Vanderbilt Financial Report

2018

2018 FINANCIAL REPORT

VANDERBILT UNIVERSITY

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Letter from the Chancellor

As a university community, we come together every day to use our unique talents, strengths and capabilities to advance Vanderbilt University's mission of world-changing research, teaching and service to humanity. In the past fiscal year, together we achieved significant success, financial and otherwise. I am confident that the progress we have made and is described in this report will inspire you for the work ahead as much as it does me.

Financial responsibility and loyal friends empower us to attract top talent from across the nation and around the world. The Chancellor's Chair Challenge, a $30 million investment designed to create 30 new endowed chairs, has allowed us to recruit new colleagues at the cutting edge of their fields. Opportunity Vanderbilt, which enables students to complete their degrees without debt and celebrates its 10th anniversary this year, helped pave the way for us to welcome the most gifted and diverse first-year class in our history this fall. Once on campus, our students live and learn side-by-side with faculty mentors in residential colleges that provide the academic, intellectual, and social support critical to nurture their development as scholars, citizens and change agents. Our diverse and inclusive community is the essential ingredient to our success in all of our endeavors.

Our land use planning process, FutureVU, made tremendous progress in its second year. This roadmap for current and future growth provides the consistent strategy and guiding principles necessary for the realization of the Academic Strategic Plan through capital projects and other improvements to the built environment designed around a commitment to sustainability.

Our pledge to sound financial stewardship is one we hold at the forefront of all of our actions. The university's healthy financial standing is at the root of our achievements, enabling us to pass on the values we hold highest to the new generations of leaders and scholars who will next embrace our common mission and propel us onward.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
STUDENTS					
Undergraduate	6,885	6,871	6,883	6,851	6,835
Graduate and professional	5,707	5,716	5,684	5,835	5,922
Total fall enrollment	12,592	12,587	12,567	12,686	12,757
Undergraduate admissions					
Applied	31,462	32,442	31,464	29,518	31,099
Accepted	3,415	3,487	3,674	3,865	3,963
Enrolled	1,607	1,601	1,607	1,605	1,613
Selectivity	10.9%	10.7%	11.7%	13.1%	12.7%
Yield	47.1%	45.9%	43.7%	41.5%	40.7%
Degrees conferred					
Baccalaureate	1,716	1,716	1,723	1,644	1,663
Master’s	1,477	1,487	1,421	1,497	1,416
M.D.	79	98	104	120	91
Other doctoral	583	585	564	598	580
Total degrees conferred	3,855	3,886	3,812	3,859	3,750
Undergraduate six-year graduation rate	93.6%	91.5%	92.3%	92.0%	92.9%
Undergraduate tuition	$ 46,500	$ 44,496	$ 43,620	$ 42,768	$ 41,928
% increase over prior year	4.5%	2.0%	2.0%	2.0%	2.0%
FACULTY AND STAFF [1]					
Full-time faculty	1,431	1,421	1,404	3,740	3,742
Full-time staff	4,205	4,177	4,060	19,305	19,671
Part-time faculty	339	318	323	439	405
Part-time staff	346	521	509	692	709
Total faculty and staff	6,321	6,437	6,296	24,176	24,527
GRANT AND CONTRACT FUNDING [2] (in thousands)					
Government sponsors	$ 151,580	$ 155,446	$ 147,980	$ 150,760	$ 358,632
Private sponsors	22,298	24,345	31,087	26,497	69,466
Facilities and administrative costs recovery	56,868	57,489	55,426	54,610	140,051
Total grants and contracts	$ 230,746	$ 237,280	$ 234,493	$ 231,867	$ 568,149
ENDOWMENT					
Market value (in thousands)	$ 4,608,461	$ 4,136,465	$ 3,795,586	$ 4,093,388	$ 4,046,250
Endowment return	12.6%	11.5%	-4.3%	3.7%	13.3%
Endowment per student	$ 365,983	$ 328,630	$ 302,028	$ 322,670	$ 317,179
Endowment payout	4.7%	5.1%	4.7%	4.1%	4.1%

[1] On April 29, 2016, Vanderbilt University (“VU”) and Vanderbilt University Medical Center (“VUMC”) became two separate legal entities. VU 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 $1,230 million of consideration (the “Transaction”). The Transaction drove a decrease in faculty and staff numbers from fiscal 2015 to 2016. In addition to the faculty employed by VU at the end of fiscal years 2018, 2017, and 2016, some employees of VUMC held VU faculty appointments. These additional VUMC-employed, VU faculty comprised:

VUMC-employed, VU faculty appointments	2017/2018	2016/2017	2015/2016
Full-time	2,830	2,680	2,463
Part-time	116	131	125
Total	2,946	2,811	2,588

[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 year 2016.

FINANCIAL OVERVIEW

The university ended fiscal year 2018 with $94 million of net operating results compared to $70 million in fiscal 2017. Vanderbilt's unrestricted net assets increased $241 million from fiscal 2017 to 2018 reflective of the impact of positive operating results, favorable investment returns, and gifts to the university.

UNRESTRICTED OPERATING REVENUES

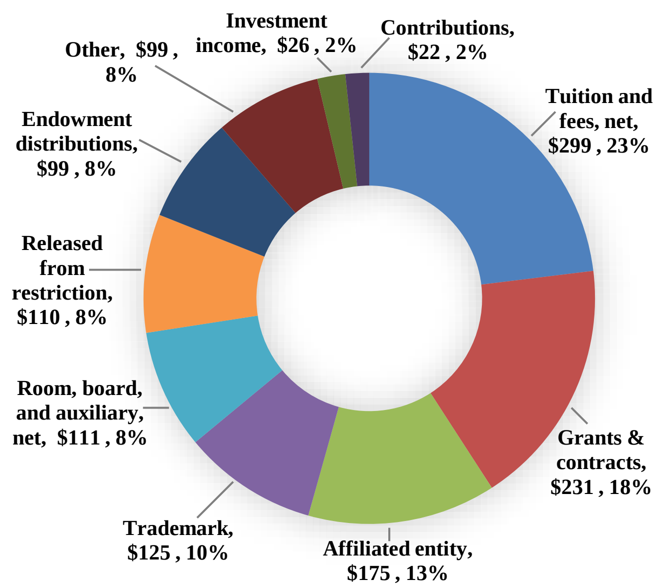
Vanderbilt's unrestricted operating revenues for the years ended June 30, 2018, and June 30, 2017, were as follows:

(in millions)	**2018**	**2017**
Tuition and educational fees, net	$ 299	$ 282
Government grants and contracts	152	156
Private grants and contracts	22	24
F&A costs recovery	57	57
Contributions	22	27
Endowment distributions	99	96
Investment income	26	22
Room, board, and other auxiliary services, net	111	110
Trademark, license, and royalty	125	113
Affiliated entity revenue	175	174
Other sources	99	97
Net assets released from restrictions	110	116
Total unrestricted operating revenue	**$ 1,297**	**$ 1,274**

Unrestricted operating revenues increased $23 million, or 2%, to $1,297 million in fiscal 2018, from $1,274 million in fiscal 2017. Trademark, license, and royalty revenue increased $12 million primarily due to revenue generated under the Trademark Licensing Agreement with VUMC. Tuition and fees, net, increased by $17 million due to changes in student enrollment, credit hours, and approved increases in tuition rates. Partially offsetting these increases, revenue from government and private sponsors decreased by $4 million and $2 million, respectively, due to continued constraints on federal and private funding.

