major capital projects on the horizon—two new residential colleges replacing Kissam Quad, a new life sciences and engineering building, and an addition to the Monroe Carell Jr. Children's Hospital at Vanderbilt—we do not foresee taking on any new debt in the near future.

One thing I am especially looking forward to in the coming year is Vanderbilt's continued growth as a great research and teaching institution. We added 100 new faculty members to our community last year and will be adding 60 endowed faculty chairs over the next two years. In addition, continued aggressive recruitment of top faculty for all ranks and across all disciplines will add even greater strength to our academic programs and rigor.

Last year Vanderbilt was awarded nearly $615 million in external research funding. This tremendous figure not only confirms the quality of our faculty and the work they do, but also allows us to develop strong interdisciplinary initiatives that make Vanderbilt unique among its peer institutions.

The university recently welcomed the newest members of its community—1,600 phenomenally talented freshmen. I am very pleased to add that Vanderbilt will continue to be able to honor the "no-loan" financial aid commitment made to our students last year.

The strength of the Opportunity Vanderbilt campaign, which supports the university's expanded aid program, is in large part thanks to our donors. It is no secret that Vanderbilt would not be the incredible place of opportunity and discovery that it is without the extraordinary generosity of the Ingram family and a few others, and looking forward, we hope more leaders will be moved to give at such transformative levels. The recession impacted our campaign results, but not nearly as badly as it could have, and we are grateful to all those who stood by us during those difficult days.

Some challenges remain. For each of the past five years, Vanderbilt has been able to raise more than $100 million in gifts, and now it is time to raise that goal to $200 million. Approximately 81 percent of our research dollars are federally funded, so we must protect our mission against fluctuations in the national budget. While historically low interest rates are welcome news for almost everything else, they do weaken the university's portfolio of interest rate exchange agreements. Finally, we want to reinforce our "rainy day" cash fund and follow through on some important long-term building and campus maintenance, so continued careful spending is vital.

With all of our success we should be proud of progress gained but plan boldly for Vanderbilt's exciting future. We cannot relax the fiscal discipline that buoyed us through the recession—continued prudence will be equally important in making next year a success.

Although the past few years have presented unique difficulties, they have also revealed how strong Vanderbilt truly is. As our country and world continue to face enormous financial hurdles, we know the coming year will hold similar challenges. I have every confidence, however, that Vanderbilt will not only be able to meet these challenges but will continue to progress in unprecedented ways. Thanks to careful decision making and thoughtful leadership throughout the university, we are uniquely positioned to seize rare opportunities. I look forward to all that we will accomplish together in 2011.

Sincerely,
Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006
STUDENTS					
Undergraduate	6,794	6,637	6,532	6,378	6,402
Graduate and professional	5,712	5,456	5,315	5,229	5,079
Total fall enrollment	12,506	12,093	11,847	11,607	11,481
Undergraduate admissions					
Applied	19,353	16,944	12,910	12,189	11,663
Accepted	3,899	4,292	4,237	4,128	4,115
Enrolled	1,599	1,569	1,672	1,590	1,620
Selectivity	20.1%	25.3%	32.8%	33.9%	35.3%
Yield	41.0%	36.6%	39.5%	38.5%	39.4%
Degrees conferred					
Baccalaureate	1,583	1,568	1,542	1,468	1,499
Master's	1,279	1,235	1,081	1,062	1,031
M.D.	118	103	94	114	111
Other doctoral	513	477	519	498	455
Total degrees conferred	3,493	3,383	3,236	3,142	3,096
Undergraduate graduation rate	90.6%	90.7%	89.4%	90.9%	89.2%
Undergraduate tuition	$ 37,632	$ 36,100	$ 34,414	$ 32,620	$ 30,920
% increase over prior year	4.2%	4.9%	5.5%	5.5%	5.7%
HOSPITALS AND CLINICS					
Licensed beds	916	836	836	836	832
Inpatient days	272,731	265,733	267,947	260,977	254,396
Discharges	51,874	51,575	51,831	50,716	46,785
Average daily census	747	728	732	715	697
Average length of stay (days)	5.3	5.2	5.2	5.1	5.4
Average occupancy level	83.6%	87.1%	87.6%	85.6%	83.8%
Hospital surgical operations - inpatient	21,702	21,283	20,383	20,425	19,557
Hospital surgical operations - outpatient	23,790	18,597	19,574	19,823	19,090
Ambulatory visits	1,450,196	1,266,255	1,178,841	1,095,559	1,019,715
Emergency visits	108,398	102,631	102,998	98,229	90,870
LifeFlight (helicopter) missions	2,152	2,112	2,458	2,803	2,842
Case mix index	1.93	1.89	1.81	1.81	1.84
FACULTY AND STAFF					
Full-time faculty	3,309	3,124	2,997	2,876	2,689
Full-time staff	18,089	17,160	16,246	15,438	14,760
Part-time faculty	424	402	361	346	315
Part-time staff	683	676	666	740	690
Total headcount	22,505	21,362	20,270	19,400	18,454
RESEARCH EXPENDITURES (in thousands)					
Federal	$ 279,282	$ 250,431	$ 244,117	$ 227,565	$ 221,995
Non-federal	86,824	92,407	89,368	81,797	70,223
Facilities and administrative costs recovery	125,526	114,509	110,847	101,730	95,639
Total research expenditures	$ 491,632	$ 457,347	$ 444,332	$ 411,092	$ 387,857
ENDOWMENT					
Market value (in thousands)	$ 3,007,607	$ 2,833,614	$ 3,495,439	$ 3,488,258	$ 2,915,620
Endowment return	8.9%	-16.3%	2.1%	21.9%	14.0%
Endowment per student	$ 240,493	$ 234,319	$ 295,048	$ 300,531	$ 253,952
Endowment distributed per spending rate	5.2%	4.7%	3.8%	3.7%	3.7%
Endowment distributed for strategic initiatives	0.1%	0.1%	0.2%	0.3%	0.5%
Total endowment distributed	5.3%	4.8%	4.0%	4.0%	4.2%

Financial Overview

At Vanderbilt, our financial management strategies aim to enhance the university's financial health, build liquidity, and facilitate strong operating results through prudent planning.

With an emphasis on transparency, our management team and Board of Trust are well-versed and closely involved in the key financial aspects of the university. We strive to facilitate effective decisions through widely coordinated efforts involving robust financial models, detailed financial targets, and benchmarking analyses. We perform stress testing scenarios on a variety of situations to ensure that the university is well positioned in light of the ever-changing marketplace.

Throughout fiscal 2010, Vanderbilt took steps to enhance its financial strength. Through careful stewardship of the university's financial resources, Vanderbilt generated net operating results of $134 million, which enhanced the university's strong liquidity and cash position. As of June 30, 2010, Vanderbilt's balance sheet included a very healthy $932 million of liquid assets available on a same-day basis.

While the university's financial position continues to grow stronger, our strategic metrics are better than ever. As a university in high demand, Vanderbilt continues to be increasingly selective. The university accepted only 20.1% of freshman applicants in fall 2009, as compared to 25.3% in fall 2008—and the fall 2010 selectivity rate was at a record level of less than 18%. Further, Vanderbilt's medical center is widely recognized as one of the finest academic health centers in the nation and, as noted on the following pages, its metrics reflect fiscal and operational strength.

Financial Position

As of June 30, 2010, Vanderbilt's financial position consisted of assets totaling $6,869 million and liabilities totaling $2,573 million, resulting in net assets of $4,296 million.

Summary of Financial Position
as of June 30, in millions

	2010	2009
ASSETS		
Working capital cash and investments	$ 1,024	$ 946
Endowment and other cash and investments	3,387	3,135
Accounts and contributions receivable	561	513
Property, plant, and equipment, net	1,807	1,802
Prepaid expenses and other assets	90	80
Total assets	**$ 6,869**	**$ 6,476**
LIABILITIES		
Payables and accrued liabilities	$ 633	$ 598
Deferred revenue	125	117
Minority interests in investment partnerships	77	--
Interest rate exchange agreements	231	154
Taxable debt for liquidity	365	365
Project and equipment-related debt	1,142	1,164
Total liabilities	**2,573**	**2,398**
NET ASSETS		
Unrestricted net assets	2,242	2,121
Temporarily restricted net assets	1,108	1,068
Permanently restricted net assets	946	889
Total net assets	**4,296**	**4,078**
Total liabilities and net assets	**$ 6,869**	**$ 6,476**

Total net assets include Vanderbilt's endowment, which totaled $3,008 million as of June 30, 2010. Net assets associated with capital investments totaled $665 million, which represents the university's property, plant, and equipment, net of accumulated depreciation and capital-related debt. Other net assets, which totaled $623 million as of June 30, 2010, include current assets and current liabilities, net of mark-to-market adjustments on interest rate exchange agreements.

Vanderbilt's assets totaling $6,869 million as of June 30, 2010, reflect a 6.1% increase from the prior year. This increase is attributable primarily to net operating results, endowed donor gifts and pledges, and net appreciation of the endowment.

Total liabilities increased by $175 million to total $2,573 million as of June 30, 2010. This growth is largely attributable to an increase in the mark-to-market liability associated with the university's interest rate exchange agreements. We also recognized a liability for the minority interests in two new investment partnerships.

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

Cash and Liquidity

Working capital cash and investments increased to $1,024 million as of June 30, 2010. This amount includes highly liquid operating accounts, as well as operating amounts posted as collateral (non-liquid) and amounts invested alongside the endowment pool. The fiscal 2010 increase in working capital cash and investments is largely attributable to strong operating results, net of capital-related activity and changes in accounts receivable and payables.

