2016 FINANCIAL REPORT

VANDERBILT UNIVERSITY

Contents

Letter from the Chancellor

The true value of a great university is most accurately measured by the contributions it makes in shaping the lives of young scholars and in its ability to harness the intellect of the collective members of its community to envision solutions to the challenges facing humankind. Vanderbilt's mission is centered on these noble goals, and we carefully steward our resources to ensure a solid financial foundation that will allow the reach and impact of our efforts to be most powerful and empowering. Thus, we are pleased to finish another year with strong financial results.

At Vanderbilt, we view investments in our people as an investment in our future. Inspired by this philosophy, the Chancellor Faculty Fellows — a key initiative of our Strategic Academic Plan — moves into its second year, funding the work of 14 talented faculty members. Another exciting program, the Chancellor's Higher Education Fellowship, was launched in FY 2016 to create a robust, diverse pipeline of leaders. Working closely with select individuals from our faculty and staff, this program allows me the privilege of helping Vanderbilt up-and-comers gain high-level knowledge of our ethos and policies. We all benefit as a community when we have experienced people who are prepared to lead the university to the next level.

In FY 2016, our Trans-institutional Programs initiative continued its enormous success advancing interdisciplinary projects and research. The 13 cross-disciplinary projects recently selected employ the intellectual talents of more than 100 faculty members representing all 10 of Vanderbilt's colleges and schools. These innovative collaborations exemplify the special collegial culture of Vanderbilt and the many ways that we are using discovery as a pathway for our students to immerse in highly creative learning experiences.

A walk across campus reveals the advancement of the College Halls at Vanderbilt residential colleges plan, with the groundwork for the next phase, Vanderbilt Barnard College, well underway. This progress represents but one aspect of our Land Use Planning Initiative, a comprehensive project launched last year to plan for our growth over the coming decades, and cast the blueprint for the physical manifestation of our philosophic and humanistic values that will guide our major building.

When an institution's goals center on the advancement of ideas, the ability to adapt to meet the evolving nature of humanity is essential. Perhaps nowhere does this paradigm hold greater truth than in the field of health care. A few years ago, we began an examination of how best to allow our clinical enterprise the fluidity needed to thrive and flourish in the highly competitive health care environment. In April 2016, the transition of Vanderbilt University and Vanderbilt University Medical Center (VUMC) into legally separate institutions was completed. Connectedness will continue through collaborative educational and research programs and shared missions that emphasize innovation through discovery science, while separate financial status allows the university and VUMC to pursue paths that will position each to attain goals and plan strategically for the future.

Our commitment to core values of diversity, inclusion, and community combined with academic excellence contribute to the continuing and growing demand for the Vanderbilt experience from bright scholars from across the nation and around the globe. Opportunity Vanderbilt, our expansive financial aid program, is making the American Dream of attending an outstanding university possible for scores of students and families. Since Vanderbilt's founding, the university has symbolized and forged progressive thought and movement. Building on the lessons of our past, we plan optimistically and boldly for our future, creating a new path forward and a better quality of life through education and discovery.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2015/2016	2014/2015	2013/2014	2012/2013	2011/2012
STUDENTS					
Undergraduate	6,883	6,851	6,835	6,796	6,817
Graduate and professional	5,684	5,835	5,922	5,914	6,019
Total fall enrollment	12,567	12,686	12,757	12,710	12,836
Undergraduate admissions					
Applied	31,464	29,518	31,099	28,348	24,837
Accepted	3,674	3,865	3,963	4,034	4,078
Enrolled	1,607	1,605	1,613	1,608	1,601
Selectivity	11.7%	13.1%	12.7%	14.2%	16.4%
Yield	43.7%	41.5%	40.7%	39.9%	39.3%
Degrees conferred					
Baccalaureate	1,723	1,644	1,663	1,675	1,673
Master's	1,421	1,497	1,416	1,421	1,432
M.D.	104	120	91	111	99
Other doctoral	564	598	580	551	516
Total degrees conferred	3,812	3,859	3,750	3,758	3,720
Undergraduate six-year graduation rate	92.3%	92.0%	92.9%	92.5%	92.2%
Undergraduate tuition	$ 43,620	$ 42,768	$ 41,928	$ 41,088	$ 40,320
% increase over prior year	2.0%	2.0%	2.0%	1.9%	3.5%
FACULTY AND STAFF[1]					
Full-time faculty	1,404	3,740	3,742	3,672	3,551
Full-time staff	4,060	19,305	19,671	19,967	20,119
Part-time faculty	323	439	405	430	439
Part-time staff	509	692	709	763	768
Total faculty and staff	6,296	24,176	24,527	24,832	24,877
GRANT AND CONTRACT FUNDING[2] (in thousands)					
Government sponsors	$ 147,980	$ 150,760	$ 358,632	$ 377,839	$ 397,555
Private sponsors	31,087	26,497	69,466	61,714	54,768
Facilities and administrative costs recovery	55,426	54,610	140,051	142,609	147,806
Total grants and contracts	$ 234,493	$ 231,867	$ 568,149	$ 582,162	$ 600,129
ENDOWMENT					
Market value (in thousands)	$ 3,795,586	$ 4,093,388	$ 4,046,250	$ 3,635,343	$ 3,360,036
Endowment return	-4.3%	3.7%	13.3%	9.3%	1.3%
Endowment per student	$ 302,028	$ 322,670	$ 317,179	$ 286,022	$ 261,767
Endowment payout	4.7%	4.1%	4.1%	4.3%	4.4%

(1) In addition to the faculty employed by Vanderbilt University ("Vanderbilt") at the end of fiscal year 2016, an additional 2,588 employees of Vanderbilt University Medical Center ("VUMC") held Vanderbilt University faculty appointments. This amount comprised 2,463 full-time and 125 part-time appointments. On April 29, 2016, Vanderbilt and VUMC became two separate legal entities. Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with related assets and liabilities, to VUMC as a newly incorporated Tennessee not-for-profit corporation in exchange for consideration of $1,230 million (the "Transaction"). The Transaction drove this decrease in faculty and staff numbers from fiscal 2015 to 2016.

(2) Fiscal years prior to 2015 include grant and contract funding related to the operations of VUMC. As a result of the Transaction, these amounts were reclassified to discontinued operations in the consolidated statements of activities for fiscal years 2016 and 2015.

Financial Overview

On April 29, 2016, Vanderbilt University ("Vanderbilt") and Vanderbilt University Medical Center ("VUMC") became two separate legal entities. Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with related assets and liabilities, to VUMC as a newly incorporated Tennessee not-for-profit corporation in exchange for consideration of $1,230 million (the "Transaction"). While Vanderbilt will continue to collaborate with VUMC through education and research, this transaction allows VUMC the fluidity needed to flourish in the highly competitive healthcare environment and strengthens the university's ability to carry out its mission and pursue other initiatives. Pursuant to the Transaction, Vanderbilt reclassified VUMC fiscal 2015 assets and liabilities as held for sale and reclassified VUMC operating results from continuing operations to discontinued operations for each period presented.

Vanderbilt experienced sustained financial success in the year ending June 30, 2016, during a time of unprecedented change. In addition to a strengthened financial position, Vanderbilt's strategic metrics showed continued improvement during fiscal 2016. Undergraduate applications for fall 2015 grew 6.6% to 31,464 with an 11.7% selectivity rate, compared to a 13.1% selectivity rate for fall 2014.

Financial Position

Summary of Financial Position
as of June 30, in millions

	2016	2015
ASSETS		
Cash and cash equivalents	$ 963	$ 867
Investments	4,047	4,467
Accounts and contributions receivable	220	106
Promissory notes receivable	99	-
Property, plant, and equipment, net	944	881
Prepaid expenses and other assets	82	93
Assets held for sale	-	1,857
Total assets	**$ 6,355**	**$ 8,271**
LIABILITIES		
Payables and accrued liabilities	$ 226	$ 275
Deferred revenue	48	52
Interest rate exchange agreements	115	119
Securities sold short	251	187
Long-term debt and commercial paper	309	1,235
Liabilities held for sale	-	428
Total liabilities	**949**	**2,296**
NET ASSETS		
Unrestricted net assets	2,898	3,279
Temporarily restricted net assets	1,224	1,461
Permanently restricted net assets	1,284	1,235
Total net assets	**5,406**	**5,975**
Total liabilities and net assets	**$ 6,355**	**$ 8,271**

Vanderbilt's assets, totaling $6,355 million as of June 30, 2016, decreased $1,916 million, or 23.2%, from the prior year, or $59 million, or 0.9%, excluding assets held for sale as of June 30, 2015. Total assets decreased primarily due to $1,857 million of assets as of June 30, 2015 transferred to VUMC through the Transaction. The endowment, net of securities sold short, returned -4.3% and its value, (after the impact of distributions in support of operations and the addition of new gifts and unrestricted quasi-endowments), decreased to $3,796 million at the end of fiscal 2016 from $4,093 million at the end of fiscal 2015.

Total liabilities of $949 million as of June 30, 2016, decreased $1,347 million, or 58.7%, from the prior year, or $919 million, or 49.2%, excluding liabilities held for sale as of June 30, 2015. Liabilities of $428 million as of June 30, 2015 transferred to VUMC through the Transaction and the associated defeasance of $849 million of debt drove this decrease.

Cash and Liquidity

Vanderbilt continues to invest operating assets in a conservative, diversified manner to ensure adequate security and liquidity under a variety of stress scenarios. As of June 30, 2016, Vanderbilt had operating and endowment assets available within 30 days of $1,887 million and same day liquidity of $1,014 million. This very strong liquidity position contributes to the university's ability to satisfy potential liquidity risks. Vanderbilt maintains the highest short-term ratings from the major credit rating agencies.

To provide supplemental liquidity support, Vanderbilt maintains an agreement with one bank to provide a general operating line of credit with a maximum available commitment totaling $100 million. In addition, Vanderbilt carries $300 million of total revolving credit facilities with two additional banks to provide dedicated self-liquidity support for the debt portfolio; one of these lines, totaling $100 million, includes a general use provision.

Debt

Vanderbilt's debt portfolio includes fixed-rate debt, variable-rate debt, and commercial paper, along with interest rate exchange agreements used for hedging interest rate exposure.

For the seventh consecutive year, Vanderbilt did not issue new-money debt. Debt defeasances on long-term debt and commercial paper, scheduled principal payments on long-term debt and elective reductions of commercial paper reduced total outstanding debt by $926 million to a balance of $309 million as of June 30, 2016.

During fiscal 2016, Vanderbilt terminated $115 million notional of fixed-payer interest rate exchange agreements in order to reduce the university's aggregate collateral exposure and eliminate ongoing settlement costs. Over the past seven fiscal years, Vanderbilt terminated $625 million of fixed-payer interest rate exchange agreements and incurred net amortization of $20 million. During fiscal 2016, in conjunction with the Transaction, Vanderbilt novated a $150 million fixed-payer interest rate exchange agreement, reducing its fixed-payer portfolio notional balance to $216 million at the end of fiscal 2016 as compared to $1,011 million at the end of fiscal 2009.

Statements of Activities

Consolidated Operating Revenues
in millions

	2016	2015
Tuition and educational fees, net of financial aid	$ 280	$ 272
Government grants and contracts	148	151
Private grants and contracts	31	27
F&A costs recovery	55	54
Contributions	113	83
Endowment distributions	185	165
Investment income	1	11
Trademark, license, and royalty	23	8
Affiliated entity revenue	262	289
Room, board, and other auxiliary services, net of financial aid	133	116
Other sources	40	32
Total operating revenues	**$ 1,271**	**$ 1,208**

Consolidated operating revenues increased $63 million, or 5.2%, to $1,271 million in fiscal 2016, as compared to $1,208 million in fiscal 2015. The primary drivers of this increase in fiscal 2016 were a $30 million increase in contribution revenue due to increased giving, and a $20 million increase in endowment distributions due to a higher approved distribution rate. Room, board, and auxiliary revenue increased $17 million primarily due to increased SEC revenue and amounts recognized pursuant to the Master Service Agreement and Ground Lease with VUMC. Trademark, license and royalty revenue increased $15 million primarily due to revenue generated under the Trademark Licensing Agreement with VUMC. Offsetting these increases, affiliated entity revenue decreased by $27 million in fiscal 2016 as compared to fiscal 2015.