Unrestricted Operating Revenues by Type (Fiscal 2018)

(in millions)



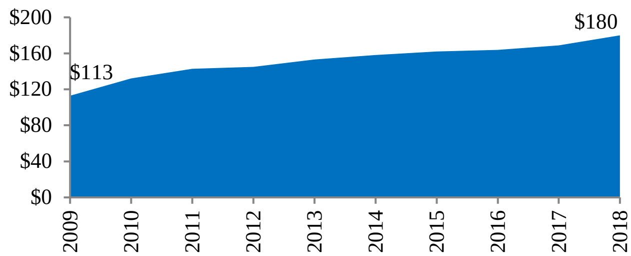
TUITION, ROOM, AND BOARD

Supporting Vanderbilt's commitment to student access and affordability, the university provides significant financial aid to students and their families. In fiscal 2018, Vanderbilt provided $276 million in support to its students for tuition, room, and board as shown in the table below.

	Undergrad	**Professional**	**Graduate**	**Total**
Student count	*6,885*	*3,611*	*2,096*	*12,592*
(in millions)				
Tuition and fees	$ 331	$ 157	$ 51	$ 539
Financial aid(1)	(144)	(51)	(45)	$ (240)
Tuition and fees, net	**$ 187**	**$ 106**	**$ 6**	**$ 299**
Room and board	$ 81	$ -	$ -	$ 81
Financial aid(1)	(36)	-	-	(36)
Room and board, net	**$ 45**	**$ -**	**$ -**	**$ 45**
Total financial aid(1)	**$ 180**	**$ 51**	**$ 45**	**$ 276**

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

Undergraduate Financial Aid
fiscal 2009 - 2018 (in millions)



Vanderbilt has expanded its undergraduate financial aid significantly over the past decade. In fiscal 2018, undergraduate aid as a percentage of gross tuition, room and board, and educational fees was 44%. Nearly half of Vanderbilt's undergraduate financial aid was funded in fiscal 2018 and 2017. The university's Opportunity Vanderbilt no-loan initiative, which began in fiscal 2009, is critical to this support. Through fiscal 2018, generous donors have committed, through gifts and pledges, $387 million to support undergraduate financial aid. A portion of operations ($98 million), endowment distributions and gifts ($78 million), and external agencies ($4 million) funded fiscal 2018 undergraduate aid.

GRANTS AND CONTRACTS

Direct grant revenue decreased by $6 million, or 3%, to $174 million in fiscal 2018 from $180 million in fiscal 2017. Government grants and contracts revenue decreased $4 million, or 3%, to $152 million in fiscal 2018 from $156 million in fiscal 2017, due to decreases across federal funding sources. Private grants and contracts revenues decreased $2 million, or 8%, over the same period to $22 million in fiscal 2018 from $24 million in fiscal 2017.

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 the National Institutes of Health, or NIH).

Grants and Contracts Revenues by Funding Source

(in millions)	2018	%
Department of Health and Human Services	$ 83	55%
Department of Education	20	13%
National Science Foundation	16	11%
Department of Defense	14	9%
Department of Energy	7	5%
Other government agencies	12	7%
Total government grants and contracts by funding source	**$ 152**	**100%**

Sponsored research and project awards represent research funding commitments not yet expended by Vanderbilt and include multiple-year grants and contracts from government sources, foundations, associations, and corporations. As of June 30, 2018 and 2017, such awards totaled $215 million and $242 million, respectively, as shown in the following table.

Sponsored Program Awards

(in millions)	2018	2017
Government awards	$ 183	$ 213
Private awards	32	29
Total sponsored research and project awards	**$ 215**	**$ 242**

PHILANTHROPY

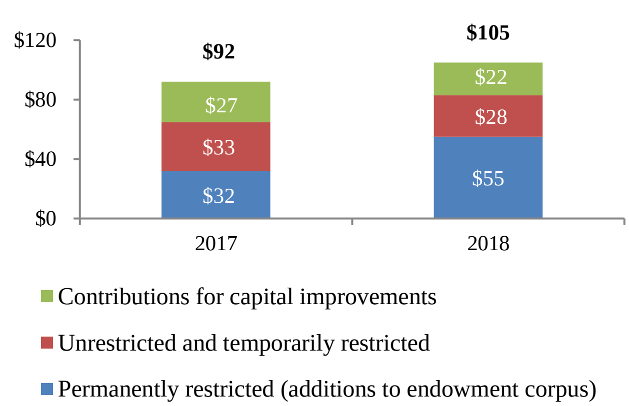
Vanderbilt reports contributions revenue within the consolidated financial statements based on U.S. GAAP. This basis for measurement differs from guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines focus on philanthropic distributions of private resources (primarily gifts and foundation grants) to benefit the public.

GAAP to CASE Reconciliation

(in millions)	2018
Contributions revenue	
Unrestricted	$ 22
Temporarily restricted	6
Permanently restricted	55
Total contributions revenue	83
Total contributions for capital improvements	22
Total consolidated GAAP contributions revenue	**$ 105**
Grants and similar agreements meeting CASE guidelines (gifts per CASE standards)	$ 84
Athletics premium seat revenue (reported as ticket revenue in Other sources)	2
Net increase in contributions receivable	(20)
Other	3
Total CASE reported gifts (cash basis)	**$ 174**

Vanderbilt reported $105 million in consolidated contributions revenue, including pledges and contributions for capital improvements, a 14% increase over the $92 million fiscal 2017 level. Fiscal 2018 CASE grants of $84 million include $81 million from VUMC in support of research and education.

Consolidated Contributions (GAAP basis)
(in millions)



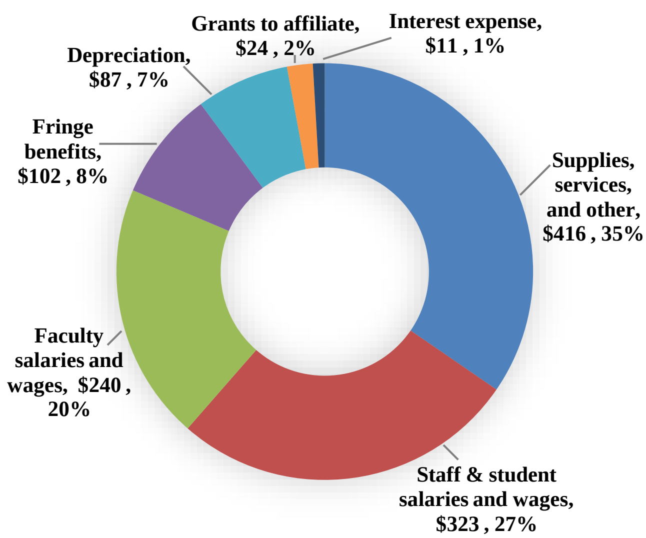
OPERATING EXPENSE

(in millions)	2018	2017
Salaries, wages, and benefits	$ 665	$ 646
Supplies, services, and other	416	440
Interest expense	11	15
Depreciation	87	81
Grants to affiliate	24	22
Total operating expenses	**$ 1,203**	**$ 1,204**

Consolidated operating expenses decreased $1 million to $1,203 million in fiscal 2018 from $1,204 million in fiscal 2017. The primary driver of this decrease was a $24 million, or 6%, decrease in supplies, services, and other driven by decreases across expense categories, partially offset by a $19 million, or 3%, increase in salaries, wages, and benefits primarily attributable to annual salary adjustments.