We have taken steps purposely to enhance the university's liquidity position. As of June 30, 2010, Vanderbilt estimates that $932 million of liquid assets (including liquidity provided by both working capital and the university's endowment) were available on a same-day basis and an additional $527 million was available within 30 days.

To provide additional liquidity support, in June 2010, Vanderbilt entered into agreements with two banks to provide operating lines of credit with maximum available commitments totaling $200 million. In addition, two previously existing dedicated revolving credit facilities, with maximum available commitments totaling $375 million, provide a second tier of liquidity support solely for the debt portfolio. No amounts were drawn on any of these credit facilities during fiscal 2010.

Debt

In accordance with the university's strategic capital plans, no incremental debt issuances occurred during fiscal 2010 and scheduled principal payments reduced outstanding debt by $22 million to a balance of $1,507 million as of June 30, 2010. Vanderbilt's outstanding debt consists of project and equipment-related debt totaling $1,142 million and taxable debt for liquidity support totaling $365 million as of June 30, 2010.

During the past year, Vanderbilt enhanced both its capital planning process and its debt portfolio management policies. These frameworks have enabled the university to continue making strategic facility improvements while minimizing the need for external financing.

The current debt portfolio includes variable-rate debt and synthetic hedging structures. Managing liquidity risks in this portfolio is paramount. Vanderbilt's unrestricted working capital cash and investments of $1,024 million, as well as certain other amounts, serve to provide robust liquidity support for the debt portfolio.

Statements of Activities

Vanderbilt's total operating and non-operating activity resulted in a $218 million increase in net assets in fiscal 2010, which follows a $905 million decrease in fiscal 2009.

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

	2010	2009
CONSOLIDATED REVENUES		
Tuition and educational fees, net of financial aid	$ 238	$ 230
Government grants and contracts and F&A costs recovery	492	449
Health care services	2,279	2,052
Private gifts, grants, and contracts	124	210
Endowment distributions	153	153
Investment income	26	(30)
Room, board, and other auxiliary services, net of financial aid	100	94
Other sources	32	33
Total consolidated revenues	**3,444**	**3,191**
CONSOLIDATED EXPENSES		
Instruction, academic support, and student services	583	572
Research	402	390
Health care services	2,059	1,865
Public service	39	34
Institutional support	52	73
Room, board, and other auxiliary services	128	123
Total consolidated expenses	**3,263**	**3,057**
OTHER CHANGES IN NET ASSETS		
Changes in appreciation of endowments, net of distributions	94	(723)
Losses on interest rate exchange agreements	(77)	(272)
Other non-operating activity	20	(44)
Total other changes in net assets	**37**	**(1,039)**
Increase (decrease) in net assets	**$ 218**	**$ (905)**

During fiscal 2010, the increase in net assets resulted primarily from strong net operating activity, endowed gifts and pledges, and net gains in the endowment, offset by mark-to-market losses on interest rate exchange agreements. In contrast, the decrease in fiscal 2009 resulted primarily from investment losses on endowment and other assets combined with losses on interest rate exchange agreements.

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

Consolidated Revenues

Consolidated revenues increased by 7.9% to $3,444 million in fiscal 2010, as compared to $3,191 million in fiscal 2009. This increase was driven primarily by an 11.1% increase in health care services revenue, a 9.6% increase in government grants and contracts revenue, and a 3.3% increase in tuition and educational fees, net of financial aid.

Revenue from private gifts, grants, and contracts declined by $86 million during fiscal 2010. The comparative decline is attributed primarily to significant Ingram gift recognitions in the prior year (a direct gift totaling $53 million and a new receivable from the Ingram Charitable Fund valued at $19 million by Vanderbilt during fiscal 2009). Also, the timing and classification of revenue related to split-interest agreements, which are affected by the maturity of donor estates and changes in trust values, contributed to the decline in this revenue line. Other gift and private grant activity was generally stable during fiscal 2010.

Investment income, exclusive of gains on endowment and other non-operating assets, totaled $26 million in fiscal 2010—following a $30 million loss in fiscal 2009. Much of these investment gains and losses in fiscal 2010 and 2009, respectively, are attributable to market-driven valuation changes on assets related to split-interest agreements in temporarily and permanently restricted net assets. Also, after incurring market losses of $5 million on operating assets in the Commonfund Intermediate Term Fund during fiscal 2009, Vanderbilt fully liquidated those assets and recorded related gains of $1 million in fiscal 2010. Meanwhile, Vanderbilt fully recovered all of its assets from the Commonfund Short Term Fund, which was terminated in fall 2008 preceding an 18-month liquidation process, without any net loss.

The university's other unrestricted operating cash and investments earned modest positive returns in both fiscal 2010 and fiscal 2009 due to a conservative investment strategy consisting largely of short-term U.S. Treasury securities.

Consolidated Expenses

Consolidated expenses increased by 6.7% to $3,263 million in fiscal 2010, as compared to $3,057 million in fiscal 2009. This increase was driven primarily by a 10.4% increase in health care services expenses, a 3.0% increase in research expenses, and a 2.1% increase in instruction, academic support, and student services expenses.

Other Changes in Net Assets

Other changes in net assets included changes in appreciation of endowments, net of distributions, totaling $94 million in fiscal 2010 and negative $723 million in fiscal 2009. The fiscal 2010 net increase resulted from 8.9% returns offset by 5.3% utilized for endowment distributions.

In fiscal 2010, Vanderbilt experienced net unrealized losses totaling $77 million on interest rate exchange agreements. These losses are based on mark-to-market valuations of the university's interest rate exchange agreements, especially fixed-payer exchange contracts. Meanwhile, adjustments to annual interest expense occur for net cash settlements as Vanderbilt *pays* an average of 3.60% on its fixed-payer contracts and *receives* amounts based on a percentage of 1-month LIBOR rates. The unrealized mark-to-market valuation on these agreements is driven primarily by long-term LIBOR rates. During the past year, the 30-year LIBOR rate declined to 3.67% as of June 30, 2010—down from 4.18% as of June 30, 2009—which resulted in mark-to-market losses.

Finally, other non-operating activity totaled $20 million in fiscal 2010 and negative $44 million in fiscal 2009. This activity included net investment gains and losses in fiscal 2010 and 2009, respectively, related to assets set aside as a reserve for medical self-insurance. Non-operating activity also included net gains of $4 million in fiscal 2010 and net losses of $33 million in fiscal 2009 on working capital amounts invested alongside the endowment. Additionally, other non-operating activity included gifts and contributions for plant in both years.

Summary of Changes in Net Assets
in millions

	2010	2009
Revenues and expenses:		
Unrestricted operating revenues	$ 3,397	$ 3,107
Unrestricted operating expenses	(3,263)	(3,057)
Unrestricted operating activity	134	50
Gift activity in temporarily restricted and permanently restricted net assets	35	111
Investment income and endowment distributions in temporarily restricted and permanently restricted net assets	12	(27)
Other changes in net assets:		
Change in appreciation of endowment, net of distributions	94	(723)
Losses on interest rate exchange agreements	(77)	(272)
Other non-operating activity	20	(44)
Increase (decrease) in net assets	**$ 218**	**$ (905)**
Ending balance of net assets	**$ 4,296**	**$ 4,078**

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 $134 million in fiscal 2010 and $50 million in fiscal 2009.

Operating Revenues

Unrestricted operating revenues totaled $3,397 million in fiscal 2010, reflecting a 9.3% increase from the prior year.

Tuition and educational fees, net of financial aid, increased 3.3% in fiscal 2010. Total enrollment increased 3.4% and undergraduate tuition rates increased 4.2%, contributing to increases in gross tuition revenues. Offsetting these increases was a 12.6% increase in financial aid for tuition and educational fees.

Operating Revenues by Source
unrestricted net assets, in millions

	2010	2009
Tuition and educational fees, net of financial aid	$ 238	$ 230
Government grants and contracts and F&A costs recovery	492	449
Health care services	2,279	2,052
Private gifts, grants, and contracts, including net assets released from restrictions	90	99
Endowment distributions	147	147
Investment income	19	3
Room, board, and other auxiliary services, net of financial aid	100	94
Other sources	32	33
Total operating revenues	**$ 3,397**	**$ 3,107**

Government grants and contracts revenue, predominantly for research activities, increased 9.6% in fiscal 2010, including all facilities and administrative (F&A) costs recovery. Overall, federal funding from the National Institutes of Health, the Department of Defense, NASA, and other federal agencies supported about 81% of the research conducted at Vanderbilt in both fiscal 2010 and fiscal 2009.

Vanderbilt's research support outlook is strong as sponsored research and project awards, which included multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled nearly $615 million in fiscal 2010—following awards totaling $520 million in fiscal 2009. The growth in awards was positively impacted by stimulus grants related to the American Recovery and Reinvestment Act of 2009.

Our hospitals, clinics, and physician clinical practices continue to have a significant positive impact on the university's total net operating results. Health care services revenue, which constituted 67.1% of total unrestricted operating revenues, increased by 11.1% in fiscal 2010. Vanderbilt's health care services are discussed further below.

Operating Expenses

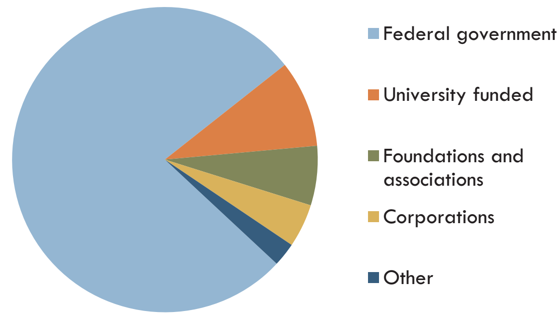
Operating expenses totaled $3,263 million in fiscal 2010, reflecting a 6.7% increase from the prior year.