Tuition, Room, and Board

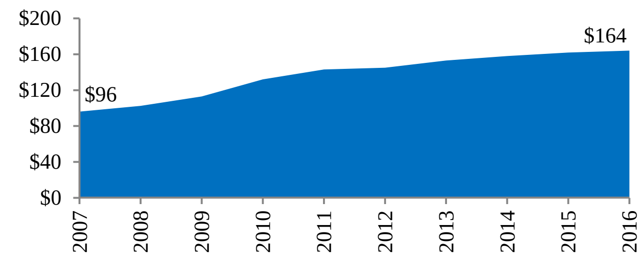
To facilitate Vanderbilt's commitment to student access and affordability, the university provides significant financial aid to students and their families. In fiscal 2016, Vanderbilt provided $248 million in support to its students for tuition and room and board as shown in the table below.

in millions	**Undergraduate** (6,883 students)	**Graduate and Professional** (5,684 students)	**Total**
Tuition and fees	$ 314	$ 181	$ 495
Financial aid[1]	(131)	(84)	(215)
Tuition and fees, net	**$ 183**	**$ 97**	**$ 280**
Room and board	$ 80	$ -	$ 80
Financial aid	(33)	-	(33)
Room and board, net	**$ 47**	**$ -**	**$ 47**
Total	**$ 230**	**$ 97**	**$ 327**

[1] Financial aid excludes Pell Grants of $4 million as these amounts represent agency funds.

Over the past decade, Vanderbilt nearly doubled its level of support for undergraduate aid, as shown in the following graph.

Undergraduate Financial Aid
fiscal 2006 - 2016, in millions



For undergraduate students, aid as a percentage of gross tuition, room and board, and educational fees in fiscal 2016 was 42%. A portion of operations ($91 million), endowments ($63 million), working capital investments ($6 million), external agencies ($3 million), and gifts ($1 million) funded this aid. The university's Opportunity Vanderbilt fundraising initiative, which began in fiscal 2009 to support undergraduate financial aid, is critical to this support. Through June 30, 2016, this initiative raised $250 million.

Grants and Contracts Revenue

The pool of direct grant revenue increased by 0.6%, or $1 million, from $178 million in fiscal 2015 to $179 million in fiscal 2016. Due largely to governmental budgetary constraints, government grants and contracts revenue, predominantly for research activities, declined $3 million, or 2.0%, to $148 million in fiscal 2016 from $151 million in fiscal 2015. Private grants and contracts direct revenues increased $4 million, or 14.8%, over the same period from $27 million in fiscal 2015 to $31 million in fiscal 2016.

As shown in the following table, the largest source of direct government grant and contract revenue was the Department of Health and Human Services (primarily National Institutes of Health, or NIH). Other external sources included the National Science Foundation, Department of Defense, Department of Education, Department of Energy, and other government agencies.

Grants and Contracts Revenues by Funding Source
in millions

	2016	%
Department of Health and Human Services	$ 76	51%
National Science Foundation	18	13%
Department of Defense	17	12%
Department of Education	17	12%
Department of Energy	8	5%
Other government agencies	12	7%
Total government grants and contracts revenues by funding source	**$ 148**	**100%**

Sponsored research and project awards (awards that represent research funding commitments that have not yet been expended by Vanderbilt), which include multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled $214 million in fiscal 2016 as shown in the following table.

Sponsored Research and Project Awards
in millions

		2016
Government awards	$	178
Private awards		36
Total sponsored research and project awards	**$**	**214**

Government awards accounted for 83% of the total unexpended sponsored awards at the end of fiscal 2016. Vanderbilt's continued support from government awards is particularly impressive given the pressures on federal funding, while sustained private awards signal Vanderbilt's continued success in diversifying its research award pipeline.

Contributions revenue

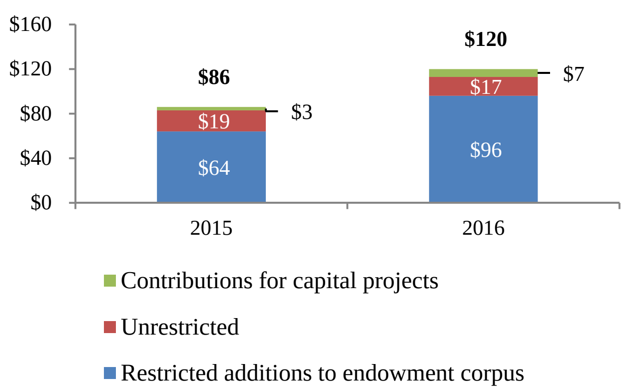
Vanderbilt reports contributions revenue within the consolidated financial statements based on GAAP. This basis for measurement differs from guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines represent the development reporting standard for colleges and universities and focus on philanthropic distributions of private resources (primarily gifts and foundation grants) to benefit the public. Consolidated GAAP contributions below consist of contribution revenue of $113 million and gifts for plant of $7 million.

GAAP to CASE Reconciliation
in millions

		2016
Total consolidated GAAP contributions	$	120
Grants and similar agreements meeting CASE guidelines (gifts per CASE standards)		11
Net increase in contributions receivable (fiscal 2015 to 2016)		(21)
Other		(6)
CASE reported gifts	**$**	**104**
Add: VUMC CASE gifts		40
Total CASE reported gifts (cash basis)	**$**	**144**

On a GAAP basis, in fiscal 2016, Vanderbilt recorded $120 million in contributions revenue, including pledges and contributions for plant, a 39.5% increase compared to $86 million in fiscal 2015.

Contributions (GAAP basis)
in millions



Operating Expenses
in millions

	2016	2015
Salaries, wages, and benefits	$ 644	$ 629
Supplies, services, and other	369	369
Interest expense	15	17
Depreciation and amortization	77	74
Grants to affiliates	24	25
Total operating expenses	**$ 1,129**	**$ 1,114**

Consolidated operating expenses increased $15 million, or 1.3%, to $1,129 million in fiscal 2016, as compared to $1,114 million in fiscal 2015. The primary driver of this increase was a $15 million, or 2.4%, increase in salaries, wages, and benefits to $644 million in fiscal 2016 from $629 million in fiscal 2015 driven by increased headcount and annual salary adjustments.

Consolidated Other Changes in Net Assets

Other changes in net assets included changes in appreciation of endowment, net of distributions, totaling $374 million in fiscal 2016, a decrease of $346 million compared to fiscal 2015. The change in appreciation for the endowment resulted from a 4.3% negative investment return and 4.7% of the endowment utilized for distributions during fiscal 2016, compared to a 3.7% investment return offset by 4.1% of the endowment utilized for distributions during fiscal 2015. Other changes in net assets also includes the impact of $27 million of unrealized losses on working capital invested alongside the endowment.

Vanderbilt incurred $77 million of costs associated with debt defeasance during fiscal 2016 with no such costs incurred in fiscal 2015. In fiscal 2016, Vanderbilt incurred net losses of $41 million on interest rate exchange agreements compared to $28 million in fiscal 2015. The fiscal year 2016 loss includes $44 million of costs attributable to $115 million notional value of fixed-payer swaps terminated, a $1 million unrealized loss to adjust the discount rate to reflect counterparty credit risk, partially offset by a $4 million unrealized mark-to-market gain due to the impact of terminated swaps offset by a decrease in 30-yr LIBOR. The fiscal year 2015 loss includes $22 million of costs attributable to $60 million notional value of fixed-payer swaps terminated, an $8 million unrealized loss to adjust the discount rate to reflect counterparty credit risk, partially offset by a $2 million unrealized mark-to-market gain due to the impact of terminated swaps offset by a decrease in 30-yr LIBOR.

Contributions for plant accounted for the remaining $7 million other changes in non-operating activity during fiscal 2016.

Net assets related to noncontrolling interests decreased $28 million due to distributions of $37 million offset slightly by $8 million of appreciation and $1 million of cash contributions during fiscal 2016.

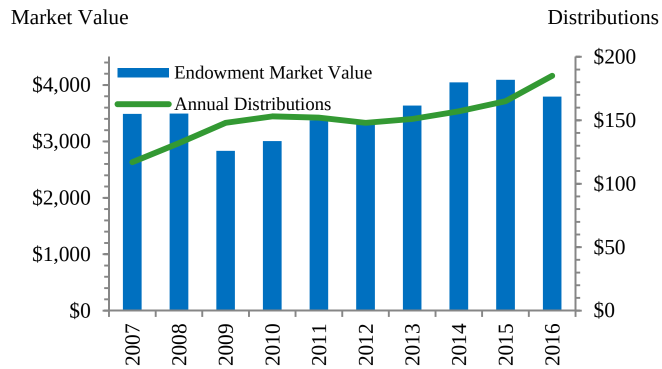
Endowment

For fiscal 2016, Vanderbilt's endowment portfolio returned -4.3%. The endowment, net of securities sold short, ended fiscal 2016 with a total market value of $3,796 million, compared to $4,093 million at the end of fiscal 2015. The difference between the investment return and change in absolute value of the endowment was attributable to the net impact of new endowment gifts, additions to institutional endowments (quasi-endowments), investment returns, costs for managing the endowment, and the distribution of endowment funds to support university operations. During fiscal 2016, the university added $154 million to the endowment portfolio through new gifts and additions to institutional endowments. Endowment distributions totaled $185 million in fiscal 2016, compared to $165 million in fiscal 2015. These distributions support the university's education, research, and public service missions.

The past year witnessed another choppy capital market environment. Global equity markets were down 4%, with wide dispersion across U.S. large caps (up 4%), U.S. small caps (down 7%), non-U.S. developed markets (down 13%), and emerging markets (down 12%). U.S. bond markets were sanguine (up 6%) as yields declined and credit spreads remained tight. Commodity prices continued to crash (down 26%) and the value of the U.S. dollar remained relatively flat on a trade-weighted basis.

Looking into the future, significant headwinds could still lie ahead. U.S. equity valuations are reasonably full, European equity markets are challenged by the volatility of the European Union and "Brexit" dynamics, and Asian markets are struggling in the midst of excessive leverage. And globally, markets are wrestling with government intervention, changing regulatory pressures, and slow-growth economies. In addition, conversations about when the U.S. Federal Reserve will normalize monetary policy and increase the Fed Funds rate continue to contribute to market volatility. That said, these challenges will from time to time present chances to be opportunistic in deploying new investments. Meanwhile, Vanderbilt is laying a strong foundation for the endowment by collaborating with some of the world's best investment managers across all asset classes.

Endowment Market Value and Annual Distributions
in millions



Endowment Asset Allocation
As of June 30, 2016 (% of portfolio)

	Allocation
Global equities	23.0%
Hedged strategies	18.5%
Commodities	2.9%
Fixed income	5.3%
Cash and cash equivalents	13.2%
Total public investments	**62.9%**
Private capital	27.7%
Real estate	4.5%
Natural resources	4.9%
Total nonmarketable	**37.1%**
Total endowment	**100.0%**

Looking Forward

We begin fiscal 2017 with a sense of renewed energy following a period marked with significant change. We acknowledge the ongoing financial pressures present to higher education posed by constrained federal research funding and volatility in the capital markets, but remain optimistic given our demonstrated sustained stability in academic and research areas.

Included in the pages that follow are Vanderbilt's audited financial statements, financial ratios, and other key financial metrics for fiscal 2016.

Financial Ratios[1]

Operating Cash Flow Margin

Unrestricted Operating Results before Interest and Depreciation / Unrestricted Operating Revenues

2015	2016
10.0%	13.3%

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

In fiscal 2016, Vanderbilt's unrestricted operating results before interest and depreciation increased 40.1% to $159 million from $113 million in fiscal 2015. Fiscal 2016 unrestricted operating revenues at $1,196 million represented a 5.4% increase from $1,135 million in fiscal 2015.

Total Wealth (in thousands)

Total Cash and Investments

2015	2016
$5,333,476	$5,009,687

Total wealth provides a measure of the assets available to create additional return through investment.

The decrease in total cash and investments from $5,333 million in fiscal 2015 to $5,010 million in fiscal 2016 was due primarily to a decrease in the investment market value to $3,964 million in fiscal 2016 from $4,356 million in fiscal 2015. This was partially offset by an increase in cash and cash equivalents of $96 million.

Operating Reserve

Spendable Cash and Investments / Operating Expenses before Depreciation

2015	2016
4.0x	3.6x

The *operating reserve* measures the ability of the university to cover its annual operating expenses using spendable financial resources.

Spendable cash and investments decreased 9.2% due to a decrease of $324 million in total cash and investments in fiscal 2016 and an increase in permanently restricted net assets of $48 million. Operating expenses before depreciation increased 1.3% from $1,039 million in fiscal 2015 to $1,053 million in fiscal 2016.