Operating Expenses by Type (Fiscal 2018)

(in millions)



OTHER CHANGES IN UNRESTRICTED NET ASSETS

(in millions)	2018	2017
Appreciation of endowment, net of dist.	$ 105	$ 53
Appreciation of other investments, net of distributions	30	23
Appreciation of interest rate exchange agreements	9	32
Capital contributions and releases from restriction	20	25
Nonoperating net asset reclassifications	(4)	(4)
Debt defeasance costs	-	(6)
Total changes from nonoperating	**$ 160**	**$ 123**

Fiscal 2018 nonoperating activity primarily consisted of appreciation of endowment, net of distributions, totaling $105 million in fiscal 2018, an increase of $52 million compared to fiscal 2017. The change in appreciation for the endowment resulted from a 12.6% investment return offset by 4.7% of the endowment utilized for distributions during fiscal 2018, compared to an 11.5% investment return and 5.1% of the endowment utilized for distributions during fiscal 2017. Other changes in net assets also include the impact of $30 million of unrealized gains on working capital invested alongside the endowment.

In fiscal 2018, Vanderbilt recognized net appreciation on interest rate exchange agreements of $9 million, compared to $32 million in fiscal 2017. The improvement noted in fiscal 2018 was primarily attributable to an increase in the 30-year LIBOR paired with continued interest rate exchange agreement terminations.

Noncontrolling Interests

Net assets related to noncontrolling interests decreased $12 million to $50 million in fiscal 2018 from $62 million in fiscal 2017 due to distributions of $18 million offset slightly by $5 million of appreciation and $1 million of cash contributions during fiscal 2018.

SUMMARY OF FINANCIAL POSITION

Vanderbilt's summarized Statements of Financial Position as of June 30, 2018, and June 30, 2017, were as follows:

(in millions)	2018	2017
ASSETS		
Cash and cash equivalents	$ 602	$ 935
Accounts and contributions receivable	250	217
Promissory notes receivable	89	94
Investments	5,100	4,496
Property, plant, and equipment, net	1,094	1,020
Prepaid expenses and other assets	82	79
Total assets	**$ 7,217**	**$ 6,841**
LIABILITIES		
Payables and accrued liabilities	$ 240	$ 230
Deferred revenue	51	49
Interest rate exchange agreements	28	55
Long-term debt and commercial paper	366	374
Securities sold short	240	353
Total liabilities	**925**	**1,061**
NET ASSETS		
Unrestricted net assets	3,312	3,070
Temporarily restricted net assets	1,584	1,385
Permanently restricted net assets	1,396	1,325
Total net assets	**6,292**	**5,780**
Total liabilities and net assets	**$ 7,217**	**$ 6,841**

Vanderbilt's assets increased $376 million, or 6%, from fiscal 2017 to fiscal 2018. This increase is primarily attributable to a $604 million, or 13%, increase in investment balances. The endowment, net of securities sold short, returned 12.6% and its value increased to $4,608 million in fiscal 2018 from $4,136 million in fiscal 2017 after the impact of distributions in support of operations and the addition of new gifts and unrestricted quasi-endowments.

Total liabilities decreased $136 million, or 13%, from fiscal 2017 to fiscal 2018. This decrease is primarily attributable to a $113 million decrease in the fair value of securities sold short and a $27 million decrease in the fair value of interest rate exchange agreements due to the impact of terminated agreements and an increase in 30-year LIBOR.

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. 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, 2018, $496 million of liquid assets were available on a same-day basis and an additional $1,293 million was available within 30 days. This 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 a $150 million general operating line of credit and a $200 million revolving credit facility to provide dedicated self-liquidity support for the debt portfolio.

Debt

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

During fiscal 2018, Vanderbilt terminated $50 million notional of fixed-payer interest rate exchange agreements in order to further reduce the university's aggregate collateral exposure and eliminate ongoing settlement costs. Over the past nine fiscal years, Vanderbilt terminated and novated a total of $875 million notional of fixed-payer interest rate exchange agreements and incurred $24 million of realized net amortization. As a result of these terminations, novations, and amortization, Vanderbilt reduced its fixed-payer portfolio notional balance to $112 million at the end of fiscal 2018 as compared to $1,011 million at the end of fiscal 2009.

Capital Expenditures

Maintaining the university's campus, which dates back to 1873, and investing in the university's capital assets are fundamental to achieving Vanderbilt's mission.

Over the past six years, Vanderbilt has focused increasingly on revitalizing the campus and student experience through the continued construction and revitalization of residential colleges in direct support of the academic strategic plan:

- Offering students a rich and diverse intellectual community that educates the whole person and cultivates lifelong learning;
- Investing in multidisciplinary and interdisciplinary programs to lead in defining and addressing important problems facing society, while pursuing new and exciting opportunities;
- Transforming education models through technology and research; and
- Building distinctive and distinguished programs that develop and offer effective solutions to pressing health and health care problems.

Additionally, these investments serve to support FutureVU, Vanderbilt's land use planning initiative, the goal of which is to ensure the Vanderbilt University campus is designed and prepared at every level to support its students, faculty, and staff in their work each day to uphold the university's values and further its mission.

Capital Projects

(in millions)	2018	2017
Housing projects	$ 83	$ 34
Academic projects	35	35
Minor capex	29	29
Infrastructure projects	6	32
Acquisitions	5	20
Athletics projects	3	9
Total capital assets	**$ 161**	**$ 159**

During fiscal 2018, Vanderbilt University invested $161 million in capital projects and acquisitions. This enabled progress on several significant projects, including, but not limited to:

- Ongoing construction of new residential colleges, which will foster Vanderbilt's culture of collaboration and creativity;
- Ongoing construction of the School of Nursing addition, which will connect Frist and Godchaux halls and create space for additional laboratories, classrooms, offices, and meeting spaces;
- Divinity School renovation, which will provide improved teaching and gathering spaces and create a more collaborative environment;
- Acquisition of properties immediately adjacent to Vanderbilt's campus;
- Completion of the implementation of a new cloud-based enterprise resource planning (ERP) system;
- Completion of enhancements to university baseball facilities, including renovation of the fieldhouse, installation of a new video board, and control room upgrades; and
- Completion of utility infrastructure upgrades needed to support increased demand created by new residential colleges.

As capital projects conclude or new acquisitions occur during the fiscal year, capital asset balances increase. A total of $81 million of completed projects and purchased equipment came into service during fiscal 2018.

The Board of Trust Executive Committee reviews the university's five-year capital plan annually; however, major capital projects are approved individually. The FY2018 – FY2022 capital plan brings a continued focus on the academic strategic plan, including the student experience through new residential colleges.