Operating Expenses by Function
unrestricted net assets, in millions

	2010	2009
Instruction, academic support, and student services	$ 583	$ 572
Research	402	390
Health care services	2,059	1,865
Public service	39	34
Institutional support	52	73
Room, board, and other auxiliary services	128	123
Total operating expenses	**$ 3,263**	**$ 3,057**

Expenses for instruction, academic support, and student services increased 2.1% in fiscal 2010. These expenses far exceed net tuition revenues, which are noted on the preceding page. Therefore, Vanderbilt, like other major private research universities, relies upon operating gifts, endowment support, and other alternative sources of revenue—in addition to tuition—to meet its educational mission.

Research Expenditures – Funding by Source
fiscal 2010, including research-related F&A costs recovery



Research expenses totaled $402 million and $390 million in fiscal 2010 and 2009, respectively. Inclusive of research-related indirect F&A costs, research expenditures increased 7.5% to total $492 million in fiscal 2010. As illustrated above, the majority of Vanderbilt's research expenditures are funded by the federal government through grants and contracts.

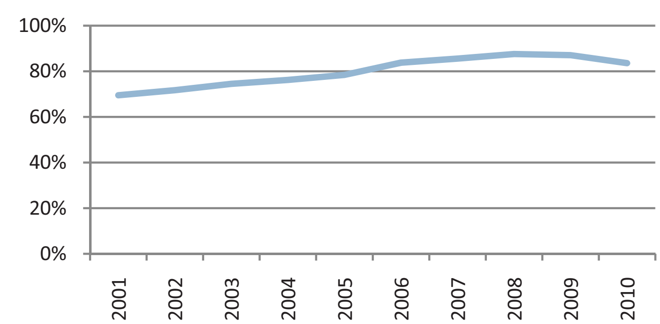
Health care services expenses increased 10.4% to $2,059 million in fiscal 2010 from $1,865 million in fiscal 2009. This increase is largely attributable to the opening of the hospital's new Critical Care Tower, the first full year of operation for Vanderbilt Health One Hundred Oaks, and overall increased patient volumes.

Health Care

Vanderbilt University Medical Center finished again this year in the *U.S. News & World Report* annual ranking of America's Best Hospitals. We posted an all-time high of 10 ranked specialties out of a possible 16 categories. Specialty programs ranking among the top 50 in their respective fields include urology; kidney disorders; diabetes and endocrinology; ear, nose and throat; pulmonology; cancer; heart and heart surgery; gastroenterology; geriatrics; and gynecology. In addition, the Monroe Carell Jr. Children's Hospital at Vanderbilt was ranked among the top 30 pediatric hospitals in the nation in five specialties: urology, neonatology, gastroenterology, orthopaedics, and heart and heart surgery.

Successful volume growth in recent years led to peaking occupancy rates and capacity constraints in Vanderbilt's hospitals. The new Critical Care Tower, which opened in November 2009, alleviated some of the capacity constraints with the addition of 65 licensed beds. Thus, as anticipated, Vanderbilt's occupancy rates declined to a more manageable 83.6% in fiscal 2010 from 87.1% in fiscal 2009.

Percentage Occupancy
licensed beds



To further alleviate capacity constraints, Vanderbilt initiated plans for a 33-bed expansion to the children's hospital for occupancy during fiscal 2012. In the meantime, the medical center established 16 additional temporary pediatric beds in a former wing of the adult hospital in summer 2010.

In the outpatient clinics, volumes increased 14.5% to total 1,450,196 ambulatory visits in fiscal 2010 as Vanderbilt continued its expansion of health care services offered outside the medical center's main campus. During the year, approximately 38% of outpatient visits occurred at off-campus locations. The largest new outpatient facility, Vanderbilt Health One Hundred Oaks, was very successful in its first full year of operation with over 141,000 ambulatory visits. Growth in ambulatory visits also occurred as the result of physician practice expansions in cardiology, internal medicine, and orthopaedics in nearby Williamson County and Rutherford County during fiscal 2010.

The average length of stay for patients in Vanderbilt's hospitals increased slightly to 5.3 days from 5.2 days. This change is due to an increase in patient acuity as well as the impact of moving low-length-of-stay admissions from inpatient to observation status.

The medical center's case mix index increased to 1.93 in fiscal 2010 from 1.89 in fiscal 2009 due in large part to the increased number of critical care beds and increased acuity in our trauma, neonatal, orthopaedics, and surgical programs.

Vanderbilt continues to focus on the implementation and refinement of new and existing clinical pathways that support evidence-based medicine to improve the quality of care, reduce costs, and assist in more efficient and timely patient discharge planning. Reflective of the high quality of care at our hospitals, Vanderbilt's mortality index measure is one of the best in the nation.

The following table shows payor mix percentages based on gross patient revenues for Vanderbilt's hospitals and clinics in fiscal 2010 and 2005 (five years prior). Vanderbilt's medical center continues to see a decline in the percentage of TennCare (Medicaid) patients, primarily because TennCare organizations have effectively developed broader physician and hospital provider networks that allow low-acuity health care services to be provided in the local communities. Further, due to high quality and patient satisfaction scores, the community preference for Vanderbilt's hospitals and clinics continues to increase, resulting in a greater share of the managed care payor group.

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

	2010	2005
Managed care	44.7%	38.7%
Medicare	20.1	20.5
TennCare (Medicaid)	17.7	23.5
Commercial indemnity	9.3	9.5
Uninsured (self-pay) and other	8.2	7.8
Total payor mix	**100.0%**	**100.0%**

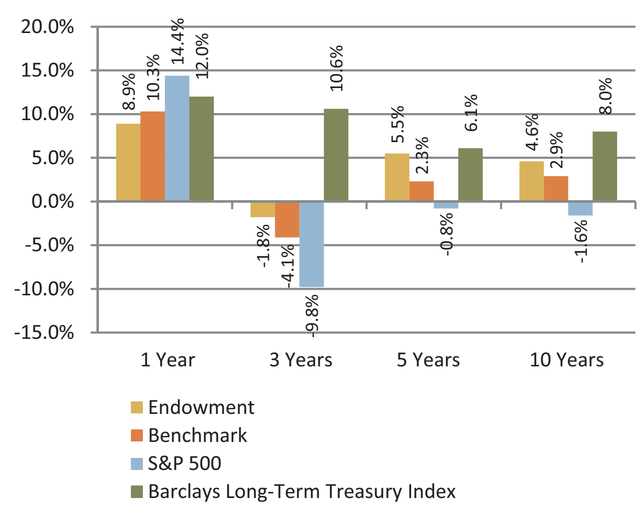
Vanderbilt's hospitals, clinics, and physician practices are focused on innovations in quality of care, patient access, and efficiency of care delivery. Our strategies include managing high-cost patient populations with the goal of developing patient care processes to reduce costs and improve outcomes. We are also developing bundled payment models for certain episodes of care, redesigning the work flow in our clinics, and improving the capabilities of our electronic medical records and clinical systems.

Endowment

After two consecutive fiscal years of negative returns, equity markets finished in the black during fiscal 2010, as the S&P 500 index gained 14.4%. Despite these gains, investors have yet to recoup losses from prior period declines. Moreover, the equity market's recent rise has perplexed many investors, in light of continued high unemployment, sovereign debt issues, and general uncertainty on the strength of the economic recovery. Ultimately, global equity markets validated investors' concerns, as the market declined 12.1% in the final quarter of the fiscal year. Conversely, long-term U.S. Treasurys rose 12.2% (as yields declined) during the same period, ending the year up 12.0%.

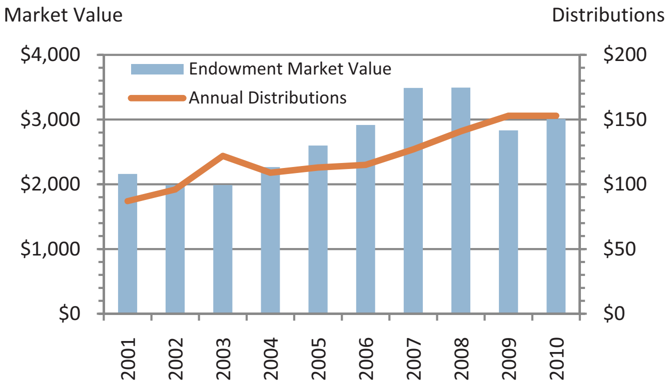
For the one-year period ending June 30, 2010, Vanderbilt's investment portfolio gained 8.9% versus our internal benchmark's 10.3% return. Vanderbilt's internal benchmark consists of a weighted average of various indices representative of the target investment portfolio. Including gifts, distributions, and investment gains, the endowment ended the fiscal year with a $3,008 million total market value. By comparison, the ending market value for the prior fiscal year was $2,834 million. Endowment distributions from pooled investments totaled $153 million in both fiscal 2010 and 2009. Excluding spending distributions, as well as gifts and other additions, during fiscal 2010 the endowment recaptured $247 million of the prior year's $570 million investment loss.

Total Return Comparisons
periods ending June 2010



While recovering the remainder of the prior year's loss will take time, both our spending formula and risk-based investment philosophy have helped to soften the global financial crisis' impact on spending distributions.