Monthly Days Cash on Hand

*Monthly Liquidity * 365 / Operating Expenses before Depreciation*

2015	2016
629 days	654 days

Monthly days cash on hand measures the number of days that the university is able to cover its operating expenses with cash.

Vanderbilt's monthly days cash on hand increased by 25 days in fiscal 2016 due to an increase in monthly liquidity offset by a $14 million increase in operating expense before depreciation.

Financial Leverage

Spendable Cash and Investments / Total Debt

2015	2016
3.3x	12.2x

Financial leverage provides a sense of the university's solvency and financial risk.

Vanderbilt's total debt decreased from $1,235 million in fiscal 2015 to $309 million in fiscal 2016 due to the defeasance and termination of a total $926 million in long term debt and commercial paper during the year. This was partially offset by a decrease in spendable cash and investments of $379 million in fiscal 2016.

Debt Affordability

Total Debt / Unrestricted Operating Results before Interest and Depreciation

2015	2016
10.9x	1.9x

Debt affordability provides a measure of the university's long-term financial obligations in relation to operating cash flows. A lower ratio indicates that the institution has improved its ability to meet its future obligations.

Vanderbilt's total debt decreased $926 million in fiscal 2016 and unrestricted operating results before interest and depreciation increased 40.1% to $159 million from $113 million in fiscal 2015.

(1) As a result of the Transaction, fiscal 2015 ratios have been recasted to reflect VUMC assets and liabilities held for sale as of June 30, 2015 and VUMC operations as discontinued for the year ended June 30, 2015.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

pwc

Report of Independent Auditors

To the Board of Trust of
Vanderbilt University

We have audited the accompanying consolidated financial statements of Vanderbilt University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanderbilt University at June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 20 to the consolidated financial statements, the University disposed of its clinical services operations and the related assets and liabilities during the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

October 4, 2016

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Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2016 and 2015 (in thousands)

	2016	**2015**
ASSETS		
Cash and cash equivalents	$ 963,001	$ 866,981
Accounts receivable, net	130,259	36,949
Prepaid expenses and other assets	20,814	24,302
Contributions receivable, net	90,269	68,959
Promissory notes receivable	99,166	-
Student loans and other notes receivable, net	34,329	35,438
Investments	3,963,630	4,355,541
Investments allocable to noncontrolling interests	83,056	110,954
Property, plant, and equipment, net	943,984	881,487
Interests in trusts held by others	26,601	33,545
Assets held for sale	-	1,857,028
Total assets	**$ 6,355,109**	**$ 8,271,184**
LIABILITIES		
Accounts payable and accrued liabilities	$ 82,569	$ 103,452
Accrued compensation and withholdings	80,044	106,745
Deferred revenue	48,202	51,633
Actuarial liabilities	39,816	41,865
Government advances for student loans	23,422	22,356
Commercial paper	84,530	263,454
Long-term debt	223,755	971,415
Fair value of securities sold short	251,855	187,431
Fair value of interest rate exchange agreements	115,169	119,373
Liabilities held for sale	-	428,451
Total liabilities	**949,362**	**2,296,175**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	2,814,990	3,167,702
Unrestricted net assets related to noncontrolling interests	83,056	110,954
Total unrestricted net assets	2,898,046	3,278,656
Temporarily restricted net assets	1,224,134	1,461,162
Permanently restricted net assets	1,283,567	1,235,191
Total net assets	**5,405,747**	**5,975,009**
Total liabilities and net assets	**$ 6,355,109**	**$ 8,271,184**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2016 (in thousands)

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES				
Tuition and educational fees	$ 495,330	$ -	$ -	$ 495,330
Less student financial aid	(215,563)	-	-	(215,563)
Tuition and educational fees, net	279,767	-	-	279,767
Grants and contracts:				
Government sponsors	147,980	-	-	147,980
Private sponsors	31,087	-	-	31,087
Facilities and administrative costs recovery	55,426	-	-	55,426
Total grants and contracts	234,493	-	-	234,493
Contributions	17,418	27,686	67,868	112,972
Endowment distributions	105,132	78,711	919	184,762
Investment income (loss)	15,685	(757)	(13,690)	1,238
Trademark, license, and royalty revenue	22,831	-	-	22,831
Affiliated entity revenue	262,524	-	-	262,524
Room, board, and other auxiliary services, net	132,500	-	-	132,500
Other sources	39,689	-	-	39,689
Net assets released from restrictions	86,394	(86,394)	-	-
Total revenues and other support	**1,196,433**	**19,246**	**55,097**	**1,270,776**
EXPENSES				
Salaries, wages, and benefits	643,886	-	-	643,886
Supplies, services, and other	369,473	-	-	369,473
Interest expense	14,839	-	-	14,839
Depreciation	76,909	-	-	76,909
Grants to affiliates	24,446	-	-	24,446
Total expenses	**1,129,553**	**-**	**-**	**1,129,553**
Change in unrestricted net assets from operating activity	**66,880**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	(150,188)	(218,988)	(4,457)	(373,633)
Change in appreciation of other investments	(27,430)	-	-	(27,430)
Change in appreciation of interest rate exchange agreements	(41,408)	-	-	(41,408)
Contributions for plant	3,213	3,870	-	7,083
Net assets released from restrictions for plant	7,827	(7,827)	-	-
Nonoperating net asset reclassifications	(2,700)	(1,457)	4,157	-
Debt defeasance costs	(76,599)	-	-	(76,599)
Total other changes in net assets	**(287,285)**	**(224,402)**	**(300)**	**(511,987)**
Increase (decrease) in net assets from continuing operations	**(220,405)**	**(205,156)**	**54,797**	**(370,764)**
Loss on discontinued operations	(132,307)	(31,872)	(6,421)	(170,600)
Increase (decrease) in net assets controlled by Vanderbilt	**(352,712)**	**(237,028)**	**48,376**	**(541,364)**
Decrease in net assets related to noncontrolling interests	**(27,898)**	**-**	**-**	**(27,898)**
Total increase (decrease) in net assets	**$ (380,610)**	**$ (237,028)**	**$ 48,376**	**$ (569,262)**
Net assets, June 30, 2015	**$ 3,278,656**	**$ 1,461,162**	**$ 1,235,191**	**$ 5,975,009**
Net assets, June 30, 2016	**$ 2,898,046**	**$ 1,224,134**	**$ 1,283,567**	**$ 5,405,747**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2015 (in thousands)

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES				
Tuition and educational fees	$ 489,018	$ -	$ -	$ 489,018
Less student financial aid	(216,815)	-	-	(216,815)
Tuition and educational fees, net	272,203	-	-	272,203
Grants and contracts:				
Government sponsors	150,760	-	-	150,760
Private sponsors	26,497	-	-	26,497
Facilities and administrative costs recovery	54,610	-	-	54,610
Total grants and contracts	231,867	-	-	231,867
Contributions	18,646	25,696	37,859	82,201
Endowment distributions	86,369	77,426	1,036	164,831
Investment income (loss)	12,274	131	(908)	11,497
Trademark, license, and royalty revenue	8,386	-	-	8,386
Affiliated entity revenue	289,018	-	-	289,018
Room, board, and other auxiliary services, net	115,698	-	-	115,698
Other sources	31,635	-	-	31,635
Net assets released from restrictions	69,428	(69,428)	-	-
Total revenues and other support	**1,135,524**	**33,825**	**37,987**	**1,207,336**
EXPENSES				
Salaries, wages, and benefits	628,626	-	-	628,626
Supplies, services, and other	368,850	-	-	368,850
Interest expense	16,769	-	-	16,769
Depreciation	74,478	-	-	74,478
Grants to affiliates	24,815	-	-	24,815
Total expenses	**1,113,538**	**-**	**-**	**1,113,538**
Change in unrestricted net assets from operating activity	**21,986**			
OTHER CHANGES IN NET ASSETS				
Change in appreciation of endowment, net of distributions	(10,454)	(18,242)	-	(28,696)
Change in appreciation of other investments	(1,987)	-	-	(1,987)
Change in appreciation of interest rate exchange agreements	(27,728)	-	-	(27,728)
Contributions for plant	2,714	577	-	3,291
Net assets released from restrictions for plant	17,153	(17,153)	-	-
Nonoperating net asset reclassifications	(7,735)	6,679	1,056	-
Total other changes in net assets	**(28,037)**	**(28,139)**	**1,056**	**(55,120)**
Increase in net assets from continuing operations	**(6,051)**	**5,686**	**39,043**	**38,678**
Income (loss) on discontinued operations	143,990	(12,006)	(286)	131,698
Increase (decrease) in net assets controlled by Vanderbilt	**137,939**	**(6,320)**	**38,757**	**170,376**
Decrease in net assets related to noncontrolling interests	**(39,113)**	**-**	**-**	**(39,113)**
Total increase (decrease) in net assets	**$ 98,826**	**$ (6,320)**	**$ 38,757**	**$ 131,263**
Net assets, June 30, 2014	**$ 3,179,830**	**$ 1,467,482**	**$ 1,196,434**	**$ 5,843,746**
Net assets, June 30, 2015	**$ 3,278,656**	**$ 1,461,162**	**$ 1,235,191**	**$ 5,975,009**

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2016 and 2015 (in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets excluding discontinued operations	**$ (398,661)**	**$ (434)**
Adjustments to reconcile change in total net assets from continuing operations to net cash used in operating activities of continuing operations:		
Change in net assets related to noncontrolling interests	27,898	39,113
Realized and unrealized loss (gain) on investments, net	191,801	(164,292)
Contributions for plant and endowment	(24,490)	(54,211)
Contributions of securities other than for plant	(16,784)	(13,082)
Proceeds from sale of donated securities	1,372	2,590
Depreciation	76,909	74,478
Amortization of bond discounts and premiums	(4,225)	(4,600)
Payments to terminate interest rate exchange agreements	44,042	21,467
Loss from disposals of property, plant, and equipment	2,979	3,565
Net change in fair value of interest rate exchange agreements	(4,204)	(2,696)
Change in:		
Accounts receivable, net of accrued investment income	(93,506)	6,088
Prepaid expenses and other assets	3,487	8,127
Contributions receivable, net	(21,310)	526
Interests in trusts held by others	(125)	-
Accounts payable and accrued liabilities, net of nonoperating items	(9,307)	5,487
Accrued compensation and withholdings	(26,701)	(14,815)
Deferred revenue	(3,431)	1,906
Actuarial liabilities	(2,049)	(1,263)
Net cash used in operating activities of continuing operations	**(256,305)**	**(92,046)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(7,501,890)	(4,235,650)
Proceeds from sales of investments	7,773,493	4,300,697
Purchases of investments allocable to noncontrolling interests	(840)	(1,478)
Proceeds from sales of investments allocable to noncontrolling interests	36,968	48,685
Change in accrued investment income	196	(480)
Payments to terminate interest rate exchange agreements	(44,042)	(21,467)
Acquisitions of property, plant, and equipment	(136,642)	(110,868)
Proceeds from sale of business	622,187	-
Principal collected on promissory notes receivable	833	-
Student loans and other notes receivable disbursed	(5,050)	(1,337)
Principal collected on student loans and other notes receivable	6,159	6,150
Net cash provided by (used in) investing activities of continuing operations	**751,372**	**(15,748)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for plant and endowment	24,490	54,211
Change in government advances for student loans	1,066	(10)
Payments to retire or defease debt	(923,359)	(112,269)
Proceeds from debt refinancing	-	58,608
Draw on line of credit	1,000	-
Proceeds from sale of donated securities restricted for endowment	15,412	10,492
Proceeds from noncontrolling interests in investment partnerships	840	1,478
Payments to noncontrolling interests in investment partnerships	(36,968)	(48,685)
Net cash used in financing activities of continuing operations	**(917,519)**	**(36,175)**
DISCONTINUED OPERATIONS		
Net cash provided by operating activities	174,107	222,303
Net cash used in investing activities	(93,570)	(24,752)
Net cash provided by (used in) financing activities	13,285	(6,671)
Net cash flows provided by discontinued operations	**93,822**	**190,880**
Net increase (decrease) in cash and cash equivalents	**(328,630)**	**46,911**
Cash and cash equivalents at beginning of year	**1,291,631**	**1,244,720**
Cash and cash equivalents at end of year	**963,001**	**1,291,631**
Less: cash and cash equivalents of businesses held for sale	-	**(424,650)**
Cash and cash equivalents of continuing operations, end of year	**963,001**	**866,981**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 57,725	$ 65,377
Donated securities	16,784	13,082
Noncash investing activities include:		
Purchases of investments on margin	$ (82,000)	$ -
Sales of investments on margin	18,016	-

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

Vanderbilt University
Notes to the Consolidated Financial Statements

1. Organization

The Vanderbilt University (Vanderbilt) is a private, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational and research facilities as part of its mission to be a leading center for informed and creative teaching, scholarly research, and public service. Vanderbilt provides educational services to approximately 6,900 undergraduate and 5,700 graduate and professional students enrolled across its 10 schools and colleges.