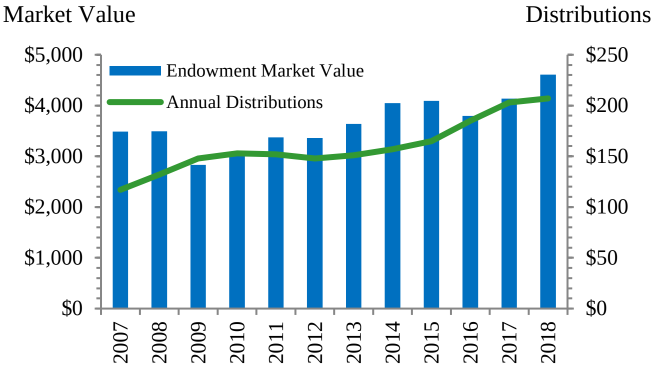
ENDOWMENT

For fiscal 2018, Vanderbilt's endowment portfolio returned 12.6%. The endowment, net of securities sold short, ended fiscal 2018 with a total market value of $4,608 million, compared to $4,136 million at the end of fiscal 2017. 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 2018, the university added $173 million to the endowment portfolio through new gifts, recapitalizations, and additions to institutional endowments. Endowment distributions totaled $207 million in fiscal 2018, compared to $203 million in fiscal 2017. These distributions support the university's education, research, and public service missions.

The past year witnessed a strong capital market environment. Global equity markets gained 11%, with significant positive performance across U.S. large caps (up 14%), U.S. small caps (up 18%), non-U.S. developed markets (up 7%), and emerging markets (up 8%). U.S. bond markets were flat as U.S. Treasury yields climbed and credit spreads widened modestly. Commodity prices increased sharply (up 31%) and the value of the U.S. dollar on a trade-weighted basis fell during the first half of the fiscal year and subsequently recovered most of those losses during the second half.

Looking into the future, significant headwinds still lie ahead. U.S. equity valuations are high, European economies are slowly growing but are challenged by "Brexit" dynamics, and China is suffering from an overvalued property market plagued by excess capacity. Globally, markets are wrestling with government intervention, changing regulatory pressures, and uncertainty about trade wars, all of which represent risks to the global economic outlook. In addition, conversations about the extent to which the U.S. Federal Reserve will continue to normalize monetary policy and how high it will increase the Fed Funds rate could 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, 2018 (% of portfolio)

	Allocation
Global equities	26%
Hedged strategies	20%
Commodities	3%
Fixed income	11%
Cash and cash equivalents	6%
Total public investments	**66%**
Private capital	25%
Real estate	2%
Natural resources	7%
Total nonmarketable	**34%**
Total endowment	**100%**

LOOKING FORWARD

Vanderbilt's fiscal 2018 results reflect the university's continued financial health stemming from our diverse revenue base, strong endowment returns, continued generosity of donors, and prudent expense management. We remain vigilant, however, and continue to confront proactively the economic challenges posed by constrained federal research funding, evolving tax legislation, and uncertain capital markets.

On December 20, 2017, Congress enacted and the president of the United States subsequently signed into law tax legislation commonly referred to as the Tax Cuts and Jobs Act. The TCJA imposes new taxes on the benefits nonprofits provide to their employees, alters donors' ability to deduct certain payments as charitable contributions, and levies multiple new taxes that could add burden to Vanderbilt's efforts to control the cost of education and fundamentally alter the historical partnership between higher education and the federal government.

Vanderbilt's audited financial statements and other key financial metrics for fiscal 2018 are included in the following pages.

VANDERBILT UNIVERSITY

Consolidated Financial Statements

Report of Independent Auditors

To the Board of Trust of
Vanderbilt University

We have audited the accompanying consolidated financial statements of Vanderbilt University and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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.

Auditors' 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 and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 11, 2018

PricewaterhouseCoopers LLP, 150 Third Avenue South, Suite 1400, Nashville, TN 37201
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Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2018 and 2017 (in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 602,652	$ 935,446
Accounts receivable, net	159,903	146,931
Prepaid expenses and other assets	24,584	19,386
Contributions receivable, net	89,647	69,701
Promissory notes receivable	89,583	94,166
Student loans and other notes receivable, net	26,965	31,645
Investments	5,049,681	4,434,026
Investments allocable to noncontrolling interests	49,417	61,605
Property, plant, and equipment, net	1,093,621	1,019,893
Interests in trusts held by others	30,753	28,577
Total assets	**$ 7,216,806**	**$ 6,841,376**
LIABILITIES		
Accounts payable and accrued liabilities	$ 95,384	$ 84,201
Accrued compensation and withholdings	82,707	84,955
Deferred revenue	51,460	48,410
Actuarial liabilities	35,603	37,021
Government advances for student loans	25,601	24,411
Commercial paper	114,602	114,180
Long-term debt	251,222	260,030
Fair value of securities sold short	240,447	353,025
Fair value of interest rate exchange agreements	28,089	54,784
Total liabilities	**925,115**	**1,061,017**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	3,261,624	3,008,116
Unrestricted net assets related to noncontrolling interests	49,417	61,605
Total unrestricted net assets	3,311,041	3,069,721
Temporarily restricted net assets	1,584,261	1,385,442
Permanently restricted net assets	1,396,389	1,325,196
Total net assets	**6,291,691**	**5,780,359**
Total liabilities and net assets	**$ 7,216,806**	**$ 6,841,376**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2018 (in thousands)