Endowment Market Value and Annual Distributions
in millions



All asset classes, except real estate, delivered positive returns during fiscal 2010. Global equities, absolute return, and fixed income categories posted the best returns, which ranged between the low- and mid-teens. At the strategy level, emerging market equity and credit-oriented investments were the most favorable contributors with strong double-digit returns. We are pleased to recognize substantial gains in these areas during fiscal 2010 after making both strategies investment priorities over the past three years. Nevertheless, overall returns were muted by losses within the real estate segment, which continues to contend with the aftermath of the global financial crisis. Vanderbilt's real estate segment consists of numerous private partnership investments made during prior periods. Many of these investments have been written down by our fund managers to reflect increased vacancies, lower leasing rates, and depressed comparables precipitated by distressed sales and deleveraging within the commercial property sector. The estimated impact from losses within real estate during fiscal 2010 was more than one percent on the endowment's overall return.

Even though we anticipate continued uncertainty and heightened volatility, we remain committed to our long-term investment philosophy of maximizing return relative to risks in order to safeguard the endowment's purchasing power over time. Having affirmed our liquidity position in the midst of the global financial crisis, we continue to source and make new investments, while actively monitoring and repositioning the existing portfolio's risk exposures with the future in mind. In the end, we believe this patient and disciplined approach will assure our long-term objectives are met.

Endowment Asset Allocation
June 2010 (% of portfolio)

	Actual	Target
Global equities	29.3%	40%
Absolute return	21.7	20
Fixed income	9.7	10
Cash and cash equivalents	1.8	0
Total marketable	**62.5**	**70**
Private equity markets	23.8	15
Real estate	6.4	10
Natural resources	6.8	5
Other	0.5	0
Total non-marketable	**37.5**	**30**
Total endowment	**100.0%**	**100%**

Conclusion

While the external economic environment continues to be uncertain and challenging, Vanderbilt has enhanced its financial strength. National and global economic forces continue to present the potential for troublesome conditions that demand our cautious attention. Within this environment, a more focused finance operation has helped to ensure that Vanderbilt operates optimally to identify financial risks and opportunities.

During fiscal 2010, Vanderbilt achieved exceptional financial results and we continue to push forward. We will continue to invest substantial resources over the next few years into the university's faculty, with the establishment of 60 new endowed faculty chairs over the next two years. The development of new residential colleges, plans for additional research space for the life sciences and engineering, and expansion of the children's hospital are also on the horizon.

As reflected in this commentary and in the university's audited financial statements, fiscal 2010 was a successful year for Vanderbilt. The following page provides a summary of the university's financial ratios, which also demonstrate the resulting financial effects of the university's strategies. As reflected in the financial ratios and as noted in this financial overview, Vanderbilt stands on solid ground, has healthy operating results, and is well positioned for the future.

Financial Ratios

Viability Ratio

Expendable Financial Resources / Debt

2006	2007	2008	2009	2010
2.9x	2.9x	2.7x	1.9x	2.1x

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

Vanderbilt's viability ratio increased slightly in fiscal 2010 as the result of positive endowment returns and operating results relative to modestly decreasing debt levels. In fiscal 2009, this ratio declined primarily as a result of negative return rates on investments and losses on interest rate exchange agreements. Vanderbilt aims to maintain a viability ratio of at least 2.0.

Debt Service Coverage Ratio

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

2006	2007	2008	2009	2010
4.3x	4.4x	3.4x	3.2x	3.6x

The *debt service coverage ratio* measures the university's ability to cover annual debt service from current year operating activity. For this ratio, annual debt service for all outstanding debt, except for taxable commercial paper used for short-term liquidity support, 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.

Vanderbilt's debt service coverage ratio increased in fiscal 2010 as the result of strong net operating results offset by increased debt service requirements. In fiscal 2010, debt service increased due to a rise in the interest rate exchange-adjusted portfolio interest rate and a full year of service on the ten-year taxable notes issued in spring 2009 for liquidity support. Prior year declines in this ratio primarily resulted from increased debt and debt service requirements. Overall, the university's debt service coverage ratio is consistent with that of similarly rated, large, private universities. Vanderbilt aims to maintain a debt service coverage ratio of at least 2.0.

Debt Service Burden

Normalized Annualized Debt Service / Unrestricted Operating Expenses

2006	2007	2008	2009	2010
1.9%	2.1%	2.4%	2.6%	3.2%

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

Vanderbilt's debt service burden increased in fiscal 2010 due to a rise in the interest rate exchange-adjusted portfolio interest rate and the first full year of debt service on the ten-year taxable notes issued for liquidity support. Despite the recent rise, the university's debt service burden remains below industry medians. 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

2006	2007	2008	2009	2010
8.1%	8.9%	7.9%	8.4%	11.0%

The *operating cash flow margin* measures the cash flow to be 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 2010, Vanderbilt's unrestricted operating results increased to its highest level ever at $134 million (or $375 million before interest and depreciation expenses). This led to a correspondingly notable increase in the operating cash flow margin as reflected in the table above. Vanderbilt's margin of 11.0% in fiscal 2010 is consistent with margins for the university's peers.

Capital Intensiveness Ratio

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

2006	2007	2008	2009	2010
8.8%	10.0%	8.9%	8.2%	5.0%

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

Vanderbilt's capital intensiveness ratio declined in fiscal 2010 as spending on major capital projects declined in accordance with capital planning and budgeting efforts. During fiscal 2010, instead of initiating multiple new major projects, Vanderbilt focused upon successfully launching programs and services at its recently completed facilities such as the hospital's new Critical Care Tower and Vanderbilt Health One Hundred Oaks. The university also began advance planning for residential colleges at the Kissam Quad and a new life sciences and engineering building.

Average Age of Plant

Accumulated Depreciation / Depreciation Expense

2006	2007	2008	2009	2010
9.1 yrs	9.2 yrs	9.4 yrs	9.5 yrs	10.0 yrs

The *average age of plant* metric provides a sense of the age of the university's facilities. A low average age of plant indicates that an institution has made significant recent investments in its plant. Generally, a strong level for this ratio is deemed to be 11 years or less for research institutions and 14 years or less for predominantly liberal arts institutions.

Vanderbilt's average age of plant reached its lowest level of the decade in 2006 as the result of significant capital investment activity in the preceding years. Since then, the average age of plant has increased as capital expenditures have stabilized. The university's average age of plant is consistent with the median for its peers.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

Board of Trust
Vanderbilt University:

We have audited the accompanying consolidated statements of financial position of Vanderbilt University and subsidiaries (Vanderbilt) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Vanderbilt's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Vanderbilt's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanderbilt University and subsidiaries as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 28, 2010

Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2010 and 2009 (in thousands)

	2010	2009
ASSETS		
Cash and cash equivalents	$ 959,157	$ 752,397
Accounts receivable, net	405,714	344,703
Prepaid expenses and other assets	90,235	80,190
Contributions receivable, net	77,039	91,175
Student loans and other notes receivable, net	41,640	43,325
Investments	3,374,127	3,328,506
Investments allocable to minority interests	77,695	-
Property, plant, and equipment, net	1,807,284	1,801,485
Interests in trusts held by others	36,393	33,927
Total assets	**$ 6,869,284**	**$ 6,475,708**
LIABILITIES		
Accounts payable and accrued liabilities	$ 255,100	$ 236,723
Accrued compensation and withholdings	225,049	218,711
Deferred revenue	124,650	117,256
Commercial paper	301,248	148,904
Actuarial liability for self-insurance	102,758	97,930
Actuarial liability for annuities payable	31,464	26,575
Government advances for student loans	18,868	17,642
Long-term debt and capital leases	1,206,134	1,380,317
Fair value of interest rate exchange agreements, net	230,776	154,091
Minority interests in investment partnerships	77,695	-
Total liabilities	**2,573,742**	**2,398,149**
NET ASSETS		
Unrestricted	2,241,335	2,120,507
Temporarily restricted	1,108,024	1,068,304
Permanently restricted	946,183	888,748
Total net assets	**4,295,542**	**4,077,559**
Total liabilities and net assets	**$ 6,869,284**	**$ 6,475,708**

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

Vanderbilt University
Consolidated Statement of Activities
Year Ended June 30, 2010 (in thousands)

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 237,623	$ -	$ -	$ 237,623
Government grants and contracts	360,861	-	-	360,861
Facilities and administrative costs recovery	131,558	-	-	131,558
Private gifts, grants, and contracts	78,099	8,988	37,215	124,302
Endowment distributions	146,749	4,717	1,607	153,073
Investment income	19,341	(1,928)	8,165	25,578
Health care services	2,279,232	-	-	2,279,232
Room, board, and other auxiliary services, net	99,874	-	-	99,874
Other sources	32,214	-	-	32,214
Net assets released from restrictions	11,116	(11,116)	-	-
Total revenues and other support	**3,396,667**	**661**	**46,987**	**3,444,315**
EXPENSES				
Instruction	430,172	-	-	430,172
Research	401,612	-	-	401,612
Health care services	2,058,702	-	-	2,058,702
Public service	39,489	-	-	39,489
Academic support	120,666	-	-	120,666
Student services	32,493	-	-	32,493
Institutional support	51,497	-	-	51,497
Room, board, and other auxiliary services	128,446	-	-	128,446
Total expenses	**3,263,077**	**-**	**-**	**3,263,077**
Change in unrestricted net assets from operating activity	**133,590**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	40,800	52,942	-	93,742
Net gains on self-insurance assets	7,531	-	-	7,531
Net gains on other investments	7,679	-	-	7,679
Net losses on interest rate exchange agreements	(76,685)	-	-	(76,685)
Net gains on contributions receivable	-	229	-	229
Gifts and contributions for plant	4,351	-	-	4,351
Net assets released from restrictions for plant	7,007	(7,007)	-	-
Donor designation changes	(3,343)	(7,105)	10,448	-
Other	(102)	-	-	(102)
Total other changes in net assets	**(12,762)**	**39,059**	**10,448**	**36,745**
Increase in net assets	**$ 120,828**	**$ 39,720**	**$ 57,435**	**$ 217,983**
Net assets, June 30, 2009	**$ 2,120,507**	**$ 1,068,304**	**$ 888,748**	**$ 4,077,559**
Net assets, June 30, 2010	**$ 2,241,335**	**$ 1,108,024**	**$ 946,183**	**$ 4,295,542**