The consolidated financial statements include the accounts of all entities in which Vanderbilt has a significant financial interest and over which Vanderbilt has control. On April 29, 2016, Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with the related assets and liabilities, to Vanderbilt University Medical Center ("VUMC"), a newly incorporated Tennessee not-for-profit corporation, in exchange for consideration of $1,230.0 million (the "Transaction"). The university retained the medical educational and academic activities and remains the degree-granting institution for the university's School of Medicine, School of Nursing, and clinical master's programs. The university retains control of all faculty appointments, graduate school PhD programs in the biomedical sciences, and research in basic science departments and related centers. As a separate legal entity, VUMC is not under common governance with or controlled by the university. Vanderbilt is not financially responsible for VUMC indebtedness.

Accordingly, the consolidated financial statements reflect VUMC operations prior to the Transaction date in discontinued operations for all periods presented. For more information on Vanderbilt's discontinued operations, see Note 20 to the consolidated financial statements. VUMC includes Vanderbilt University Hospitals and Clinics; Vanderbilt Medical Group, a physician practice plan; Vanderbilt Health Services, Inc., which includes wholly owned and joint ventured businesses primarily consisting of community physician practices, imaging services, outpatient surgery centers, radiation oncology centers, a home health care agency, a home infusion and respiratory service, an affiliated health network, and a rehabilitation hospital; and the clinical operations of the School of Medicine.

Vanderbilt eliminates all material intercompany accounts and transactions 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 (GAAP). 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. This classification includes all revenues, gains, and losses not temporarily or permanently restricted by donors. Vanderbilt reports all expenditures 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 contain 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 not yet appropriated by the Board of Trust for distribution.

Permanently restricted net assets are amounts held in perpetuity as requested by donors. 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.

Vanderbilt reports expirations of temporary restrictions on net assets, (i.e., the passage of time and/or fulfilling donor-imposed stipulations), as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

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. Cash designated for investment is included within investments in the accompanying consolidated statements of financial position.

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

Promissory Notes Receivable
In conjunction with the Transaction, VUMC issued to Vanderbilt a $100 million promissory note (seller financing) paid over a 20-year period, $5 million annually at 3.25% interest.

Fair Value Measurements
Fair value measurements represent the price received to sell an asset or price paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Inputs to the valuation techniques used are prioritized 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).

Vanderbilt gives consideration to certain investment funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Vanderbilt uses net asset value per share or its equivalent in estimating the fair value of interests in investment companies for which a readily determinable fair value is not available. Pursuant to ASU 2015-07, Vanderbilt reports these assets separately within the fair value hierarchy.

Investments
Vanderbilt reports investments at fair value using the three-level hierarchy established under GAAP. After review and evaluation, Vanderbilt utilizes estimates provided by fund managers for certain alternative investments, mainly investments in limited partnerships where a ready market for the investments does not exist.

Vanderbilt has exposure to a number of risks including liquidity, interest rate, counterparty, basis, tax, regulatory, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities will 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. The consolidated financial statements contain derivatives, which consist of both internally managed transactions and those entered into through external investment managers, at fair value. The most common instruments utilized are futures contracts and hedges against currency risk for investments denominated in other than U.S. dollars. For internally managed transactions, Vanderbilt utilizes futures contracts with durations of less than three months.

Vanderbilt records purchases and sales of securities on the trade dates, and realized gains and losses are determined based on the average historical cost of the securities sold. Vanderbilt reports net receivables and payables arising from unsettled trades as a component of investments.

Unless donor-restricted endowment gift agreements require separate investment, Vanderbilt manages all endowment investments as an investment pool.

Investments Allocable to Noncontrolling Interests and Net Assets Related to Noncontrolling Interests
Vanderbilt reports the respective assets for entities in which other organizations are minority equity participants at fair value as investments allocable to noncontrolling interests on the consolidated statements of financial position.

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

Split-Interest Agreements and Interests in Trusts Held by Others
Vanderbilt's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and life income funds for which Vanderbilt serves as trustee. Vanderbilt reports assets held in these trusts in investments at fair value. Vanderbilt recognizes contribution revenue at the dates the trusts are established, net of the liabilities for the present value of the estimated future payments to the donors and/or other beneficiaries. Annually, Vanderbilt records the change in fair value of split-interest agreements based on the assets that are associated with each trust and recalculates the liability for the present value of the estimated future payments to the donors and/or other beneficiaries.

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

Property, Plant, and Equipment
Purchased property, plant, and equipment, recorded at cost, includes, where appropriate, capitalized interest on construction financing net of income earned on unspent proceeds. Vanderbilt capitalizes donated assets at fair value on the date of donation, expenses repairs and maintenance costs as incurred, and expenses additions to the library collection at the time of purchase.

Vanderbilt calculates depreciation using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives (10 to 50 years for buildings and building improvements, the shorter of the asset life or life of the lease for leasehold improvements, and 3 to 20 years for machinery and equipment). Vanderbilt removes property, plant, and equipment from the accounting records upon 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. Vanderbilt recognizes an impairment charge when the fair value of the asset or group of assets is less than the carrying value. Refer to Note 9 to the consolidated financial statements for further discussion.

Debt Portfolio Financial Instruments
Vanderbilt reports long-term debt at carrying value. The carrying value of Vanderbilt's debt is the par amount adjusted for the net unamortized amount of bond premiums and discounts. Vanderbilt employs derivatives, primarily interest rate exchange agreements, to help manage interest rate risks associated with variable-rate debt. The consolidated statements of activities include any gain or loss resulting from recording the fair value of derivative financial instruments as a nonoperating item. In addition to the credit risk of the counterparty owing a balance, Vanderbilt calculates the fair value of interest rate exchange agreements based on the present value sum of future net cash settlements that reflect market yields as of the measurement date and reports periodic net cash settlement amounts with counterparties as adjustments to interest expense on the related debt.

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

Revenue Recognition
Vanderbilt's revenue recognition policies are:

Tuition and educational fees, net—Vanderbilt recognizes student tuition and educational fees as revenues in the year the related academic services occur and defers amounts received in advance of services rendered. Vanderbilt reflects financial aid provided for tuition and educational fees as a reduction of the respective revenues.

Financial aid does not include payments made to students for services provided to Vanderbilt or financial aid applied to undergraduate room and board.

Grants and contracts—Vanderbilt recognizes revenues from grants and contracts when allowable expenditures under such agreements occur.

Facilities and administrative (F&A) costs recovery—Vanderbilt recognizes F&A costs recovery as revenue. This activity 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 57% in both fiscal 2016 and 2015. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2016 and 2015.

Trademark, license, and royalty revenue— The Trademark License Agreement (TML) between Vanderbilt and VUMC comprises the majority of trademark, license, and royalty revenue. Vanderbilt recognizes trademark, license, and royalty revenues in accordance with the terms of the underlying agreements.

Affiliated entity revenue—Affiliated entity revenue represents amounts received from VUMC to support and ensure sustainability of upstream research pipeline and other academic initiatives and to compensate Vanderbilt for the provision of operating and capital infrastructure services to VUMC, primarily in campus infrastructure, campus safety and security, and various support functions. Vanderbilt recognizes affiliated entity revenues as the related services are provided in accordance with the terms of the underlying agreements with VUMC.

Contributions

Vanderbilt recognizes unconditional promises to give (pledges) as contribution revenue upon receipt of a commitment from the donor. Vanderbilt records pledges with payments due in future periods 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. Vanderbilt calculates an allowance for uncollectible contributions receivable based upon an analysis of past collection experience and other judgmental factors.

Vanderbilt records contributions with donor-imposed restrictions as unrestricted revenue if the university meets the restrictions and receives the contribution in the same reporting period. Otherwise, Vanderbilt records contributions with donor-imposed restrictions as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction.

After meeting donor stipulations, Vanderbilt releases contributions recorded as temporarily restricted from restrictions and recognizes these contributions as unrestricted net assets. Vanderbilt releases from restrictions contributions for plant facilities and recognizes these contributions as a nonoperating item only after incurring expenses for the applicable plant facilities or when the related asset is placed in service based on donor intent.

In contrast to unconditional promises as described above, Vanderbilt does not record conditional promises (primarily bequest intentions) until the university substantially meets donor contingencies.

Unrestricted Operating Results

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

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

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

Vanderbilt allocates management and administrative support costs attributable to divisions that primarily provide auxiliary services based upon institutional budgets. Thus, institutional support expense reported in the functional expense footnote relates to Vanderbilt's other primary programs such as instruction, research, and public service.

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

Income Taxes

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

Use of Estimates

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

Reclassifications

Pursuant to the Transaction, Vanderbilt reclassified certain prior year amounts to discontinued operations to conform to current year presentation in accordance with ASU 2014-08. These reclassifications have no impact on Vanderbilt's total assets, total liabilities, or net assets. Vanderbilt reclassified VUMC operating results from continuing operations to discontinued operations for each period presented.

Subsequent Events

Vanderbilt evaluated events subsequent to June 30, 2016, through October 4, 2016, the date of issuance of the consolidated financial statements. During this period, Vanderbilt terminated fixed-payer interest rate exchange agreements with notional values totaling $500 million. Additionally, Vanderbilt completed transactions resulting in the sale of investments in general partnerships for cash proceeds of $42.7 million and a receivable of $17.1 million due to Vanderbilt in July 2018. Vanderbilt did not identify any other material subsequent events for recognition or disclosure.

Recent Accounting Pronouncements

Vanderbilt adopted Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity for fiscal 2016 and presented the operating results, financial position, and cash flows of VUMC as discontinued operations in the accompanying financial statements accordingly. In accordance with ASU 2014-08, discontinued operations disclosures are required for all of the same periods presented in the entity's results of operations for the period. Refer to Note 20 to the consolidated financial statements for additional information and disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2017. Vanderbilt is currently evaluating the effect of adoption to the financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 clarifies how customers in cloud computing arrangements should determine whether arrangements include a software license. The standard also eliminates the requirement that customers analogize to the leases standard when determining the asset acquired in a software licensing arrangement. ASU is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Vanderbilt early adopted ASU 2015-05 for fiscal 2016 and capitalized approximately $2 million of costs associated with implementation efforts.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). ASU 2015-07 excludes from the fair value hierarchy investments measured using the net asset value ("NAV") practical expedient and removes the requirement to categorize within the fair value hierarchy investments measured at fair value using the NAV. The provisions of ASU 2015-07 are effective for fiscal years beginning after December 15, 2016, with early adoption permitted and requires retrospective application to all periods presented. Vanderbilt early adopted ASU 2015-07 for fiscal 2016. Note 13 to the consolidated financial statements addresses the effects of adoption with fiscal 2015 information adjusted to conform to this presentation.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 affects all entities that hold financial assets or owe financial liabilities and primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for non-public business entities for annual periods beginning after December 15, 2018. Vanderbilt early adopted the provisions of ASU 2016-01 eliminating the fair value disclosures for financial instruments not recognized at fair value for fiscal 2016.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. Vanderbilt is currently evaluating the effect of adoption to the financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for-profit financial reporting model. Among other provisions, ASU 2016-14 requires enhanced disclosures around the nature and amount of net asset restrictions (both donor-imposed and board-designated), as well as enhanced disclosures regarding how entities manage their liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Vanderbilt is currently evaluating the effect of adoption to the financial statements.

3. Accounts Receivable

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

2016	**Gross Receivable**	**Bad Debt Allowance**	**Net Receivable**
Receivable on secondary sale	$ 54,389	$ -	$ 54,389
Research and sponsored programs	26,265	-	26,265
VUMC service level agreements	22,370	-	22,370
Tuition and fees	7,094	(1,853)	5,241
Accrued investment income	2,485	-	2,485
Other	19,509	-	19,509
Accounts receivable and related allowance	**$ 132,112**	**$ (1,853)**	**$ 130,259**

2015	**Gross Receivable**	**Bad Debt Allowance**	**Net Receivable**
Research and sponsored programs	$ 24,774	$ -	$ 24,774
Tuition and fees	6,199	(1,885)	4,314
Accrued investment income	2,681	-	2,681
Other	5,180	-	5,180
Accounts receivable and related allowance	**$ 38,834**	**$ (1,885)**	**$ 36,949**

The balance at June 30, 2016, includes $54.4 million related to a secondary sale of investments in general partnerships and $22.4 million related to service agreements with Vanderbilt University Medical Center. These receivables account for 58.9% of total net receivables at June 30, 2016, with no corresponding balances at June 30, 2015.