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES				
Tuition and educational fees	$ 538,470	$ -	$ -	$ 538,470
Less student financial aid	(239,628)	-	-	(239,628)
Tuition and educational fees, net	298,842	-	-	298,842
Grants and contracts:				
Government sponsors	151,580	-	-	151,580
Private sponsors	22,298	-	-	22,298
Facilities and administrative costs recovery	56,868	-	-	56,868
Total grants and contracts	230,746	-	-	230,746
Contributions	22,486	5,886	55,226	83,598
Endowment distributions	98,857	107,376	609	206,842
Investment income	25,672	1,093	9,341	36,106
Room, board, and other auxiliary services, net	110,522	-	-	110,522
Trademark, license, and royalty revenue	125,427	-	-	125,427
Affiliated entity revenue	174,633	-	-	174,633
Other sources	99,552	-	-	99,552
Net assets released from restrictions	110,324	(110,324)	-	-
Total revenues and other support	**1,297,061**	**4,031**	**65,176**	**1,366,268**
EXPENSES				
Salaries, wages, and benefits	664,794	-	-	664,794
Supplies, services, and other	416,029	-	-	416,029
Interest expense	11,223	-	-	11,223
Depreciation	86,753	-	-	86,753
Grants to affiliate	24,526	-	-	24,526
Total expenses	**1,203,325**	**-**	**-**	**1,203,325**
Change in unrestricted net assets from operating activities	**93,736**			
OTHER CHANGES IN NET ASSETS				
Appreciation of endowment, net of distributions	104,830	194,815	-	299,645
Appreciation of other investments, net of distributions	29,736	-	-	29,736
Appreciation of interest rate exchange agreements, net	9,377	-	-	9,377
Contributions for capital improvements	195	21,624	-	21,819
Net assets released from restrictions for capital improvements	19,711	(19,711)	-	-
Nonoperating net asset reclassifications	(4,077)	(1,940)	6,017	-
Total other changes in net assets	**159,772**	**194,788**	**6,017**	**360,577**
Increase in net assets controlled by Vanderbilt	**253,508**	**198,819**	**71,193**	**523,520**
Decrease in net assets related to noncontrolling interests	**(12,188)**	**-**	**-**	**(12,188)**
Total increase in net assets	**$ 241,320**	**$ 198,819**	**$ 71,193**	**$ 511,332**
Net assets, June 30, 2017	**$ 3,069,721**	**$ 1,385,442**	**$ 1,325,196**	**$ 5,780,359**
Net assets, June 30, 2018	**$ 3,311,041**	**$ 1,584,261**	**$ 1,396,389**	**$ 6,291,691**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2017 (in thousands)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and educational fees	$ 513,103	$ -	$ -	$ 513,103
Less student financial aid	(231,424)	-	-	(231,424)
Tuition and educational fees, net	281,679	-	-	281,679
Grants and contracts:				
Government sponsors	155,446	-	-	155,446
Private sponsors	24,345	-	-	24,345
Facilities and administrative costs recovery	57,489	-	-	57,489
Total grants and contracts	237,280	-	-	237,280
Contributions	26,719	5,898	32,664	65,281
Endowment distributions	96,060	106,365	772	203,197
Investment income	21,727	3,124	4,315	29,166
Room, board, and other auxiliary services, net	110,154	-	-	110,154
Trademark, license, and royalty revenue	113,165	-	-	113,165
Affiliated entity revenue	173,945	-	-	173,945
Other sources	97,643	-	-	97,643
Net assets released from restrictions	115,792	(115,792)	-	-
Total revenues and other support	**1,274,164**	**(405)**	**37,751**	**1,311,510**
EXPENSES				
Salaries, wages, and benefits	645,805	-	-	645,805
Supplies, services, and other	440,022	-	-	440,022
Interest expense	14,618	-	-	14,618
Depreciation	81,331	-	-	81,331
Grants to affiliate	22,396	-	-	22,396
Total expenses	**1,204,172**	**-**	**-**	**1,204,172**
Change in unrestricted net assets from operating activities	**69,992**			
OTHER CHANGES IN NET ASSETS				
Appreciation of endowment, net of distributions	52,950	159,235	-	212,185
Appreciation of other investments, net of distributions	23,539	-	-	23,539
Appreciation of interest rate exchange agreements, net	32,287	-	-	32,287
Contributions for capital improvements	312	26,461	-	26,773
Net assets released from restrictions for capital improvements	23,706	(23,706)	-	-
Nonoperating net asset reclassifications	(3,601)	(277)	3,878	-
Debt defeasance costs	(6,059)	-	-	(6,059)
Total other changes in net assets	**123,134**	**161,713**	**3,878**	**288,725**
Increase in net assets controlled by Vanderbilt	**193,126**	**161,308**	**41,629**	**396,063**
Decrease in net assets related to noncontrolling interests	**(21,451)**	**-**	**-**	**(21,451)**
Total increase in net assets	**$ 171,675**	**$ 161,308**	**$ 41,629**	**$ 374,612**
Net assets, June 30, 2016	**$ 2,898,046**	**$ 1,224,134**	**$ 1,283,567**	**$ 5,405,747**
Net assets, June 30, 2017	**$ 3,069,721**	**$ 1,385,442**	**$ 1,325,196**	**$ 5,780,359**

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017 (in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	**$ 511,332**	**$ 374,612**
Adjustments to reconcile change in total net assets to net cash used in operating activities:		
Change in net assets related to noncontrolling interests	12,188	21,451
Realized and unrealized loss (gain) on investments, net	(595,550)	(480,431)
Contributions for capital improvements and endowment	(55,391)	(72,229)
Contributions of donated securities	(16,717)	(9,501)
Proceeds from sale of donated securities	1,309	1,373
Depreciation	86,753	81,331
Amortization of bond discounts and premiums	(556)	(925)
Payments to terminate interest rate exchange agreements	17,318	28,098
Loss from disposals of property, plant, and equipment	660	2,155
Net change in fair value of interest rate exchange agreements	(26,695)	(60,385)
Change in:		
Accounts receivable, net of accrued investment income	(13,055)	(17,884)
Prepaid expenses and other assets	(5,198)	1,428
Contributions receivable, net	(19,946)	20,568
Interests in trusts held by others	5,970	-
Accounts payable and accrued liabilities, net of nonoperating items	6,598	1,416
Accrued compensation and withholdings	(2,248)	4,911
Deferred revenue	3,050	208
Actuarial liabilities	(1,418)	(2,795)
Net cash used in operating activities	**(91,596)**	**(106,599)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(7,939,736)	(8,301,403)
Proceeds from sales of investments	7,798,906	8,410,632
Purchases of investments allocable to noncontrolling interests	(660)	(820)
Proceeds from sales of investments allocable to noncontrolling interests	18,160	25,984
Change in accrued investment income	83	1,212
Payments to terminate interest rate exchange agreements	(17,318)	(28,098)
Acquisitions of property, plant, and equipment	(156,555)	(159,179)
Principal collected on promissory notes receivable	4,583	5,000
Student loans and other notes receivable disbursed	(2,019)	(3,801)
Principal collected on student loans and other notes receivable	6,699	6,485
Net cash used in investing activities	**(287,857)**	**(43,988)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital improvements and endowment	55,391	72,229
Change in government advances for student loans	1,190	989
Payments to retire or defease debt	(7,830)	(101,140)
Proceeds from issuance of debt	-	168,990
Repayment on line of credit	-	(1,000)
Proceeds from sale of donated securities restricted for capital improvements and endowment	15,408	8,128
Proceeds from noncontrolling interests in investment partnerships	660	820
Payments to noncontrolling interests in investment partnerships	(18,160)	(25,984)
Net cash provided by financing activities	**46,659**	**123,032**
Net decrease in cash and cash equivalents	**(332,794)**	**(27,555)**
Cash and cash equivalents at beginning of year	**935,446**	**963,001**
Cash and cash equivalents at end of year	**$ 602,652**	**$ 935,446**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 14,185	$ 15,164
Donated securities	16,717	9,501
Accrued liabilities related to additions of property, plant, and equipment	13,257	8,672

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" or the "university") 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 Ph.D. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The consolidated financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles ("GAAP"). Vanderbilt eliminates all material intercompany accounts and transactions in consolidation.

Net Asset Classifications
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 upon satisfaction 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 Note 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 currencies 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. 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. Vanderbilt follows the half-year convention to calculate depreciation associated with construction-related assets (e.g., land improvements, buildings, leasehold improvements, and fixed equipment). Under the half-year convention, Vanderbilt treats fixed assets constructed during the year as if placed in service on January 1, regardless of in-service date. All other purchased assets (e.g., moveable equipment) begin depreciation on the in-service date. 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.

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/or discounts. Vanderbilt utilizes interest rate exchange agreements as part of its debt portfolio management strategy. The consolidated statements of activities include any gain or loss resulting from recording the fair value of derivative financial instruments as a nonoperating item.

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 the university incurs allowable expenditures in accordance with such agreements.

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 cost recovery rate for on-campus research was 57.0% in both fiscal

2018 and 2017. Vanderbilt's federal F&A off-campus research adjacent and remote cost recovery rates were 28.5% and 26.0%, respectively, in both fiscal 2018 and 2017.

Endowment distributions—Endowment distributions reported as operating revenue consist of endowment return (regardless of when such income arose) distributed to support 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.

Investment income—Investment income consists of distributions associated with working capital assets invested in long-term pooled investments managed in conjunction with endowment funds and dividends, interest, and gains/losses on other university investments. Vanderbilt reports any difference between total returns for pooled working capital assets and the aforementioned distributions as nonoperating activity.

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 the 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.

Other revenue—Vanderbilt recognizes revenue from other sources as the related services are provided and/or amounts are otherwise earned in accordance with the terms of the underlying agreements.