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

Vanderbilt University
Consolidated Statement of Activities
Year Ended June 30, 2009 (in thousands)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and educational fees, net	$ 230,018	$ -	$ -	$ 230,018
Government grants and contracts	329,156	-	-	329,156
Facilities and administrative costs recovery	120,071	-	-	120,071
Private gifts, grants, and contracts	87,095	88,934	34,111	210,140
Endowment distributions	146,638	4,637	1,442	152,717
Investment income	3,427	(8,743)	(24,734)	(30,050)
Health care services	2,051,835	-	-	2,051,835
Room, board, and other auxiliary services, net	93,883	-	-	93,883
Other sources	33,130	-	-	33,130
Net assets released from restrictions	12,301	(12,301)	-	-
Total revenues and other support	**3,107,554**	**72,527**	**10,819**	**3,190,900**
EXPENSES				
Instruction	415,520	-	-	415,520
Research	389,947	-	-	389,947
Health care services	1,865,368	-	-	1,865,368
Public service	34,123	-	-	34,123
Academic support	125,875	-	-	125,875
Student services	29,881	-	-	29,881
Institutional support	73,451	-	-	73,451
Room, board, and other auxiliary services	123,021	-	-	123,021
Total expenses	**3,057,186**	**-**	**-**	**3,057,186**
Change in unrestricted net assets from operating activity	**50,368**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	(295,299)	(427,532)	-	(722,831)
Net losses on self-insurance assets	(8,293)	-	-	(8,293)
Net losses on other investments	(36,980)	-	-	(36,980)
Net losses on interest rate exchange agreements	(271,693)	-	-	(271,693)
Net losses on contributions receivable	-	(2,119)	-	(2,119)
Gifts and contributions for plant	4,364	-	-	4,364
Net assets released from restrictions for plant	8,375	(8,375)	-	-
Donor designation changes	1,009	(16,951)	15,942	-
Other	(1,360)	-	-	(1,360)
Total other changes in net assets	**(599,877)**	**(454,977)**	**15,942**	**(1,038,912)**
(Decrease) increase in net assets	**$ (549,509)**	**$ (382,450)**	**$ 26,761**	**$ (905,198)**
Net assets, June 30, 2008	**$ 2,670,016**	**$ 1,450,754**	**$ 861,987**	**$ 4,982,757**
Net assets, June 30, 2009	**$ 2,120,507**	**$ 1,068,304**	**$ 888,748**	**$ 4,077,559**

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

Vanderbilt University
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009 (in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in total net assets	**$ 217,983**	**$ (905,198)**
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Net realized losses on investments	20,305	59,519
Net (increase) decrease in unrealized appreciation on investments	(265,203)	644,408
Gifts for plant and endowment	(71,252)	(59,557)
Gifts of securities other than for plant and endowment	(27,673)	(63,305)
Depreciation and amortization	162,530	154,342
Amortization of bond discounts and premiums	(4,384)	(5,628)
Payments to terminate interest rate exchange agreements	-	87,153
Net decrease in fair value of interest rate exchange agreements	71,179	134,985
Net decrease in fair value of option to execute interest rate exchange agreement	5,506	49,555
(Increase) decrease in:		
Accounts receivable, net of accrued investment income	(61,642)	(20,945)
Prepaid expenses and other assets	(10,045)	16,797
Contributions receivable	14,136	(19,359)
Interests in trusts held by others	(2,466)	12,654
Increase (decrease) in:		
Accounts payable and accrued liabilities, net of non-operating items	19,299	26,157
Accrued compensation and withholdings	6,338	16,979
Deferred revenue	7,394	(356)
Actuarial liability for self-insurance	4,828	7,437
Actuarial liability for annuities payable	4,889	(9,320)
Net cash provided by operating activities	**91,722**	**126,318**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,545,899)	(1,910,986)
Proceeds from sales of investments	2,772,849	2,167,577
Purchases of investments allocable to minority interests	(62,617)	-
Proceeds from sales of investments allocable to minority interests	38,778	-
Decrease in accrued investment income	631	3,744
Acquisitions of property, plant, and equipment	(170,388)	(254,400)
Proceeds from disposals of property, plant, and equipment	1,137	1,758
Student loans and other notes receivable disbursed	(2,515)	(4,792)
Principal collected on student loans and other notes receivable	4,200	3,809
Net cash provided by investing activities	**36,176**	**6,710**
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for plant and endowment	71,252	59,557
Increase in government advances for student loans	1,226	956
Proceeds from debt issuances	884,179	1,148,467
Payments to retire or defease debt	(901,634)	(719,782)
Payments to terminate interest rate exchange agreements	-	(87,153)
Purchase of option to execute interest rate exchange agreement	-	(56,600)
Proceeds from minority interests in investment partnerships	62,617	-
Payments to minority interests in investment partnerships	(38,778)	-
Net cash provided by financing activities	**78,862**	**345,445**
Net increase in cash and cash equivalents	**$ 206,760**	**$ 478,473**
Cash and cash equivalents at beginning of year	**$ 752,397**	**$ 273,924**
Cash and cash equivalents at end of year	**$ 959,157**	**$ 752,397**

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 privately endowed, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational, research, and patient care facilities. Vanderbilt provides educational services to approximately 6,800 undergraduate and 5,700 graduate and professional students enrolled in its 10 schools and colleges. The Chancellor and the Board of Trust, the governing board of Vanderbilt, have oversight responsibility for all of Vanderbilt's financial affairs.

These consolidated financial statements include the accounts of all entities in which Vanderbilt has a significant financial interest and over which Vanderbilt has control. 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 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

During fiscal 2009, Vanderbilt adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification 820, *Fair Value Measurements and Disclosure* (ASC 820). This standard defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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

Cash and Cash Equivalents

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

Prepaid Expenses and Other Assets

Prepaid expenses and other assets primarily represent inventories, prepaid expenses, and other segregated investment-related assets managed by third parties 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, market, and credit risks for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in Vanderbilt's financial statements.

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

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

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

Investments Allocable to Minority Interests and Minority Interests in Investment Partnerships

For entities in which other organizations are minority equity participants to Vanderbilt's controlling interest, assets are reported at fair value as investments allocable to minority interests. Liabilities representing such organizations' minority interests are recorded based on contractual provisions, which represent an estimate of a settlement value assuming the entity was liquidated in an orderly fashion as of the report date.

Split-Interest Agreements and Interests in Trusts Held by Others

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

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

Property, Plant, and Equipment

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

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

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

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

Debt Portfolio Financial Instruments

Long-term debt and capital leases are reported at carrying value. Vanderbilt employs derivatives, primarily interest rate exchange agreements, to help manage market risks associated with variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as a non-operating item in the consolidated statements of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt.

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

Revenue Recognition

Vanderbilt's revenue recognition policies are:

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

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

Facilities and administrative (F&A) costs recovery—F&A costs recovery is recognized as revenue and represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Vanderbilt's federal F&A costs recovery rate for on-campus research was 55.0% in fiscal 2010 and 53.5% in fiscal 2009. Vanderbilt's federal F&A costs recovery rate for off-campus (adjacent) research was 28.5% in both fiscal 2010 and 2009.

Health care services—Health care services revenue is reported at established rates, net of contractual adjustments and charity services. Third party contractual revenue adjustments under governmental reimbursement programs are accrued on an estimated basis in the period the related services are rendered. The estimated amounts are adjusted as final settlements are determined by the fiscal intermediary for each program. Health care services revenue includes that of Vanderbilt University Hospitals and Clinics; Vanderbilt Medical Group, a physician practice program; Vanderbilt Health Services, Inc., which includes wholly owned and joint ventured businesses such as the Vanderbilt Stallworth Rehabilitation Hospital, radiation oncology centers, imaging services, outpatient surgery centers, and home health care services; and other activities directed toward the purpose of providing health care services to the community.

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.

Amortization of the discount is recorded as contribution revenue in the appropriate net asset class. Allowance is made for uncollectible contributions receivable based upon management'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 upon receipt of the gift or expiration of the time restriction, and after any donor stipulations are met. Gifts for plant facilities are released from restrictions and recognized as a non-operating item only after resources are expended for the applicable plant facilities.

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

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

Operating Results

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

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

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

In fiscal 2010 and 2009, approximately 53% and 57%, respectively, of private gifts, grants, and contracts revenue represent transactions where Vanderbilt services were provided to other parties.

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

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

Income Taxes

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

Use of Estimates

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

Subsequent Events

Effective in fiscal 2009, Vanderbilt adopted ASC 855, *Subsequent Events*, which establishes principles and requirements for subsequent events and applies to the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. Management evaluated events subsequent to June 30, 2010, and through the date on which the consolidated financial statements were available for issuance, October 28, 2010. The adoption of ASC 855 had no impact on Vanderbilt's consolidated financial statements. No material subsequent events were identified for recognition or disclosure.