4. Contributions Receivable

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

	2016	2015
Unconditional promises expected to be collected:		
in one year or less	$ 51,004	$ 36,239
between one year and five years	48,208	42,353
in more than five years	1,776	502
Contributions receivable	100,988	79,094
Less: Discount	(1,711)	(1,294)
Less: Allowance for uncollectible promises	(9,008)	(8,841)
Contributions receivable, net	**$ 90,269**	**$ 68,959**

Vanderbilt discounts contributions receivable at a rate commensurate with the scheduled timing of receipt. Vanderbilt applied discount rates ranging from 0.5% to 1.5% to amounts outstanding as of June 30, 2016, and June 30, 2015. Vanderbilt's methodology for calculating an allowance for uncollectible promises consists of analyzing write-offs as a percentage of gross pledges receivable along with assessing the age and activity of outstanding pledges. The balance at June 30, 2016 includes a $12.0 million receivable from VUMC in support of trans-institutional programs (TIPs). This receivable accounts for 13.3% of total net contributions receivable at June 30, 2016, which VUMC will pay no later than June 30, 2017.

In addition to pledges reported as contributions receivable, Vanderbilt had cumulative bequest intentions and conditional promises to give of approximately $251.0 million and $246.2 million as of June 30, 2016 and 2015, respectively. Due to their conditional nature, Vanderbilt does not recognize intentions to give as assets.

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

	2016	2015
Contributions receivable, net:		
Temporarily restricted	$ 32,525	$ 25,350
Permanently restricted	57,744	43,609
Total	**$ 90,269**	**$ 68,959**

5. Student Loans and Other Notes Receivable

Student loans and other notes receivable as of June 30 were as follows *(in thousands)*:

2016	**Gross Receivable**	**Bad Debt Allowance**	**Net Receivable**
Federal loans	$ 24,058	$ (2,178)	$ 21,880
Institutional loans	11,463	(3,060)	8,403
Faculty mortgages	4,046	-	4,046
Student loans, other notes receivable and related allowance	**$ 39,567**	**$ (5,238)**	**$ 34,329**

2015	**Gross Receivable**	**Bad Debt Allowance**	**Net Receivable**
Federal loans	$ 22,489	$ (2,146)	$ 20,343
Institutional loans	17,095	(6,637)	10,458
Faculty mortgages	4,637	-	4,637
Student loans, other notes receivable and related allowance	**$ 44,221**	**$ (8,783)**	**$ 35,438**

Vanderbilt remains committed to "no loans" for its undergraduate students, meaning that the university is meeting full demonstrated financial need with scholarship and grant assistance. For other groups (e.g., professional school students), participation in several federal revolving loan programs, including the Perkins, Nursing, and Health Professionals Student Loan programs, has continued. Vanderbilt carries loans to students at cost, which, based on secondary market information, approximates the fair value of education loans with similar interest rates and payment terms. The availability of funds for new loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Vanderbilt assigns loans receivable from students under governmental loan programs, also carried at cost, to the federal government or its designees. Vanderbilt classifies refundable advances from the federal government as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under a governmental program result in a reduction of the funds available for loan and a decrease in the university's liability to the government.

Vanderbilt establishes bad debt allowances based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay amounts due. When deemed uncollectible, Vanderbilt writes off institutional loan balances.

As part of Vanderbilt's efforts to attract and retain a world-class faculty, Vanderbilt provides various incentives and historically provided home mortgage financing assistance in select situations. Such receivables amounting to $4.0 million were outstanding at June 30, 2016. Deeds of trust on properties concentrated in the surrounding region collateralize these notes. Vanderbilt has not recorded an allowance for doubtful accounts against these loans based on their collateralization and prior collection history.

6. Investments

Investments consist of the following as of June 30 *(in thousands)*:

	2016	2015
Derivative contract collateral and short-term securities[1]	$ 36,908	$ 82,139
Global equities[1]	977,150	1,010,063
Fixed income [5]	242,042	240,002
Hedged strategies[6]	771,102	904,782
Private capital [3]	1,216,653	1,406,330
Real estate [3]	211,854	228,975
Natural resources [3]	206,868	294,298
Commodities[2]	120,378	98,312
Trusts [4]	3,909	4,258
Other investments[4]	7,967	9,905
Total value, net of securities sold short	**$ 3,794,831**	**$ 4,279,064**
Fair value of securities sold short	$ 251,855	$ 187,431
Total value	**$ 4,046,686**	**$ 4,466,495**
Total cost	**$ 3,228,731**	**$ 3,488,018**

[1] Quoted prices in active markets determine fair value or fund managers provide the net asset value per share of the specific investment to establish fair value.
[2] Quoted prices in active markets determine fair value.
[3] Fund managers provide the net asset value of Vanderbilt's ownership interests at the fund level to establish fair value.
[4] Carrying value provides a reasonable estimate of fair value for certain components.
[5] Quoted prices in active markets determine fair value or fund managers provide the net asset value per share of the specific investment to establish fair value. Includes $32 million of equity short positions in fiscal 2015, with no corresponding amounts in fiscal 2016.
[6] Quoted prices in active markets determine fair value or fund managers provide the net asset value per share of the specific investment to establish fair value. Includes $252 million and $155 million of equity short positions in fiscal 2016 and 2015, respectively, and includes $325 million and $250 million of cash and cash equivalents classified as investments in fiscal 2016 and 2015, respectively.

Included in the amounts reported in the table above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. During fiscal 2016, the minority limited partners funded capital commitments totaling $0.9 million. Additionally, Vanderbilt made payments to the minority limited partners of $40.0 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $83.1 million as of June 30, 2016.

Investments, along with cash and cash equivalents, provide liquidity support for Vanderbilt's operations. Of these combined amounts, based on prevailing market conditions as of June 30, 2016, $1,014.3 million of liquid assets were available on a same-day basis and an additional $873.0 million was available within 30 days.

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

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

Fixed income includes investments directed towards capital preservation and predictable yield as well as more opportunistic strategies focused on generating return on price appreciation. These investments are primarily public investments such as U.S. Treasuries and other government obligations, investment-grade corporate bonds, high-yield corporate bonds, bank debt, commercial mortgage-backed securities, residential non-agency mortgage-backed securities, asset-backed securities, direct lending, and below investment-grade developed and emerging market sovereign debt. Vanderbilt may make investments through commingled vehicles, separately managed accounts, synthetic transactions, and limited partnership interests.

Hedged strategies investments reflect multiple strategies such as event driven, relative value, and equity funds to diversify risks and reduce volatility in the portfolio generally in hedge fund structures. These strategies also include investments in both long and short primarily credit-oriented securities. Investments may include mortgage-backed securities, trade finance, debt and asset-backed securities, repurchase agreements, senior loans, bank loans, and cash designated for investment. The fair value of open short positions is recorded as a liability and the university records an unrealized gain or loss to the extent of the difference between the proceeds received and the value of the open short position. By entering into short sales, the university bears the market risk of increases in the value of the security sold short in excess of the proceeds received. Possible losses from short sales differ from losses that could be incurred from purchases of securities because losses from short sales may be unlimited whereas losses from purchases cannot exceed the total amount invested.

Private capital consists of illiquid investments in buyouts, distressed debt, mezzanine debt, growth equity, and venture capital. Vanderbilt may make investments through commingled vehicles, separately managed accounts, synthetic transactions, limited partnership interests, and direct investments.

Real estate comprises illiquid investments in residential and commercial real estate assets, projects, publicly traded REITs or land held directly through separately managed accounts, limited partnership interests, and direct investments in properties. The nature of the investments in this category is such that distributions generally reflect liquidation of the underlying assets of the funds.

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

Commodities include public investments such as commodity futures, commodity-related equities, and private investments in energy, power, infrastructure, and timber. Investments may be made through commingled vehicles, separately managed accounts, synthetic transactions, limited partnership interests, and direct investments.

Trusts are Vanderbilt's split-interest agreements with donors.

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)*:

	2016	2015
OPERATING		
Unrestricted:		
Endowment distributions	$ 105,132	$ 86,369
Investment income	15,685	12,274
Total operating return	**120,817**	**98,643**
NONOPERATING		
Unrestricted:		
Change in appreciation of institutional endowments, net of distributions	(150,188)	(10,454)
Change in appreciation of other investments	(27,430)	(1,987)
Temporarily restricted:		
Endowment distributions	78,711	77,426
Investment (loss) income	(757)	131
Change in appreciation of donor-restricted endowments, net of distributions	(218,988)	(18,242)
Permanently restricted:		
Endowment distributions	919	1,036
Investment loss	(13,690)	(908)
Change in appreciation of donor-restricted endowments, net of distributions	(4,457)	-
Total nonoperating return	**$ (335,880)**	**$ 47,002**
Total investment return	**$ (215,063)**	**$ 145,645**

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

	2016	2015
Interest, dividends, and partnership losses, net of fees	$ (23,262)	$ (18,647)
Net realized gains	46,933	304,104
Change in unrealized appreciation	(238,734)	(139,812)
Total investment return	**$ (215,063)**	**$ 145,645**

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

Vanderbilt reports investment returns net of returns attributed to limited partners on investments allocable to noncontrolling interests.

Vanderbilt incurred internal investment management costs of $12.7 million in fiscal 2016 and $9.9 million in fiscal 2015. Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $17.5 million and $13.8 million in fiscal 2016 and 2015, respectively. Vanderbilt reports investment returns net of these external manager fees.

8. Endowment

Endowment-related assets include donor-restricted endowments and institutional endowments (quasi-endowments). Vanderbilt's endowment does not include gift annuities, interests in trusts held by others, contributions pending donor designation, or contributions receivable.

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 real economic support as the current generation. The overarching objective is to preserve and enhance the real (inflation-adjusted) purchasing power of the endowment in perpetuity. Vanderbilt invests assets to provide a relatively predictable and stable stream of earnings to meet spending needs and attain long-term return objectives without the assumption of undue risks.

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

Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves the university's operating budget for the ensuing fiscal year. For fiscal years 2016 and 2015, Vanderbilt's Board of Trust approved endowment distributions based on 5.0% and 4.5%, respectively, of the average of the previous three calendar year-end market values. Vanderbilt reinvests actual realized endowment return earned in excess of distributions. For years when the endowment return is less than the distribution, the endowment pool's cumulative returns from prior years cover the shortfall.

Vanderbilt may not fully expend Board-appropriated endowment distributions in a particular fiscal year. In some cases, Vanderbilt will approve endowment distributions for reinvestment into the endowment.

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

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 23,067	$ 1,178,406	$ 1,201,473
Accumulated net appreciation of donor-restricted endowments	-	1,086,624	-	1,086,624
Reinvested distributions of donor-restricted endowments				
At historical value	82,582	19,636	-	102,218
Accumulated net appreciation	81,605	1,400	-	83,005
Institutional endowments				
At historical value	479,188	-	-	479,188
Accumulated net appreciation	843,078	-	-	843,078
Endowment net assets as of June 30, 2016	**$ 1,486,453**	**$ 1,130,727**	**$ 1,178,406**	**$ 3,795,586**

2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	$ -	$ 22,021	$ 1,123,852	$ 1,145,873
Accumulated net appreciation of donor-restricted endowments	-	1,311,212	-	1,311,212
Reinvested distributions of donor-restricted endowments				
At historical value	95,019	11,696	-	106,715
Accumulated net appreciation	106,541	2,285	-	108,826
Institutional endowments				
At historical value	442,711	-	-	442,711
Accumulated net appreciation	978,051	-	-	978,051
Endowment net assets as of June 30, 2015	**$ 1,622,322**	**$ 1,347,214**	**$ 1,123,852**	**$ 4,093,388**

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

	2016	2015
Net realized appreciation less endowment distributions	$ 1,640,491	$ 1,733,802
Net unrealized appreciation	372,216	664,287
Total	**$ 2,012,707**	**$ 2,398,089**

In striving to meet the overarching objectives for the endowment, over the past 20 years the university has experienced a 12% annualized standard deviation in its returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components designed to serve a specific role in establishing the right balance between risk and return. These three components are global, public, and private equity investments. Vanderbilt expects these three components, including private capital and many hedge funds, to produce favorable returns in environments of accelerated growth and economic expansion. Vanderbilt expects hedged strategies and fixed income investments to generate stable returns and preserve capital during periods of poor equity performance. Vanderbilt uses real estate and natural resources allocations 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, 2016 and 2015, Vanderbilt had deficiencies of this nature of approximately $14.4 million consisting of 573 endowments and $1.5 million consisting of 66 endowments, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature.