Contributions

Vanderbilt recognizes unconditional promises to give (pledges) as contribution revenue upon receipt of a commitment from the donor, with payments due in future periods reported as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows. Vanderbilt recognizes pledges net of an allowance for amounts estimated to be uncollectible based upon past collection experience and other judgmental factors.

Vanderbilt records contributions with donor-imposed restrictions as unrestricted revenue if the university receives the contribution and meets the restrictions 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 from restrictions and recognizes these contributions as unrestricted net assets. Vanderbilt releases from restrictions contributions for capital improvements and recognizes these contributions as nonoperating items only after incurring expenses for the applicable capital improvement or when the related asset is placed in service based on donor intent.

In contrast to unconditional promises, Vanderbilt does not record conditional promises (primarily bequest intentions) until the university meets donor stipulations.

Measure of Operations

The university's measure of operations, the change in unrestricted net assets from operating activity, as presented in the consolidated statement of activities includes revenue from tuition and fees (net of financial aid), grants and contracts, trademark revenue, revenue from affiliates, contributions for operating programs, endowment distributions in support of operations, and other revenues. Vanderbilt reports operating expenses on the consolidated statement of activities by natural classification.

The university's nonoperating activity within the consolidated statement of activities includes endowment and other investment returns, changes in the fair value of derivative financial instruments, contributions for capital improvements, and other nonrecurring items.

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. Vanderbilt regularly evaluates its tax position and does not believe it has any material uncertain tax positions that require disclosure or adjustment to the 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 could differ from these estimates.

Reclassifications

Vanderbilt's financial statements reflect a reclassification between unrestricted and temporarily restricted appreciation of endowment, net of distributions in fiscal 2017. To align with current year presentation, Vanderbilt also reclassified $52 million of fiscal 2017 Athletics ticket, tournament, and television revenue from room, board, and auxiliary to other revenue.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09, along with subsequent amendments, supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing, and uncertainty of revenue. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2017. Vanderbilt will adopt the provisions of ASU 2014-09 in fiscal 2019 and expects the primary impact upon adoption to be in the form of additional financial statement disclosures.

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 entities that are not considered 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. Vanderbilt plans to adopt the remaining provisions of ASU 2016-01 by fiscal 2020.

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's adoption of the new standard in fiscal 2020 will require extensive quantitative and qualitative financial statement disclosures regarding the university's lease arrangements and balance sheet presentation of right of use assets and lease liabilities representative of the university's discounted future lease payments. Vanderbilt continues to assess the impact of adoption with respect to the university's policies and procedures.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for-profit reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The new standard requires enhanced disclosures regarding the nature and amount of net asset restrictions (both donor-imposed and board-designated) and requires the university to reclassify its net assets previously reported as unrestricted, temporarily restricted, and permanently restricted into two categories: net assets without donor imposed restrictions and net assets with donor imposed restrictions. Among other requirements, ASU 2016-14 also requires disclosure of quantitative information regarding the availability of an entity's financial assets and qualitative information regarding its liquidity management strategy. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Vanderbilt's adoption of the new standard in fiscal 2019 will require financial statement reclassification of net assets by restriction category and expanded disclosures including, but not limited to, liquidity and expense information by functional and natural classification.

In January 2017, the FASB issued ASU 2017-02, Clarifying When a Not-for-Profit Entity that Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity, which amends the consolidation guidance for not-for-profit entities in ASC 958-810. This ASU clarifies the model used by not-for-profit entities to evaluate investments in limited partnerships. This ASU retains the presumption (previously eliminated by ASU 2015-02) that a not-for-profit entity that is a general partner of a for-profit limited partnership or similar entity controls the limited partnership, unless that presumption can be overcome. Not-for-profit investors in a limited partnership or a similar entity will continue to apply a presumption that the general partner has control and should consolidate the investments unless substantive kick-out or participating rights held by any limited partners overcome that presumption. Vanderbilt will adopt ASU 2017-02 in fiscal 2019. Vanderbilt does not expect ASU 2017-02 to affect the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 will result in treatment of most federal grants as donor-restricted conditional contributions rather than exchange transactions and applies to all entities that make or receive contributions. The new standard also clarifies the criteria for evaluating whether contributions are unconditional or conditional. Vanderbilt does not expect the timing of grant or gift revenue recognition to change significantly as a result of this ASU. Vanderbilt will implement ASU 2018-08 simultaneous with adoption of ASU 2014-09 in fiscal 2019.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies and eliminates certain existing provisions and introduces new fair value measurement disclosure requirements. ASU 2018-13 is effective for fiscal periods beginning after December 15, 2019 with early adoption permitted. Vanderbilt is currently evaluating the effect of adoption to the financial statements.

3. ACCOUNTS RECEIVABLE

The major components of accounts receivable as of June 30 were as follows *(in thousands)*:

	2018	**2017**
Receivable on secondary sale	$ 71,473	$ 71,473
Research and sponsored programs	46,069	34,925
VUMC related agreements	24,479	27,978
Tuition and fees	8,134	5,166
Accrued investment income	1,189	1,272
Other	9,921	7,854
Accounts receivable	**161,265**	**148,668**
Less: Allowance for uncollectible amounts	(1,362)	(1,737)
Accounts receivable, net	**$ 159,903**	**$ 146,931**

Vanderbilt records allowances for uncollectible amounts based on management's assessment of expected net collections considering historical trends and current economic factors.

Vanderbilt's accounts receivable balance at June 30, 2018, includes $71.5 million related to secondary sales of investments in general partnerships, $46.1 million related to research and sponsored programs, and $24.5 million related to agreements with VUMC. These receivables account for 89% of total net receivables at June 30, 2018.

4. CONTRIBUTIONS RECEIVABLE

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

	2018	2017
Unconditional promises expected to be collected:		
in one year or less	$ 37,397	$ 32,331
between one year and five years	60,525	44,308
in more than five years	8,758	4,300
Contributions receivable	**106,680**	**80,939**
Less: Discount	(6,347)	(2,626)
Less: Allowance for uncollectible promises	(10,686)	(8,612)
Contributions receivable, net	**$ 89,647**	**$ 69,701**

Vanderbilt discounts contributions receivable at a rate commensurate with the scheduled timing of receipt. Vanderbilt applied discount rates ranging from 1.0% to 3.0% to amounts outstanding as of June 30, 2018 and 2017, respectively. Vanderbilt's methodology for calculating the 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.

In addition to pledges reported as contributions receivable, Vanderbilt had cumulative bequest intentions and conditional promises to give of approximately $342.6 million and $301.2 million as of June 30, 2018 and 2017, respectively. Due to their conditional nature, Vanderbilt does not recognize these intentions to give as assets.

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

	2018	2017
Temporarily restricted	$ 33,480	$ 27,360
Permanently restricted	56,167	42,341
Contributions receivable, net	**$ 89,647**	**$ 69,701**

5. STUDENT LOANS AND OTHER NOTES RECEIVABLE

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

	2018			2017		
	Receivable	**Allowance**	**Net**	**Receivable**	**Allowance**	**Net**
Student loans:						
Federal	$ 22,228	$ (2,045)	$ 20,183	$ 24,465	$ (2,140)	$ 22,325
Institutional	6,098	(830)	5,268	8,264	(1,278)	6,986
Total student loans	**28,326**	**(2,875)**	**25,451**	**32,729**	**(3,418)**	**29,311**
Faculty mortgages	1,514	-	1,514	2,334	-	2,334
Student loans, other notes receivable, and related allowances	**$ 29,840**	**$ (2,875)**	**$ 26,965**	**$ 35,063**	**$ (3,418)**	**$ 31,645**

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.