Redesignations

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

Reclassifications

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

3. Accounts Receivable

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

	2010	2009
Patient care	$ 416,132	$ 364,352
Students, grants, and other	101,612	96,122
Accrued investment income	3,078	3,709
Accounts receivable, gross	520,822	464,183
Less: Allowance for bad debts	115,108	119,480
Accounts receivable, net	**$ 405,714**	**$ 344,703**
Days receivable	*43.0*	*39.4*

Gross patient care receivables represented 79.9% and 78.5% of total gross receivables as of June 30, 2010 and 2009, respectively. The 14.2% year-over-year increase in patient care receivables is attributed to the growth in patient care volumes and contributed to the 12.2% year-over-year increase in total gross receivables. The growth in receivables was accompanied by a 3.7% decrease in allowance for bad debts (of which approximately 96% is related to patient care). This decline was driven by an overall average improvement in the patient care payor mix. Primarily as a result of these combined factors, days receivable increased to 43.0 days as of June 30, 2010, from 39.4 days as of June 30, 2009.

4. Contributions Receivable

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

	2010	2009
Unconditional promises expected to be collected:		
in one year or less	$ 28,149	$ 25,318
between one year and five years	58,081	74,078
in more than five years	4,811	5,471
Contributions receivable	91,041	104,867
Less: Unamortized discount	2,322	3,539
Allowance for uncollectible promises	11,680	10,153
Contributions receivable, net	**$ 77,039**	**$ 91,175**

As of June 30, 2009, contributions receivable included a $16.4 million balance from the Ingram Charitable Fund (ICF), which was fully received by Vanderbilt during fiscal 2010.

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2010, generally were discounted at rates ranging from 0.5% to 2.0%, and amounts outstanding as of June 30, 2009, generally were discounted at rates ranging from 0.5% to 2.5%.

The methodology for calculating an allowance for uncollectible promises is based upon management's analysis of the aging of payment schedules for all outstanding pledges. This review resulted in allowances for uncollectible promises totaling 12.8% and 11.5% of contributions receivable (excluding the ICF) as of June 30, 2010 and 2009, respectively.

In addition to pledges reported as contributions receivable, Vanderbilt had received bequest intentions of approximately $221.9 million and $209.1 million as of June 30, 2010 and 2009, respectively. These intentions to give are not recognized as assets due to their conditional nature.

5. Investments

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

	2010	2009
Short-term securities and derivative contract collateral	$ 132,303	$ 221,384
Bonds	216,919	167,965
Stocks	575,277	534,253
Partnerships	2,218,972	2,144,404
Loans	3,941	3,925
Real estate	202,349	208,981
Other	35,099	45,571
Net (payables) receivables for unsettled trades by investment managers	(10,733)	2,023
Total fair value	**$ 3,374,127**	**$ 3,328,506**
Total cost	**$ 3,265,482**	**$ 3,485,064**

In addition to investments reported in the table above, Vanderbilt has investments allocable to minority interests reported at fair value. In August 2009, Vanderbilt entered into two partnership agreements to acquire, hold, and manage private fund assets within the endowment. These new partnerships are controlled subsidiaries of Vanderbilt. Over a 10-year period, the limited partners (of which Vanderbilt is the majority limited partner) are required to fund capital contributions up to $217.0 million, as called by the general partners of the private fund assets held within these new partnerships. The limited minority partners are required to fund initial contributions up to $179.2 million before Vanderbilt would be required to fund the potential remaining $37.8 million.

During fiscal 2010, the minority limited partners funded capital commitments totaling $62.6 million. Additionally, Vanderbilt made payments to the minority limited partners of $38.8 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2010, the minority limited partners' interests in the results of the underlying returns from the private fund assets were $53.9 million. As a result of these transactions, Vanderbilt has an obligation to the minority limited partners, calculated in accordance with the partnership agreements, of $77.7 million as of June 30, 2010.

Investments, along with cash and cash equivalents, provide liquidity support for the university's operations. Of these combined amounts, Vanderbilt estimates that, based on prevailing market conditions as of June 30, 2010, amounts totaling $931.7 million were available on a same-day basis and an additional $526.7 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 $201.6 million and $57.9 million as of June 30, 2010 and 2009, respectively. The fair market value of such contracts is settled daily between counterparties.

6. Endowment

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

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

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

Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves the university's operations budget for the ensuing fiscal year. For fiscal years 2010 and 2009, 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. Accordingly, endowment distributions may be approved for reinvestment into the endowment.

In addition to the foregoing general endowment distributions, the Board of Trust has authorized the use of previously reinvested income, realized capital gains, and principal related to institutional endowments for special transinstitutional academic development initiatives. A summary of Vanderbilt's endowment for the fiscal years ended June 30 follows (*in thousands*):

2010

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

2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments, at historical value	$ ---	$ 15,690	$ 785,856	$ 801,546
Accumulated net appreciation of donor-restricted endowments	---	898,332	---	898,332
Quasi-endowments				
Institutional endowments				
At historical value	114,175	---	---	114,175
Accumulated net appreciation	745,436	---	---	745,436
Reinvested distributions of donor-designated endowments				
At historical value	127,099	---	---	127,099
Accumulated net appreciation	147,026	---	---	147,026
Endowment net assets as of June 30, 2009	**$ 1,133,736**	**$ 914,022**	**$ 785,856**	**$ 2,833,614**

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

	2010	2009
Net realized appreciation less endowment distributions	$ 1,732,076	$ 1,889,280
Net unrealized appreciation	148,659	(98,486)
Total	**$ 1,880,735**	**$ 1,790,794**

In striving to meet the overarching objectives for the endowment, over the past 20 years, there has been an 11.3% annualized standard deviation in Vanderbilt's returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components, each of which is designed to serve a specific role in establishing the right balance between risk and return. Global public and private equity investments are expected to produce favorable returns in environments of accelerating 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, 2010 and 2009, Vanderbilt had deficiencies of this nature of approximately $18 million and $23 million, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature. Changes in endowment net assets for the fiscal years ended June 30 were as follows (*in thousands*):

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2009	$ 1,133,736	$ 914,022	$ 785,856	$ 2,833,614
Endowment investment return:				
Investment income, net of fees	2,054	2,938	---	4,992
Net appreciation (realized and unrealized)	99,500	142,323	---	241,823
Total endowment investment return	101,554	145,261	--	246,815
Gifts and additions to endowment, net	28,251	3,610	55,671	87,532
Endowment distributions	(64,665)	(88,408)	---	(153,073)
Transfers for investment administration costs	(3,375)	(3,906)	---	(7,281)
Endowment net assets as of June 30, 2010	**$ 1,195,501**	**$ 970,579**	**$ 841,527**	**$ 3,007,607**

2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2008	$ 1,426,715	$ 1,340,187	$ 728,537	$ 3,495,439
Endowment investment return:				
Investment income, net of fees	9,960	14,372	---	24,332
Net appreciation (realized and unrealized)	(243,336)	(351,110)	---	(594,446)
Total endowment investment return	(233,376)	(336,738)	---	(570,114)
Gifts and additions to endowment, net	8,759	1,366	57,319	67,444
Endowment distributions	(65,285)	(87,432)	---	(152,717)
Transfers for investment administration costs	(3,077)	(3,361)	---	(6,438)
Endowment net assets as of June 30, 2009	**$ 1,133,736**	**$ 914,022**	**$ 785,856**	**$ 2,833,614**

7. Investment Return

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

	2010	2009
OPERATING		
Endowment distributions	$ 146,749	$ 146,638
Investment income	19,341	3,427
Total operating return	**166,090**	**150,065**
NON-OPERATING		
Unrestricted:		
Change in appreciation of quasi-endowments, net of distributions	40,800	(295,299)
Net gains (losses) on self-insurance assets	7,531	(8,293)
Net gains (losses) on other investments	7,679	(36,980)
Temporarily restricted:		
Endowment distributions	4,717	4,637
Investment income	(1,928)	(8,743)
Change in appreciation of donor-restricted endowments, net of distributions	52,942	(427,532)
Permanently restricted:		
Endowment distributions reinvested	1,607	1,442
Investment income	8,165	(24,734)
Total non-operating return	**121,513**	**(795,502)**
Total investment return	**$ 287,603**	**$ (645,437)**

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

	2010	2009
Net interest, dividend, and partnership income	$ 39,552	$ 71,187
Net realized losses from original cost	(20,305)	(59,519)
Increase (decrease) in unrealized appreciation	268,356	(657,105)
Total investment return	**$ 287,603**	**$ (645,437)**

Investment returns are reported net of returns attributed to limited partners on investments allocable to minority interests.

In addition to a core group of investment professionals dedicated to the management of Vanderbilt's endowment, Vanderbilt also employs external investment managers to a large degree. 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.

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $7.9 million and $3.5 million in fiscal 2010 and 2009, respectively.

8. Property, Plant, and Equipment

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

	2010	2009
Land	$ 66,978	$ 60,102
Buildings and improvements	2,485,343	2,295,961
Moveable equipment	795,152	726,650
Construction in progress	86,948	189,529
Property, plant, and equipment	3,434,421	3,272,242
Less: Accumulated depreciation	1,627,137	1,470,757
Property, plant, and equipment, net	**$ 1,807,284**	**$ 1,801,485**

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, 2010, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled about $266 million.

Capitalized interest of $2.8 million and $2.7 million in fiscal 2010 and 2009, respectively, was added to construction in progress and/or buildings and improvements.