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

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2015	$ 1,622,322	$ 1,347,214	$ 1,123,852	$ 4,093,388
Endowment investment return:				
Investment loss, net of fees	(2,101)	(2,870)	-	(4,971)
Net appreciation (realized and unrealized)	(64,408)	(103,041)	-	(167,449)
Total endowment investment return	(66,509)	(105,911)	-	(172,420)
Gifts and additions to endowment, net	89,829	3,930	60,586	154,345
Endowment distributions	(78,090)	(106,673)	-	(184,763)
Liquidation of endowments[1]	(75,473)	(148)	(6,032)	(81,653)
Transfers for internal management costs	(5,383)	(7,353)	-	(12,736)
Other	(243)	(332)	-	(575)
Endowment net assets as of June 30, 2016	**$ 1,486,453**	**$ 1,130,727**	**$ 1,178,406**	**$ 3,795,586**

[1] Includes $78.8 million of institutional endowments liquidated from endowment cash and transferred to VUMC as a part of the Transaction.

2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2014	$ 1,605,501	$ 1,360,306	$ 1,080,443	$ 4,046,250
Endowment investment return:				
Investment loss, net of fees	(2,097)	(3,651)	-	(5,748)
Net appreciation (realized and unrealized)	56,383	98,152	-	154,535
Total endowment investment return	54,286	94,501	-	148,787
Gifts and additions to endowment, net	27,291	5,134	43,409	75,834
Endowment distributions	(60,139)	(104,692)	-	(164,831)
Transfers for internal management costs	(3,604)	(6,273)	-	(9,877)
Other	(1,013)	(1,762)	-	(2,775)
Endowment net assets as of June 30, 2015	**$ 1,622,322**	**$ 1,347,214**	**$ 1,123,852**	**$ 4,093,388**

9. Property, Plant, and Equipment

Vanderbilt reports property, plant, and equipment at cost or, if a gift, at fair value as of the date of the gift, net of accumulated depreciation. Vanderbilt computes depreciation using the straight-line method over the estimated useful lives of the assets.

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

	2016	2015
Land	$ 80,443	$ 72,226
Buildings and improvements	1,406,725	1,364,838
Moveable equipment	287,352	274,859
Construction in progress	121,831	65,360
Property, plant, and equipment	1,896,351	1,777,283
Less: Accumulated depreciation	952,367	895,796
Property, plant, and equipment, net	**$ 943,984**	**$ 881,487**

Purchases for the library collection are not included in the amounts above since Vanderbilt expenses them at the time of purchase. As of June 30, 2016, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled $398 million.

Vanderbilt did not capitalize interest in either fiscal 2016 or fiscal 2015 due to immateriality. Vanderbilt capitalized internal-use software development costs of $0.6 million in fiscal 2015.

Vanderbilt reviews property, plant, and equipment for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The university recognizes an impairment loss only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Vanderbilt booked impairment losses of $5.0 million in fiscal 2015, related to property, plant, and equipment.

Vanderbilt identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $3.2 million and $4.2 million as of June 30, 2016 and 2015, respectively. These liability estimates, included in accounts payable and accrued liabilities in the consolidated statements of financial position, use an inflation rate of 4.0% and a discount rate of 5.0% based on relevant factors at origination.

10. Long-Term Debt 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 and commercial paper (CP) obligations reflected in the financial statements at carrying value as of June 30 were as follows *(in thousands)*:

	Fiscal Year of Maturity[2]	Fixed Coupon Interest Rates as of June 30, 2016[2]	Fiscal 2016 Effective Interest Rate[2,3]	Outstanding Principal 2016	2015
FIXED-RATE DEBT					
Series 2008A	n/a	n/a	n/a	$ -	$ 94,600
Series 2008B[1]	n/a	n/a	n/a	-	59,550
Series 2009A	2040	4.00%-5.50%	4.9%	73,990	97,100
Series 2009B[1]	n/a	n/a	n/a	-	232,900
Series 2009A Taxable	n/a	n/a	n/a	-	250,000
Series 2012C	n/a	n/a	n/a	-	17,955
Series 2012D	2038	3.00%-5.00%	3.1%	106,230	106,230
Series 2012E	n/a	n/a	n/a	-	33,550
Fixed-rate debt			3.9%	**180,220**	**891,885**
VARIABLE-RATE DEBT					
Series 2012B	2039		0.7%	34,230	67,000
Variable-rate debt			0.7%	**34,230**	**67,000**
Par amount of long-term debt			3.4%	214,450	958,885
Net unamortized premium			-	8,305	12,530
Draw on Hybrid Line with General Use Provisions			1.0%	1,000	-
Total long-term debt			**3.4%**	**223,755**	**971,415**
Tax-exempt commercial paper	<1		n/a	-	90,000
Taxable commercial paper	<1		0.6%	84,530	173,454
Total commercial paper			**0.6%**	**84,530**	**263,454**
Total long-term debt and commercial paper			**2.6%**	**$ 308,285**	**$ 1,234,869**

[1] Issued under Master Trust Indenture structure.
[2] Multiple fixed-rate bond Series were defeased as part of the Transaction. Fiscal year 2016 information is shown as "n/a" for these Series.
[3] Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 5.0%.

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements. A successive note discusses these agreements in more detail.

The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (HEFB) issued Vanderbilt's tax-exempt CP and all of the aforementioned bonds, with the exception of the Series 2009A Taxable notes. As a conduit issuer, the HEFB loans the debt proceeds to Vanderbilt. Pursuant to loan agreements, Vanderbilt's debt service requirements under Series 2008B and 2009B loan agreements, which were defeased during fiscal 2016, coincide with required debt service of the actual HEFB bonds. These Series were issued under a Master Trust Indenture (MTI) structure. The MTI provided the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

All debt instruments are general obligations of Vanderbilt. Vanderbilt did not pledge any of its assets as collateral for this debt.

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 credit facilities for liquidity purposes. Vanderbilt was in compliance with such covenants and restrictions as of June 30, 2015. Due to the defeasance of the MTI bonds during fiscal 2016, this covenant is not applicable to debt outstanding at June 30, 2016.

The components of interest for total long-term debt, CP, and interest rate exchange agreements follows *(in thousands)*:

	2016	2015
Payments for interest costs	$ 57,725	$ 65,377
Accrued interest expense	$ 14,839	$ 16,769

Payments for interest costs occur on varying scheduled payment dates for debt, maturity dates for CP, and settlement dates for interest rate exchange agreements. Vanderbilt calculates accrued interest expense for its debt, CP, and interest rate exchange agreements based on applicable interest rates for the respective fiscal year.

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

2017	$ 2,360
2018	2,360
2019	2,360
2020	2,360
2021	5,200
Thereafter	199,810
Total long-term debt principal retirements	**$ 214,450**

Requirements in earlier years in the preceding table could be greater if Vanderbilt must purchase either a portion or all of its floating-rate notes or CP in the event of failed remarketings, on mandatory tender dates, or scheduled maturities as described in the following paragraphs.

During fiscal 2015, Vanderbilt redeemed the $67.0 million 2012A floating rate notes. This redemption was funded by the issuance of two $30.0 million tranches of taxable CP and $7.0 million of operating cash. Vanderbilt had $34.2 million of variable-rate bonds outstanding as of June 30, 2016, consisting entirely of floating-rate notes with a mandatory tender date of October 1, 2017.

As of June 30, 2016, Vanderbilt had $84.5 million of taxable CP outstanding. The weighted average duration of Vanderbilt's CP portfolio totaled 125 days as of June 30, 2016, and 92 days as of June 30, 2015.

Vanderbilt's most recent tax-exempt CP program began on March 29, 2010, with all draws completed by September 30, 2011. All tax-exempt CP was retired as part of the Transaction. Following the Transaction, Vanderbilt reduced its commercial paper limitation to $200.0 million from $675.0 million. Vanderbilt can issue an additional $115.0 million under its current taxable CP program.

Debt liquidity support with short-term remarketing periods (CP totaling $84.5 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2016, Vanderbilt estimates that $1,014.3 million of liquid assets were available on a same-day basis and an additional $873.0 million was available within 30 days.

A second tier of debt liquidity support consists of two revolving credit facilities with maximum available commitments totaling $300 million as of June 30, 2016, dedicated to Vanderbilt's debt portfolio liquidity support. One of these lines totaling $100 million includes a general use provision and expires in March 2017. In order to optimize pricing, Vanderbilt drew one percent ($1.0 million) at inception and will maintain this amount outstanding during the commitment. The other commitment totaling $200 million expires in April 2017. The maximum repayment period, which may extend beyond the expiration date, ranges from 90 days to 367 days. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has entered into an agreement with one bank to provide a general use line of credit with a maximum available commitment totaling $100.0 million as of June 30, 2016. This line of credit expires in October 2016. Vanderbilt had no outstanding draws against this credit facility as of June 30, 2016, or June 30, 2015.

As part of the Transaction, Vanderbilt transferred medical center assets and therefore took anticipatory remedial action with respect to its tax-exempt debt that was allocable to the financing of the medical center assets. The following tax-exempt bond series and tax-exempt commercial paper were placed into escrow and legally defeased as part of this Transaction *(in thousands)*:

Tax-exempt Series		**Par Defeased**
Series 2008A	$	77,500
Series 2008B		38,585
Series 2009A		20,110
Series 2009B		225,900
Series 2012B		32,770
Series 2012C		17,955
Series 2012E		27,370
Tax-exempt CP		90,000
Total tax-exempt debt principal retirements	**$**	**530,190**

Additionally, as part of the Transaction, Vanderbilt redeemed the $250.0 million par of Series 2009A and retired $69.0 million par of taxable CP.

None of Vanderbilt's fixed-rate debt has a mandatory tender date preceding the respective final maturity date. The Series 2009A bonds include amortizing principal amounts each year beginning fiscal 2016 and a call feature at par beginning October 2019. The Series 2012D bonds include amortizing principal amounts each year beginning in fiscal 2021 and a call feature at par beginning October 2023.

11. Interest Rate Exchange Agreements

Vanderbilt utilizes interest rate exchange agreements as part of its debt portfolio management strategy. These agreements result in periodic net cash settlements paid to, or received from, counterparties. Adjustments to interest expense for net settlements due to counterparties totaled $7.1 million and $9.0 million in fiscal 2016 and 2015, respectively.

Vanderbilt estimates the fair value of interest rate exchange agreements by calculating the present value sum of future net cash settlements that reflect market yields as of the measurement date and estimated amounts that Vanderbilt would pay, or receive, to terminate the contracts as of the report date. Vanderbilt considers current interest rates and creditworthiness of the interest rate exchange counterparties when estimating termination settlements. The estimated fair value of Vanderbilt's outstanding interest rate exchange agreements represented liabilities of $115.2 million and $119.4 million as of June 30, 2016 and 2015, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2016 or 2015. During fiscal 2016, Vanderbilt terminated $115.0 million notional of fixed-rate payer interest rate exchange agreements at a cost of $44.0 million to reduce collateral exposure and eliminate ongoing settlement costs. Vanderbilt also novated $150.0 million notional of fixed-rate payer interest rate exchange agreements as part of the Transaction. Following the terminations and scheduled amortizations, Vanderbilt had $215.9 million of aggregate fixed-payer interest rate exchange agreements outstanding for which the university receives 68.4% of one-month LIBOR and pays a weighted average fixed rate of 3.89%. Vanderbilt also had $500.0 million of basis interest rate exchange agreements outstanding in fiscal 2016 and 2015 for which the university receives 81.5% of one-month LIBOR and pays SIFMA. Vanderbilt did not terminate any basis interest rate exchange agreements in either fiscal year.

Changes in the fair value of interest rate exchange agreements, reported in the nonoperating section of the consolidated statements of activities, resulted in net losses of $41.4 million and $27.7 million in fiscal 2016 and 2015, respectively. The $41.4 million change in appreciation of interest rate exchange agreements in fiscal 2016 includes $44.0 million of termination costs, a $3.3 million net unrealized gain from the combination of the positive effect of the termination of fixed-rate payer interest rate exchange agreements and the decrease in the long-term LIBOR rate, and a $0.7 million unrealized loss to adjust the discount rate to reflect counterparty credit risk. The

$27.7 million change in appreciation of interest rate exchange agreements in fiscal 2015 includes $21.5 million of termination costs, an $8.6 million unrealized loss to adjust the discount rate to reflect counterparty credit risk partially, offset by a $2.4 million net unrealized gain from the combination of the positive effect of the termination of fixed-rate payer interest rate exchange agreements and the decrease in the long-term LIBOR rate. LIBOR decreased to 1.8% as of June 30, 2016, from 2.9% as of June 30, 2015.