In an effort to attract and retain a world-class faculty, Vanderbilt provides various incentives and historically provided home mortgage financing assistance in select situations. Deeds of trust on properties concentrated in the surrounding region collateralize these notes. Vanderbilt has not recorded an allowance for doubtful accounts for loans based on their collateralization and prior collection history.

6. INVESTMENTS

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

	2018	2017
Short-term securities [1]	$ 12,088	$ 137
Global equities [1]	1,349,140	1,128,688
Fixed income [5]	538,364	348,966
Hedged strategies [6]	1,109,053	1,260,019
Private capital [3]	1,443,106	1,151,000
Real estate [3]	156,132	168,377
Natural resources [3]	298,267	261,431
Commodities [2]	151,771	133,644
Trusts [4]	34,577	37,216
Other investments [4]	6,600	6,153
Total value [7]	**$ 5,099,098**	**$ 4,495,631**
Total cost	**$ 3,846,298**	**$ 3,400,587**

[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.
[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 $227 million and $435 million of cash and cash equivalents classified as investments in fiscal 2018 and 2017, respectively.
[7] Net of securities sold short of $240 million and $353 million, total value of investments is $4,859 million and $4,143 million in fiscal 2018 and 2017, respectively.

Included in the amounts above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. Changes in noncontrolling interests net assets for the fiscal year ended June 30, 2018, were as follows:

Fair value as of June 30, 2017	**$ 61,605**
Distributions to minority limited partners	(18,160)
Capital commitments funded by minority limited partners	660
Appreciation allocable to minority limited partners	5,312
Fair value as of June 30, 2018	**$ 49,417**

Short-term securities primarily comprise short-term U.S. Treasury bills.

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, including charitable gift annuities, life income funds, and other nonendowed trusts.

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)*:

	2018	2017
OPERATING		
Unrestricted:		
Endowment distributions	$ 98,857	$ 96,060
Investment income	25,672	21,727
Total operating return	**124,529**	**117,787**
NONOPERATING		
Unrestricted:		
Appreciation of institutional endowments, net of distributions	104,830	52,950
Appreciation of other investments	29,736	23,539
Temporarily restricted:		
Endowment distributions	107,376	106,365
Investment income	1,093	3,124
Appreciation of donor-restricted endowments, net of distributions	194,815	159,235
Permanently restricted:		
Endowment distributions	609	772
Investment income	9,341	4,315
Total nonoperating return	**447,800**	**350,300**
Total investment return	**$ 572,329**	**$ 468,087**

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

	2018	2017
Interest, dividends, and partnership losses, net of fees	$ (23,221)	$ (12,344)
Net realized gains	304,415	278,369
Change in unrealized appreciation	291,135	202,062
Total investment return	**$ 572,329**	**$ 468,087**

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 frequently are 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 $11.6 million in fiscal 2018 and $12.3 million in fiscal 2017. Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $31.0 million and $28.4 million in fiscal 2018 and 2017, respectively. Vanderbilt reports investment returns net of 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, including recapitalizations, 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 2018 and 2017, Vanderbilt's Board of Trust approved endowment distributions based on 5.0% 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.

The table below summarizes Vanderbilt's endowment for the fiscal years ended June 30 (*in thousands*):

2018	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowments	$ (522)	$ 1,418,533	$ 1,280,893	$ 2,698,904
Reinvested distributions of donor-restricted endowments	130,170	80,706	-	210,876
Institutional endowments	1,698,681	-	-	1,698,681
Endowment net assets as of June 30, 2018	**$ 1,828,329**	**$ 1,499,239**	**$ 1,280,893**	**$ 4,608,461**

2017	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowments	$ (4,024)	$ 1,244,275	$ 1,233,575	$ 2,473,826
Reinvested distributions of donor-restricted endowments	139,134	52,249	-	191,383
Institutional endowments	1,471,256	-	-	1,471,256
Endowment net assets as of June 30, 2017	**$ 1,606,366**	**$ 1,296,524**	**$ 1,233,575**	**$ 4,136,465**

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, 2018 and 2017, Vanderbilt had deficiencies of this nature of approximately $0.5 million consisting of 28 endowments and $4.0 million consisting of 158 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*):

2018	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets as of June 30, 2017	$ 1,606,366	$ 1,296,524	$ 1,233,575	$ 4,136,465
Endowment investment return:				
Investment loss, net of fees	(4,422)	(7,184)	-	(11,606)
Net appreciation (realized and unrealized)	202,272	328,554	-	530,826
Total endowment investment return	197,850	321,370	-	519,220
Gifts and additions to endowment, net	108,554	16,792	47,318	172,664
Endowment distributions	(79,470)	(127,372)	-	(206,842)
Transfers for internal management costs	(4,433)	(7,201)	-	(11,634)
Other	(538)	(874)	-	(1,412)
Endowment net assets as of June 30, 2018	**$ 1,828,329**	**$ 1,499,239**	**$ 1,280,893**	**$ 4,608,461**

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2016	$ 1,486,453	$ 1,130,727	$ 1,178,406	$ 3,795,586
Endowment investment return:				
Investment loss, net of fees	(8,608)	(15,189)	-	(23,797)
Net appreciation (realized and unrealized)	156,240	296,234	-	452,474
Total endowment investment return	147,632	281,045	-	428,677
Gifts and additions to endowment, net	61,250	12,721	55,169	129,140
Endowment distributions	(83,999)	(119,198)	-	(203,197)
Transfers for internal management costs	(4,449)	(7,851)	-	(12,300)
Other	(521)	(920)	-	(1,441)
Endowment net assets as of June 30, 2017	**$ 1,606,366**	**$ 1,296,524**	**$ 1,233,575**	**$ 4,136,465**

9. PROPERTY, PLANT, AND EQUIPMENT

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

	2018	2017
Land	$ 105,041	$ 98,554
Buildings and improvements	1,588,094	1,555,888
Moveable equipment	335,463	295,981
Construction in progress	167,229	87,530
Property, plant, and equipment	2,195,827	2,037,953
Less: Accumulated depreciation	(1,102,206)	(1,018,060)
Property, plant, and equipment, net	**$ 1,093,621**	**$ 1,019,893**

Buildings and improvements include $15.3 million of leasehold improvements as of fiscal 2018 and 2017. 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: 10 to 50 years for buildings, building improvements, and land improvements, the shorter of the asset life or life of the lease including renewal options for leasehold improvements, and 3 to 25 years for machinery and equipment.

Purchases for the library collection are not included in the amounts above as Vanderbilt expenses such items at the time of purchase. As of June 30, 2018, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled $419.6 million.

Vanderbilt reported capitalized interest of $1.5 million and $0.3 million to construction in progress and/or buildings and improvements in the years ended June 30, 2018 and 2017.

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 if the carrying amount of a long-lived asset exceeds its fair value and is not recoverable. 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 did not recognize any impairment losses in fiscal 2018 or 2017.