Internally developed software costs of $3.3 million and $2.2 million were capitalized in fiscal 2010 and 2009, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $18.6 million and $18.1 million as of June 30, 2010 and 2009, 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.

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

	Years to Nominal Maturity	Fiscal 2010 Effective Interest Rate	Outstanding Principal 2010	2009
FIXED-RATE DEBT				
Series 1998 B	19	5.0%	$ 30,710	$ 31,670
Series 1998 C[1]	5	4.9%	10,805	12,670
Series 2001 A	6	5.1%	8,970	10,220
Series 2001 B[1]	13	5.1%	45,085	47,470
Series 2005 B-3[1]	--	3.1%	---	152,205
Series 2008 A	8	4.0%	133,600	136,100
Series 2008 B[1]	8	3.9%	115,950	119,950
Series 2009 A	29	4.9%	97,100	97,100
Series 2009 B[1]	29	5.0%	232,900	232,900
Series 2009 A Taxable Notes	9	5.3%	250,000	250,000
Total fixed-rate debt			**925,120**	**1,090,285**
VARIABLE-RATE DEBT				
Series 2000 A	21	0.4%	56,500	58,000
Series 2000 B	21	0.4%	56,500	58,000
Series 2002 A	23	0.4%	19,725	20,170
Series 2003 A[1]	9	0.4%	24,280	27,485
Series 2005 A	34	0.3%	113,300	113,300
Total variable-rate debt			**270,305**	**276,955**
Par amount of long-term debt			1,195,425	1,367,240
Net unamortized premium			6,123	10,507
Total long-term debt			1,201,548	1,377,747
Capital leases	1 to 4	5.6%	4,586	2,570
Total long-term debt and capital leases			**1,206,134**	**1,380,317**
Tax-exempt commercial paper	<1	0.5%	177,740	25,535
Taxable commercial paper	<1	0.5%	123,508	123,369
Tax-exempt and taxable commercial paper			**301,248**	**148,904**
Total long-term debt, capital leases, and commercial paper			**$ 1,507,382**	**$ 1,529,221**

[1] Issued under Master Trust Indenture structure.

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements used by Vanderbilt to manage its debt portfolio. 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 2009 A 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.

Included in the foregoing are hospital and clinic (patient care) bonds, with a principal balance outstanding of $429.0 million as of June 30, 2010, that were issued under a Master Trust Indenture (MTI) structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group; presently, Vanderbilt's hospitals and clinics have no other members participating in the obligated group. Bonds issued under the MTI are payable from hospital revenues (as defined in the MTI). All MTI bonds presently outstanding 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 believes it is in compliance with such covenants and restrictions as of June 30, 2010.

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

		2010		2009
Interest cost paid	$	88,863	$	51,543
Accrued interest expense	$	78,788	$	55,150
Assets held by trustees for subsequent debt service as of June 30	$	3,431	$	3,257

Payments for interest costs occur on varying scheduled payment dates for debt, maturity dates for CP, and settlement dates for interest rate exchange agreements. Accrued interest expense is calculated based on applicable interest rates for the respective debt, CP, and interest rate exchange agreements as of the end of 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)*:

2011	$ 24,365
2012	25,075
2013	30,215
2014	37,790
2015	46,585
Thereafter	1,031,395
Total	**$ 1,195,425**

Liquidity support for short-term debt is provided by university self-liquidity. As of June 30, 2010, Vanderbilt estimates that $931.7 million of liquid assets were available on a same-day basis and an additional $526.7 million was available within 30 days. A second tier of liquidity support in the form of two bank revolving credit facilities, with maximum available commitments totaling $375.0 million as of June 30, 2010, are in place and dedicated solely to debt portfolio liquidity. These commitments expire in March 2011 and June 2011. Since initiation of these revolving credit agreements, there have been no borrowings required to support redemptions of short-term debt.

On June 1, 2010, Vanderbilt entered into agreements with two banks to provide lines of credit with maximum available commitments totaling $200.0 million. These lines of credit, which may be drawn upon for general operating purposes, expire in May 2012 and May 2013. No amounts were drawn on these credit facilities as of June 30, 2010. Trial draws totaling $10.0 million occurred subsequent to June 30, 2010, were retired shortly thereafter, and were not outstanding as of the date on which the consolidated financial statements were available for issuance.

Vanderbilt's offering statements provide combined tax-exempt and taxable CP programs of up to $675 million. However, issuance of incremental taxable CP beyond that outstanding at June 30, 2010, would require approval by Vanderbilt's Board of Trust and issuance of additional tax-exempt CP for "new money" projects would require approval by both Vanderbilt's Board of Trust and the HEFB as conduit issuer. On April 1, 2010, Vanderbilt utilized proceeds from the tax-exempt CP program in the amount of $152.2 million to refund the Series 2005 B-3 tax-exempt fixed-rate put bonds on their mandatory tender date. Combined with other tax-exempt CP, on June 30, 2010, Vanderbilt had $177.7 million outstanding. Under Vanderbilt's taxable CP program $123.5 million of notes were outstanding as of June 30, 2010, including $114.9 million to support Vanderbilt's overall liquidity.

10. Interest Rate Exchange Agreements

Vanderbilt manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense from variable-rate debt, by utilizing interest rate exchange agreements.

The fair value of interest rate exchange agreements is the estimated amount that Vanderbilt would pay or receive to terminate these contracts as of the report date.

In December 2008, Vanderbilt terminated $300.0 million of fixed-payer interest rate exchange contracts and $150.0 million of reverse basis interest rate exchange contracts at a net cost of $87.2 million to reduce collateral exposure. Concurrently, to hedge against further declines in long-term LIBOR rates, Vanderbilt purchased an option to execute a $500.0 million notional fixed-receiver interest rate exchange contract on December 1, 2010.

The estimated fair value of outstanding interest rate exchange agreements was $230.8 million and $154.1 million as of June 30, 2010 and 2009, respectively, and is reported as a liability in the consolidated statements of financial position. Changes in the fair value for these contracts, exclusive of realized losses due to contract terminations in fiscal 2009, amounted to an unrealized loss of $76.7 million in fiscal 2010 and $184.5 million in fiscal 2009. Net realized losses from contract terminations and changes in the fair value of interest rate exchange agreements are both included in the non-operating section of the consolidated statements of activities.

Collateral pledging requirements included in interest rate exchange agreements result in collateral exposure based on the fair value of the contracts. Collateral held by counterparties as of June 30, 2010 and 2009, amounted to $122.7 million and $77.3 million, respectively. Management estimates that a decline in long-term LIBOR-based rates to approximately 2% would reduce the fair value of the derivative portfolio to approximately $460 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $360 million.

Periodic net cash settlements paid to counterparties totaled $30.4 million and $20.2 million in fiscal 2010 and 2009, respectively, and were reflected as adjustments to interest expense.

As of June 30, 2010, Vanderbilt's adjusted debt portfolio, after taking into account the aforementioned exchange agreements, was approximately 129% fixed. Exclusive of the option to execute a $500.0 million notional fixed-receiver interest rate exchange agreement, the notional amounts of these agreements as of June 30 were as follows *(in thousands)*:

Description	Rate Paid	Rate Received	Maturity	2010	2009
% of LIBOR[1] fixed-payer interest rate exchange agreements[2]	Avg fixed rate of 3.60%	68 to 70% of one-month LIBOR	20 to 34 years with $193,000 of notional amortization matched to principal retirements for the Series 2000A and B bonds and the Series 2005A bonds	$ 1,008,000	$ 1,011,000
SIFMA[3] fixed-receiver interest rate exchange agreements	SIFMA	3.09%	Matured April 1, 2010	---	$ 152,205
Basis interest rate exchange agreement	SIFMA	Avg of 82.2% of one-month LIBOR	24 to 25 years	$ 500,000	$ 500,000

[1] London Interbank Offered Rate
[2] For an amortizing fixed-payer interest rate exchange agreement that will have a notional balance of $51.6 million in October 2012, the counterparty will be able to 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.
[3] Securities Industry and Financial Markets Association

11. Net Assets

Vanderbilt has chosen to provide further classification information for each net asset category.

Unrestricted net assets are internally designated into the following groups:

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

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

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

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

Quasi-endowments are amounts set aside by the Board of Trust intended to generate income in perpetuity to support operating needs. Such amounts include cumulative appreciation on the applicable investments.

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.

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

	2010	2009
Designated for operations	$ 435,735	$ 288,102
Designated gifts and grants	178,703	170,044
Designated for student loans	31,346	30,963
Designated for plant facilities	630,826	651,753
Quasi-endowments	1,195,501	1,133,736
Fair value of interest rate exchange agreements, net	(230,776)	(154,091)
Total unrestricted net assets	**$ 2,241,335**	**$ 2,120,507**

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

	2010	2009
Donor-restricted endowments at historical value	$ 19,304	$ 15,690
Accumulated net appreciation of donor-restricted endowments	951,275	898,332
Gifts and pledges	115,211	132,247
Interests in trusts held by others	6,189	5,984
Life income and gift annuities	16,045	16,051
Total temporarily restricted net assets	**$ 1,108,024**	**$ 1,068,304**

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

	2010	2009
Student scholarships	$ 268,324	$ 256,787
Instruction	491,086	486,735
Capital improvements	12,584	22,986
Subsequent period operations and other	336,030	301,796
Total temporarily restricted net assets	**$ 1,108,024**	**$ 1,068,304**

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

	2010	2009
Donor-restricted endowments at historical value	$ 841,527	$ 785,856
Gifts and pledges	50,904	54,523
Interests in trusts held by others	30,204	27,943
Life income and gift annuities	23,548	20,426
Total permanently restricted net assets	**$ 946,183**	**$ 888,748**

Based on relative fair values as of June 30, 2010, approximately 28% of donor-restricted endowments support scholarships, 26% supports endowed faculty chairs, 25% supports departmental operations, and 21% are for other purposes.