The interest rate exchange agreements include collateral pledging requirements based on the fair value of the contracts. Collateral held by counterparties as of June 30, 2016 and 2015, totaled $36.8 million and $84.4 million, respectively. Vanderbilt estimates that a decline in long-term LIBOR rates to approximately 1% would result in the fair value of the portfolio being a liability of approximately $190 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately $90 million. As of June 30, 2016, 30-year LIBOR was 1.8%.

As of June 30, 2016, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was fully hedged.

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

Description	Rate Paid	Rate Received	Maturity	2016	2015
Fixed-payer interest rate exchange agreements	Avg fixed rate of 3.89%	Avg of 68.4% of one-month LIBOR[1]	15 to 24 years	$ 215,900	$ 482,900
Basis interest rate exchange agreements	SIFMA[2]	Avg of 81.5% of one-month LIBOR[1]	19 to 20 years	$ 500,000	$ 500,000

[1] LIBOR (London Interbank Offered Rate) is a reference rate based on interest rates at which global banks borrow funds from other banks in the London interbank lending market.
[2] SIFMA (Securities Industry and Financial Markets Association) is a seven-day high-grade market index rate based upon tax-exempt variable rate debt obligations.

12. Net Assets

Vanderbilt's unrestricted, temporarily restricted, and permanently restricted net assets as of June 30 were composed of the following *(in thousands)*:

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 565,896	$ -	$ -	$ 565,896
Gifts and grants	82,714	77,839	70,465	231,018
Student loans	19,871	-	-	19,871
Plant facilities	775,225	-	-	775,225
Donor restricted endowments	164,187	1,130,727	1,178,406	2,473,320
Institutional endowments	1,322,266	-	-	1,322,266
Interests in trusts held by others	-	10,078	16,523	26,601
Life income and gift annuities	-	5,490	18,173	23,663
Fair value of interest rate exchange agreements, net	(115,169)	-	-	(115,169)
Net assets related to noncontrolling interests	83,056	-	-	83,056
Total net assets as of June 30, 2016	**$ 2,898,046**	**$ 1,224,134**	**$ 1,283,567**	**$ 5,405,747**

2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 929,122	$ -	$ -	$ 929,122
Gifts and grants	69,450	92,130	43,484	205,064
Student loans	18,681	-	-	18,681
Plant facilities	702,840	-	-	702,840
Donor restricted endowments	201,560	1,347,214	1,123,852	2,672,626
Institutional endowments	1,420,762	-	-	1,420,762
Interests in trusts held by others	-	6,916	33,238	40,154
Life income and gift annuities	-	14,902	34,617	49,519
Fair value of interest rate exchange agreements, net	(174,713)	-	-	(174,713)
Net assets related to noncontrolling interests	110,954	-	-	110,954
Total net assets as of June 30, 2015	**$ 3,278,656**	**$ 1,461,162**	**$ 1,235,191**	**$ 5,975,009**

Temporarily restricted net assets were designated by donors and Vanderbilt for the following purposes as of June 30 *(in thousands):*

	2016	2015
Student scholarships	$ 390,467	$ 466,907
Endowed chairs	310,079	377,934
Operations	238,031	298,565
Program support	90,009	109,039
Capital improvements	12,425	28,709
Subsequent period operations and other	183,123	180,008
Total temporarily restricted net assets	**$ 1,224,134**	**$ 1,461,162**

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

	2016	2015
Financial aid	36%	35%
Endowed chairs	28%	29%
Operations	21%	21%
Program support	8%	8%
Research, lectureships, fellowships, and other	7%	7%
Total support	**100%**	**100%**

13. Fair Value Measurement

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

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

Level 2 include inputs other than quoted prices in Level 1 directly or indirectly observable for the assets or liabilities.

Level 3 are unobservable inputs for the assets or liabilities.

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

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

The consolidated statements of activities reflect: all net realized and unrealized gains and losses on level 3 investments as changes in endowment appreciation or changes in appreciation of other investments; gains and losses on investments allocable to noncontrolling interests as a component of net endowment appreciation; and net realized and unrealized gains and losses on interests in trusts held by others as changes in appreciation of other investments.

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

	Beginning balance as of June 30, 2015	Net realized gains (losses)	Net change in unrealized gains (losses)*	Purchases	Sales	Transfers into/(out of) level 3	Ending balance as of June 30, 2016
LEVEL 3 ASSETS							
Fixed income	$ 17,179	$ (21)	$ 561	$ 409	$ (3,094)	$ -	$ 15,034
Global equities	20,495	852	(2,413)	2,703	(4,018)	-	17,619
Private capital	2,604	231	(324)	-	(143)	-	2,368
Real estate	179	-	-	-	-	-	179
Natural resources	33,650	-	(861)	-	(1,347)	-	31,442
Trusts	4,258	101	(341)	-	(109)	-	3,909
Other investments	7,178	-	5	520	(80)	-	7,623
Interests in trusts held by others	33,545	328	(7,397)	125	-	-	26,601
Total Level 3	**$ 119,088**	**$ 1,491**	**$ (10,770)**	**$ 3,757**	**$ (8,791)**	**$ -**	**$ 104,775**

**Total change in unrealized gains/(losses) relating to Level 3 investment assets held by the university at June 30, 2016, is $(3,049) and is reflected in "Net change in unrealized appreciation on investments" in the Consolidated Statements of Cash Flows.*

	Beginning balance as of June 30, 2014	Net realized gains (losses)	Net change in unrealized gains (losses)*	Purchases	Sales	Transfers into/(out of) level 3	Ending balance as of June 30, 2015
LEVEL 3 ASSETS							
Fixed income	$ 19,987	$ 30	$ 657	$ 1,612	$ (5,107)	$ -	$ 17,179
Global equities	26,184	2,354	(3,079)	2,812	(7,776)	-	20,495
Private capital	3,235	-	460	-	(1,091)	-	2,604
Real estate	181	4	-	2	(8)	-	179
Natural resources	38,339	184	(5,211)	2,724	(2,386)	-	33,650
Trusts	4,652	310	(548)	-	(156)	-	4,258
Other investments	9,934	-	-	208	(2,964)	-	7,178
Interests in trusts held by others	32,869		676	-	-	-	33,545
Total Level 3	**$ 135,381**	**$ 2,882**	**$ (7,045)**	**$ 7,358**	**$ (19,488)**	**$ -**	**$ 119,088**

**Total change in unrealized gains/(losses) relating to Level 3 investment assets held by the university at June 30, 2015, is $7,396 and is reflected in "Net change in unrealized appreciation on investments" in the Consolidated Statements of Cash Flows.*

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

Noted in the tables on the following page, as a measure of liquidity, are the redemption terms and restrictions of investments, along with the numbers of days' notice required to liquidate these investments. Most investments classified as levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings. Vanderbilt's ability to redeem its interest at or near the financial statement date determines the net assets classification as level 2 or level 3. Vanderbilt defines near-term as within 90 days of the financial statement date.

Derivative contract collateral and short-term securities are primarily composed of amounts posted as collateral in accordance with interest rate exchange agreements and unspent bond proceeds with trustees. Vanderbilt deems a redemption or liquidation frequency for these amounts as not applicable. Global equities and fixed income provide varying levels of liquidity as defined in the following tables. Hedged strategies include daily, quarterly, and annual redemption frequencies. These strategies allow Vanderbilt to provide notice to the fund managers to exit from the respective funds in the time periods noted. Lockup provisions range from none to five years.

The total asset values for private capital, real estate, natural resources, and other investments are illiquid as of June 30, 2016. These amounts predominantly consist of limited partnerships. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions relative to the timing for disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Unforeseen events prevent Vanderbilt from anticipating such changes. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related asset values are 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)*:

Assets Reported at Fair Value as of June 30, 2016

	Fair Value Measurements						
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**	**Redemption Terms**	**Redemption Restriction**
Cash and cash equivalents	$ 963,001	$ -	$ -	$ -	$ 963,001	**Daily, with same-day to 90 day notice**	**No restrictions**
Derivative contract collateral and short-term securities	36,908	-	-	-	36,908	**N/A**	**Not redeemable**
Global equities	688,190		17,619	269,750	975,559	**Daily to annually, with 1 to 90 day notice**	**Lock-up provision ranging from none to 4 years**
Fixed income	227,008	-	15,034	-	242,042	**Daily, with 2 to 30 day notice**	**No restrictions**
Private capital	1,285	-	2,368	1,213,694	1,217,347	**N/A**	**Not redeemable**
Hedged strategies	402,967	55,740	-	312,703	771,410	**Daily to annually, with 1 to 180 day notice**	**Lock-up provision ranging from none to 2 years***
Commodities	120,967	-	-	-	120,967	**Daily to monthly, with 1 to 30 day notice**	**No restrictions**
Natural resources	201	-	31,442	175,225	206,868	**N/A**	**Not redeemable**
Real estate	-	-	179	211,675	211,854	**N/A**	**Not redeemable**
Trusts	-	-	3,909	-	3,909	**N/A**	**Not redeemable**
Other investments	344	-	7,623	-	7,967	**N/A**	**Not redeemable**
Interests in trusts held by others	-	-	26,601	-	26,601	**N/A**	**Not redeemable**
Total assets reported at fair value	**$ 2,440,871**	**$ 55,740**	**$ 104,775**	**$ 2,183,047**	**$ 4,784,433**		

Liabilities Reported at Fair Value as of June 30, 2016

Interest rate exchange agreements	**$ -**	**$ 115,169**	**$ -**	**$ -**	**$ 115,169**

Assets Reported at Fair Value as of June 30, 2015

	Fair Value Measurements						
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**	**Redemption Terms**	**Redemption Restriction**
Cash and cash equivalents	$ 866,981	$ -	$ -	$ -	$ 866,981	**Daily, with same-day to 90 day notice**	**No restrictions**
Derivative contract collateral and short-term securities	82,139	-	-	-	82,139	**N/A**	**Not redeemable**
Global equities	648,701	772	20,495	340,095	1,010,063	**Daily to annually, with 1 to 90 day notice**	**Lock-up provision ranging from none to 4 years**
Fixed income	222,823	-	17,179	-	240,002	**Daily, with 2 to 30 day notice**	**No restrictions**
Private capital	13,595	-	2,604	1,390,131	1,406,330	**N/A**	**Not redeemable**
Hedged strategies	507,413	-	-	397,369	904,782	**Daily to annually, with 1 to 180 day notice**	**Lock-up provision ranging from none to 2 years***
Commodities	98,312	-	-	-	98,312	**Daily to monthly, with 1 to 30 day notice**	**No restrictions**
Natural resources	140	-	33,650	260,508	294,298	**N/A**	**Not redeemable**
Real estate	-	-	179	228,796	228,975	**N/A**	**Not redeemable**
Trusts	-	-	4,258	-	4,258	**N/A**	**Not redeemable**
Other investments	2,727	-	7,178	-	9,905	**N/A**	**Not redeemable**
Interests in trusts held by others	-	-	33,545	-	33,545	**N/A**	**Not redeemable**
Total assets reported at fair value	**$ 2,442,831**	**$ 772**	**$ 119,088**	**$ 2,616,899**	**$ 5,179,590**		

Liabilities Reported at Fair Value as of June 30, 2015

Interest rate exchange agreements	**$ -**	**$ 119,373**	**$ -**	**$ -**	**$ 119,373**

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. The employee immediately vests in these contributions.

Vanderbilt funds the obligations under these plans through monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2016 and 2015 were $16.2 million and $14.7 million, respectively.

15. Student Financial Aid

Vanderbilt provides financial aid to students based upon need and merit. Institutional resources, contributions, endowment distributions, and externally sponsored programs fund this financial assistance.

For the fiscal years ended June 30, financial aid for tuition and education fees was as follows *(in thousands)*:

	2016	2015
Tuition and educational fees, gross	$ 495,330	$ 489,018
Less: Financial aid for tuition and educational fees	(215,563)	(216,815)
Tuition and educational fees, net	**$ 279,767**	**$ 272,203**

For the fiscal years ended June 30, financial aid for room and board was as follows *(in thousands)*:

	2016	2015
Room and board, gross	$ 80,034	$ 77,476
Less: Financial aid for room and board	(33,464)	(32,663)
Room and board, net	**$ 46,570**	**$ 44,813**

16. Functional Classification of Expenses and Allocations

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

	2016	2015
Instruction	$ 347,601	$ 334,062
Research	175,341	178,166
Public service	33,856	33,406
Academic support	112,875	111,354
Student services	123,159	122,489
Institutional support	188,495	189,301
Room, board, and other auxiliary services	148,226	144,760
Total operating expenses	**$ 1,129,553**	**$ 1,113,538**

Natural expense classifications include certain allocations of institutional and other support costs 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 follows *(in thousands)*:

2016

	Depreciation	Interest
Instruction	$ 14,215	$ 2,772
Research	12,525	1,194
Academic support	7,053	970
Student services	2,365	338
Institutional support	13,256	1,208
Room, board, and other auxiliary services	27,495	8,357
Total	**$ 76,909**	**$ 14,839**

2015

	Depreciation	Interest
Instruction	$ 14,092	$ 3,189
Research	12,054	1,396
Academic support	6,906	1,090
Student services	2,373	381
Institutional support	13,023	1,359
Room, board, and other auxiliary services	26,030	9,354
Total	**$ 74,478**	**$ 16,769**

17. Related Parties

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

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

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

Following the Transaction, Vanderbilt will have an ongoing economic relationship with VUMC, a separate legal entity, in the form of an Academic Affiliation Agreement (AAA), a Trademark Licensing Agreement (TML), a Ground Lease, and a Master Service Agreement (MSA). Refer to Note 20 to the consolidated financial statements for further detail.

18. Leases

Vanderbilt is obligated under numerous operating leases to pay base rent through the lease expiration dates. Operating leases primarily consist of equipment and real property with lease terms of up to 11 years. Total operating lease expense in fiscal 2016 and 2015 was $18.4 million and $17.9 million, respectively.

As of June 30, 2016, future committed minimum rentals by fiscal year on significant noncancelable operating leases with initial terms in excess of one year were as follows *(in thousands)*:

2017	$	16,931
2018		16,777
2019		16,779
2020		16,872
2021		12,829
Thereafter		53,961
Total future minimum rentals	**$**	**134,149**

Detail of significant noncancelable operating leases by type:

	% of Minimum Rentals		**Minimum Rentals**
Property leases (14 leases)	99%	$	132,559
Equipment leases (36 leases)	1%		1,590
Total future minimum rentals	**100%**	**$**	**134,149**

Property leases for buildings owned by VUMC (50%) and 2100 West End Avenue (22%) account for approximately 72% of the total future minimum rentals.

Vanderbilt is entitled under numerous operating leases to receive rental payments, primarily from VUMC. Operating leases primarily consist of leases for the use of real property and have terms expiring at various dates through 2114. Rental income under operating leases in fiscal 2016 and 2015 was $15.4 million and $9.3 million, respectively.

As of June 30, 2016, minimum future rentals by fiscal year on significant noncancelable operating leases with initial terms in excess of one year were as follows *(in thousands)*:

2017	$	32,601
2018		30,932
2019		29,622
2020		29,247
2021		28,481
Thereafter		2,117,464
Total future minimum rentals	**$**	**2,268,347**

19. Commitments and Contingencies

(A) *Construction.* As of June 30, 2016, Vanderbilt had contractual commitments for approximately $150.8 million of projects under construction and equipment purchases. The largest components of these commitments were for the Vanderbilt Barnard residential college replacement ($100.6 million) and the Engineering and Science Building ($30.3 million).

(B) *Litigation.* Vanderbilt is a defendant in several legal actions. On August 12, 2016, Vanderbilt University was served with a lawsuit in Federal District Court styled *Cassell, et al. vs. Vanderbilt University*, et al., No. 16-CV-02086 (M.D. Tenn.), seeking class action status on behalf of the employee-participants in the Vanderbilt University Retirement Plan for an alleged breach of fiduciary duties in the administration of its sponsored retirement program under 26 U.S.C. Sec. 403(b). The Complaint in the lawsuit does not claim any specific amount of alleged damages but, rather, contends that such alleged damages must be determined through discovery in the matter.

In addition, on May 17, 2016 a former Vanderbilt football player filed suit against the NCAA, the SEC, and Vanderbilt in the Middle District of Florida in Orlando seeking class action status for students who played football at Vanderbilt between 1952 and 2010. The suit is styled *Walthour v. Vanderbilt University, et al*., No. 16-cv-834 (M.D. Fl.). Walthour alleged he suffered "several" concussions and now has cognitive functioning problems, such as loss of memory, mood swings, sensitivity to light, and blackouts. The suit has been transferred to the Northern District of Illinois for pre-trial purposes as a tag-along action to the multi-district litigation styled *In re: National Collegiate Athletic Association Student-Athlete Concussion Injury Litigation*, MDL No. 2492. Vanderbilt believes that the outcome of these actions will not have a significant effect on its consolidated financial position.

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

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

(E) *Federal and State Contracts and Other Requirements.* Expenditures related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. Amounts of expenditures that granting agencies might disallow cannot be determined at this time. These amounts affect government grants and contract revenue as well as facilities and administrative cost recovery. Vanderbilt would not expect these costs to influence the consolidated financial position significantly.

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

(G) *Partnership Investment Commitments.* There were $552.7 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2016. At the request of the general partners, Vanderbilt may be required to contribute funds over the next several years. 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 $13.0 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

20. Discontinued Operations

On April 29, 2016, Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with the related assets and liabilities, to VUMC, a newly incorporated Tennessee not-for-profit corporation, in exchange for consideration of $1,230.0 million. The university retained the medical educational and academic activities and remains the degree-granting institution for the university's School of Medicine, School of Nursing and clinical master's programs. The university retains control of faculty affairs, graduate school PhD programs in the biomedical sciences, and research in basic science departments and related centers. As a separate legal entity, VUMC is not and will not be under common governance with or controlled by the university nor will the university be financially responsible for VUMC indebtedness.

The following table sets forth the components of discontinued operations *(in thousands)*:

	2016	2015
Health care services revenue	$ 2,543,322	$ 2,816,116
Other revenue	375,449	412,202
Total revenues	**$ 2,918,771**	**$ 3,228,318**
Salaries, wages, and benefits	1,550,915	1,703,089
Supplies, services, and other	1,136,550	1,284,385
Depreciation and amortization	37,711	102,698
Interest	28,904	43,265
Non-operating (income) / expense	17,435	(36,817)
Total expenses	**$ 2,771,515**	**$ 3,096,620**
Income from discontinued operations	**$ 147,256**	**$ 131,698**
Loss on disposal of discontinued operations	(317,856)	-
Change in net assets from discontinued operations, net	**$ (170,600)**	**$ 131,698**

VUMC operations, reported in discontinued operations, generated income of $147.3 million and $131.7 million for the years ended June 30, 2016 and 2015, respectively. The change in net assets from discontinued operations for the year ended June 30, 2016, also includes a loss totaling $317.9 million related to the sale of VUMC assets and liabilities. Through the Transaction, the university received consideration of $1,230.0 million, which consisted of cash of $1,130.0 million and a $100.0 million note receivable to be paid over 20 years (May 2016 through April 2036) in exchange for assets and liabilities whose net book value as of the Transaction date totaled $2,090.8 million and $542.9 million, respectively. The assets and liabilities transferred as reported were subject to final adjustments within the 90 days following the Transaction date.

Vanderbilt defeased $530.2 million of tax-exempt debt associated with financing of VUMC assets transferred through the Transaction. Additionally, in conjunction with the Transaction, Vanderbilt redeemed $250.0 million par of Series 2009A debt and retired $69.0 million par of taxable commercial paper. Vanderbilt allocated interest expense associated with the aforementioned debt of $23.1 million and $33.4 million to discontinued operations for the years ended June 30, 2016 and 2015, respectively. Costs incurred related to the defeasance of the aforementioned debt of $76.6 million are included in other changes in net assets from continuing operations for the period ended June 30, 2016.

Through the Transaction, Vanderbilt novated to VUMC $150.0 million notional of fixed-rate payer interest rate exchange agreements. During the year ended June 30, 2016, Vanderbilt also terminated $115.0 million notional of fixed-rate payer interest rate exchange agreements at a cost of $44.0 million. Vanderbilt reported these termination costs within continuing operations as a component of the change in appreciation of interest rate exchange agreements for the year ended June 30, 2016. VUMC funded the termination costs associated with these agreements through proceeds received in conjunction with the Transaction. Vanderbilt reported interest expense associated with the novated and terminated interest rate exchange agreements terminated in conjunction with the Transaction of $5.6 million and $9.8 million within discontinued operations in the years ended June 30, 2016 and 2015.

Vanderbilt reported transaction-related expenses of $10.1 million and $20.1 million within discontinued operations for the years ended June 30, 2016 and 2015, respectively.

The following table provides the components of assets and liabilities held for sale as of June 30, 2015 *(in thousands)*:

	6/30/2015
Cash and cash equivalents	$ 424,650
Accounts receivable, net	367,196
Prepaid expenses and other assets	67,995
Contributions receivable, net	13,459
Investments	110,196
Property, plant and equipment, net	866,923
Interests in trusts held by others	6,609
Assets held for sale	**$ 1,857,028**

	6/30/2015
Accounts payable and accrued liabilities	$ 148,218
Accrued compensation and withholdings	67,370
Deferred revenue	48,878
Actuarial liabilities	108,645
Fair value of interest rate exchange agreements	55,340
Liabilities held for sale	**$ 428,451**

Cash and cash equivalents held for sale as of June 30, 2015 includes $77.0 million of quasi-endowments transferred to VUMC from endowment cash. Through the Transaction, Vanderbilt transferred $78.8 million of cash to VUMC for these quasi-endowments.

Following the Transaction, Vanderbilt will have an ongoing economic relationship with VUMC in the form of an Academic Affiliation Agreement (AAA), a Trademark Licensing Agreement (TML), a Ground Lease, and a Master Service Agreement (MSA).

The AAA memorializes the ongoing academic, research, and clinical affiliation between the university and VUMC for all of the university's degree-granting, certificate, and research programs. The AAA serves to allocate responsibility between the university and VUMC for jointly administered academic programs, residency programs, and ongoing roles and rights of the university. Vanderbilt reported revenues of $11.7 million under the AAA in affiliated entity revenue for the year ended June 30, 2016. The AAA will remain in effect until termination of the TML or Ground Lease.

Pursuant to the Trademark License Agreement (TML), the university grants, subject to certain consents and approvals, a perpetual license to VUMC to use various university-owned licensed marks in connection with VUMC's fundamental activities after the Transaction date. The licensed marks, which VUMC will continue to use as the primary brands of VUMC, include virtually all those currently in use by VUMC. Vanderbilt reported revenues of $15.2 million under the TML in trademark, license and royalty revenue for the year ended June 30, 2016. The TML will remain in effect until termination of the AAA or Ground Lease.

In conjunction with the Transaction, Vanderbilt and VUMC entered into a Ground Lease. The Ground Lease allows VUMC to use the land on which its campus and related buildings are located. Vanderbilt reported revenues of $3.0 million under the Ground Lease in room, board, and auxiliary revenue for the year ended June 30, 2016. The initial term of the Ground Lease ends June 30, 2114 with the option to extend for up to two additional terms of fifty to ninety-nine years each upon mutual agreement by Vanderbilt and VUMC.

Vanderbilt and VUMC will provide specified services to one another for agreed-upon consideration subsequent to the Transaction as outlined in the MSA. Vanderbilt will continue to provide services to VUMC such as IT support, utilities, and law enforcement staffing. Vanderbilt reported revenues of $19.7 million in the year ended June 30, 2016, associated with these services. These revenues are reported as auxiliary or affiliated entity revenues in the year ended June 30, 2016. VUMC will continue to provide health care, graduate medical education and training, and clinically related research to Vanderbilt. Vanderbilt incurred $7.5 million related to services provided by VUMC reported as supplies, services, and other in the year ended June 30, 2016. The terms of these service agreements between Vanderbilt and VUMC are unique to each agreement.

Revenues of $235 million and $289 million previously eliminated upon consolidation are included within continuing operations as affiliated entity revenue for the years ended June 30, 2016 and 2015, respectively. These revenues reflect services provided to VUMC prior to the Transaction date that continue under the aforementioned agreements subsequent to the Transaction. Discontinued operations reflects the associated expense incurred by VUMC in the respective periods.

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