12. Fair Value Measurement

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

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

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

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

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

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

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

The following table presents a rollforward of amounts for level 3 financial instruments for the year ended June 30, 2010 *(in thousands)*:

	June 30, 2009	Net purchases and sales	Realized gains (losses) / (distributions)	Unrealized gains (losses)	June 30, 2010
LEVEL 3 ASSETS					
Investments	$ 2,259,968	$ 407,171	$ (381,673)	$ 123,552	$ 2,409,018
Investments allocable to minority interests	--	62,617	(38,778)	53,856	77,695
Interests in trusts held by others	33,927	---	(688)	3,154	36,393
Total Level 3	**$ 2,293,895**	**$ 469,788**	**$ (421,139)**	**$ 180,562**	**$ 2,523,106**

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

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

As of June 30, 2010, 97% of cash and cash equivalents were available on a same-day basis.

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

Bonds and stocks provide varying levels of liquidity as defined in the following tables. As of June 30, 2010, 68% and 50% of bond values and stock values, respectively, were available for daily redemption requests with liquidity within 30 days.

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

As of June 30, 2010, 10% of partnerships are comprised of hedge funds in "lock up" periods of up to three years, during which redemptions or liquidations are not allowed per terms of the respective agreements with fund managers. Additionally, 7% of partnerships are in “soft lock up” periods of up to three years, during which redemptions or liquidations may occur but are subject to withdrawal penalties ranging from 2.00% to 4.75%. These “soft lock up” partnerships are included in the allocations to redemption frequencies of monthly, quarterly, and annually in the tables on the following page.

Of the total fair values for partnerships and real estate, 48% and 100%, respectively, are reported as illiquid as of June 30, 2010. These amounts predominantly consist of limited partnerships, which include partnerships in private equity venture capital and natural resources. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions for the timing of disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Vanderbilt cannot anticipate such changes because they are based on unforeseen events. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related market values are reported as illiquid.

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

2010

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

2009

	Fair Value Measurements Level 1	Level 2	Level 3	Total	Group %	Redemption or Liquidation Frequency	Days Notice
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	$ 752,397	$ ---	$ ---	$ 752,397	97%	Daily	same-day
					3%	Daily	2-90 days
Short-term securities and derivative contract collateral	221,384	---	---	221,384	100%	n/a	n/a
Bonds	139,416	---	28,549	167,965	55%	Daily	next-day
					2%	Monthly	2-30 days
					43%	Daily	>30 days
Stocks	287,788	116,785	129,680	534,253	39%	Daily	2-30 days
					21%	Bi-Weekly	2-30 days
					5%	Monthly	2-30 days
					19%	Daily	>30 days
					16%	Annually	>30 days
Partnerships	161,570	135,252	1,847,582	2,144,404	8%	Daily	2-30 days
					4%	Monthly	>30 days
					28%	Quarterly	>30 days
					10%	Annually	>30 days
					8%	Lock up	>30 days
					42%	Illiquid	n/a
Loans	---	---	3,925	3,925	100%	Illiquid	n/a
Real estate	---	---	208,981	208,981	100%	Illiquid	n/a
Other	4,320	---	41,251	45,571	100%	n/a	n/a
Net receivables for unsettled trades by investment managers	2,023	---	---	2,023	100%	n/a	n/a
Interests in trusts held by others	---	---	33,927	33,927	100%	n/a	n/a
Total assets reported at fair value	**$ 1,568,898**	**$ 252,037**	**$ 2,293,895**	**$ 4,114,830**			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	**$ ---**	**$ 154,091**	**$ ---**	**$ 154,091**			

13. Natural Classification of Expenses and Allocations

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

	2010	2009
Salaries, wages, and benefits	$ 1,935,164	$ 1,821,770
Services	170,218	146,279
General expenses and supplies	642,907	616,769
Depreciation and amortization	162,530	154,342
Interest	78,788	55,150
Provision for bad debts	119,907	108,014
Utilities, operating leases, and other	153,563	154,862
Total operating expenses	**$ 3,263,077**	**$ 3,057,186**

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)*:

2010

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

2009

	Depreciation	Interest
Instruction	$ 18,861	$ 4,941
Research	25,765	7,986
Health care services	61,626	27,377
Public service	971	234
Academic support	9,120	1,990
Student services	1,064	314
Institutional support	14,217	1,998
Room, board, and other auxiliary services	22,718	10,310
Total	**$ 154,342**	**$ 55,150**

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 2010 and 2009 were $53.1 million and $49.9 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, gifts, endowment distributions, and externally sponsored aid.

In fiscal 2010 and 2009, financial aid for tuition and educational fees of $177.8 million and $157.9 million was applied to gross tuition and educational fees of $415.4 million and $387.9 million, respectively. In fiscal 2010 and 2009, financial aid for room and board of $25.8 million and $22.2 million was applied to gross room and board of $63.4 million and $60.3 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 $4.3 million as of June 30, 2010 and 2009.

16. Charity Care, Community Benefits, and Other Unrecovered Costs

Consistent with its mission, Vanderbilt's hospitals and clinics (Hospital) maintain a policy which sets forth the criteria pursuant to those healthcare 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 Hospital maintains records to identify and monitor the level of charity care it provides, and these records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services. Charity care assistance is offered on a tiered grid, which is based on Federal poverty guidelines. In addition to charity care assistance, all uninsured patients are eligible for a discount from billed charges for medically necessary services that is mandated under State of Tennessee law. For those patients with a major catastrophic medical event that does not qualify for full charity assistance, additional discounts are given based on the income level of the patient household using a sliding scale.

The cost of charity care provided by the Hospital was $79.3 million and $71.8 million in fiscal 2010 and 2009, respectively. Of the total uncompensated care provided by the Hospital (comprising charity care not reported as revenue and expense reported as provision for bad debts), 74% and 75% of the total in fiscal 2010 and 2009, respectively, was charity care. Charity care patients represent 4% of all total patients treated at the Hospital in both fiscal 2010 and 2009.

In addition to the charity care services described above, the Hospital 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 Hospital provided services related to TennCare/Medicaid and state indigent programs substantially below the cost of rendering such services.

The Hospital 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.

The estimated total costs of charity care, community benefits, and other unrecovered costs at June 30, reported in accordance with Internal Revenue Service (IRS) reporting requirements for Form 990 Schedule H were as follows *(in thousands)*:

	2010	2009
Charity care and community benefits using guidelines for IRS Form 990 Schedule H		
Unreimbursed cost of charity care	$ 79,300	$ 71,800
Resident and Allied Health education	45,100	40,400
Unreimbursed cost of TennCare/ Medicaid	45,800	35,200
Other community health programs	5,700	2,100
Subsidized health services	1,500	1,600
Behavioral health hospital services	3,800	1,100
Clinical research support	600	600
Total costs of charity care and community benefits	181,800	152,800
Other unrecovered costs using guidelines for IRS Form 990 Schedule H but not includable as community benefits		
Unreimbursed cost of Medicare	45,300	38,200
Cost of bad debts	28,300	24,200
Unreimbursed cost of TRICARE	8,700	7,600
Total other unrecovered cost	82,300	70,000
Total cost of charity care, community benefits, and other unrecovered costs	**$ 264,100**	**$ 222,800**

17. 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 2010 and 2009 was $59.6 million and $57.5 million, respectively.

As of June 30, 2010, future committed minimum rentals by fiscal year on non-cancelable operating leases with initial or remaining lease terms in excess of one year are as follows *(in thousands)*:

2011	$ 27,970
2012	22,852
2013	17,937
2014	15,407
2015	13,228
Thereafter	50,574
Total future minimum rentals	**$ 147,968**

Vanderbilt leases over 50% of the space in the approximately 850,000-square-foot One Hundred Oaks facility, located within five miles of the main campus, primarily for medical clinic and office uses. This operating lease commenced in fiscal 2008 with an initial lease term of 12 years. In addition to having five 10-year renewal options, Vanderbilt will have the right of first offer to lease additional space as it becomes available. Minimum aggregate rental payments of $49.0 million related to this space are included in the future minimum rentals.

18. Related Parties

Intermittently, members of Vanderbilt's Board of Trust and senior management 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. Commitments and Contingencies

(A) *Construction.* As of June 30, 2010, approximately $35.3 million was contractually committed for projects under construction and equipment purchases.

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

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

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

(E) *Employee Health and Workers Compensation Insurance.* Vanderbilt is self-insured for employee health insurance and workers compensation coverage. Actuarial liabilities are recorded based upon studies performed by actuarial firms.

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

(G) *Health Care Services.* Revenue from health care services includes amounts paid under reimbursement agreements with certain third-party payers and is subject to examination and retroactive adjustments. Any differences between estimated year-end settlements and actual final settlements are reported in the year final settlements are known. Substantially all final settlements have been determined through the year ended June 30, 2006.

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

(I) *Partnership Investment Commitments.* There were $828.3 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2010. 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 $121.2 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

(J) *McKendree Village, Inc. Debt Guaranty.* In July 1998, Vanderbilt and McKendree Village, Inc. (McKendree), a not-for-profit retirement community, entered into an affiliation agreement, including a guarantee of certain McKendree debt by the university, largely secured by asset liens on McKendree property. As of June 30, 2010, the balance of McKendree's guaranteed debt outstanding was $15.4 million.