Vanderbilt identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of $3.2 million as of June 30, 2018 and 2017. 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	Fixed Coupon Interest Rates as of June 30, 2018	Fiscal 2018 Effective Interest Rate[1]	Outstanding Principal 2018	2017
FIXED-RATE DEBT					
Series 2009A - Tax-exempt	2020	4.00%	4.2%	$ 4,720	$ 7,080
Series 2012D - Tax-exempt	2038	3.00%-5.00%	3.1%	106,230	106,230
Series 2016 - Taxable	2047	1.07%-3.44%	2.9%	133,520	138,990
Fixed-rate debt			3.0%	**244,470**	**252,300**
Par amount of long-term debt			3.0%	244,470	252,300
Net unamortized premium			-	7,932	8,965
Cost of Issuance			-	(1,180)	(1,235)
Total long-term debt			**3.0%**	**251,222**	**260,030**
Taxable commercial paper	<1		1.6%	114,602	114,180
Total commercial paper			**1.6%**	**114,602**	**114,180**
Total long-term debt and commercial paper			**2.6%**	**$ 365,824**	**$ 374,210**

[1] Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 3.5%.

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

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

	2018	2017
Payments for interest costs	$ 14,185	$ 15,164
Accrued interest expense	$ 11,223	$ 14,618

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. Accrued interest expense of $11.2 million and $14.6 million in fiscal 2018 and 2017, respectively, is net of capitalized interest of $1.5 million and $0.3 million, respectively.

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

2019	$ 7,980
2020	8,140
2021	7,075
2022	7,285
2023	7,535
Thereafter	206,455
Total long-term debt principal retirements	**$ 244,470**

Retirements in earlier years in the preceding table could be greater if Vanderbilt must purchase either a portion or all of its CP in the event of failed remarketings on scheduled maturity dates.

On November 9, 2016, Vanderbilt issued the Series 2016 taxable bonds in the par amount of $139.0 million. The Series 2016 bond proceeds provided $75.0 million of new project funding to finance construction of residential colleges as well as $62.7 million to refund the scheduled bullet maturities of the Series 2009A. This bond series was not callable until October 2019. Vanderbilt funded the remaining defeasance escrow with operating cash. The Series 2009A refunding transaction resulted in an accounting loss of $2.1 million in the year ended June 30, 2017, which Vanderbilt reported as nonoperating debt defeasance costs.

Vanderbilt originally issued the Series 2009A and 2012D tax-exempt bonds in the par amounts of $97.1 million, a portion of which was defeased at the time of the Transaction, and $106.2 million, respectively.

During fiscal 2017, Vanderbilt redeemed the $34.2 million 2012B floating rate notes. This redemption was funded by the issuance of $30.0 million of taxable CP and $4.2 million of operating cash.

Vanderbilt's commercial paper limitation is $200.0 million; therefore, the university can issue an additional $85.4 million under its current taxable CP program. Liquidity support for debt with short-term remarketing periods (CP totaling $114.6 million) is provided by Vanderbilt's self-liquidity.

A second tier of debt liquidity support consists of a $200 million revolving credit facility as of June 30, 2018, dedicated to Vanderbilt's debt portfolio liquidity support. This commitment expires in April 2020 and has a maximum repayment period, which may extend beyond the expiration date, ranging from 90 days to 367 days. Vanderbilt had no outstanding draws against this credit facility as of June 30, 2018, or 2017. Vanderbilt never has borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt also has a $150 million general use line of credit as of June 30, 2018. This line of credit expires in October 2018. Vanderbilt had no outstanding draws against this credit facility as of June 30, 2018, or June 30, 2017. Vanderbilt never has borrowed against general use lines of credit to support operations.

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 $3.5 million and $6.3 million in fiscal 2018 and 2017, 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 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 $28.1 million and $54.8 million as of June 30, 2018 and 2017, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2018 or 2017. During fiscal 2018, Vanderbilt terminated $50.0 million notional of fixed-rate payer interest rate exchange agreements at a cost of $17.3 million to reduce collateral exposure and eliminate ongoing settlement costs.

The fair value of interest rate exchange agreements, reported in the nonoperating section of the consolidated statements of activities, resulted in net gains of $9.4 million and $32.3 million in fiscal 2018 and 2017, respectively. The $9.4 million appreciation of interest rate exchange agreements in fiscal 2018 includes a $26.4 million net unrealized gain from the combination of the positive effect of the termination of fixed-rate payer and basis interest rate exchange agreements and the increase in the long-term LIBOR rate, a $0.3 million unrealized gain to adjust the discount rate to reflect counterparty credit risk, partially offset by $17.3 million of termination costs. The $32.3 million appreciation of interest rate exchange agreements in fiscal 2017 includes a $63.7 million net unrealized gain from the combination of the positive effect of the termination of fixed-rate payer and basis interest rate exchange agreements and the increase in the long-term LIBOR rate, partially offset by $28.1 million of termination costs and a $3.3 million unrealized loss to adjust the discount rate to reflect counterparty credit risk. Thirty-year LIBOR increased to 2.9% as of June 30, 2018, from 2.5% as of June 30, 2017. Termination costs are reflected in the appreciation of interest rate exchange agreements in the respective periods.

The interest rate exchange agreements include collateral pledging requirements based on the fair value of the contracts. There was no collateral held by counterparties as of June 30, 2018 or 2017. 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 $60 million, but would not require Vanderbilt to pledge collateral.

As of June 30, 2018, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was approximately 99% fixed and 1% variable.

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**	**2018**	**2017**
Fixed-payer interest rate exchange agreements	Avg fixed rate of 4.06%	Avg of 68.7% of one-month LIBOR[1]	13 to 22 years	$ 111,600	$ 163,800

[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.

12. NET ASSETS

Vanderbilt's unrestricted net assets include funds from general operating activities, gifts and grants, student loans, net assets related to noncontrolling interests, and net assets designated for specific purposes through voluntary resolutions of the Board of Trust. Board-designated net assets represent portions of unrestricted net assets set aside with the purpose of functioning as endowments and funds set aside for specific future expenditures.

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

	2018	**2017**
Student scholarships	$ 400,690	$ 454,528
Endowed chairs	475,056	353,849
Operations	479,011	263,498
Program support	77,303	102,965
Capital improvements	47,926	20,729
Subsequent period operations and other	104,275	189,873
Total temporarily restricted net assets	**$ 1,584,261**	**$ 1,385,442**

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

	2018	2017
Donor-restricted endowments	$ 1,280,893	$ 1,233,575
Gifts and grants	56,167	42,116
Life income and gift annuities	35,655	32,494
Interests in trusts held by others	23,674	17,011
Total permanently restricted net assets	**$ 1,396,389**	**$ 1,325,196**

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 appreciation of endowment or appreciation of other investments; gains and losses on investments allocable to noncontrolling interests as a component of appreciation of endowment; and net realized and unrealized gains and losses on interests in trusts held by others as 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, 2017	Net realized gains (losses)	Net change in unrealized gains (losses)*	Purchases	Sales	Transfers into/(out of) level 3	Ending balance as of June 30, 2018
LEVEL 3 ASSETS							
Private capital	$ 2,368	$ -	$ -	$ -	$ -	$ -	$ 2,368
Real estate	194	-	-	1	(1)	-	194
Natural resources	30,571	-	6,331	-	(2,253)	-	34,649
Trusts	37,216	1,686	(507)	2,204	(6,022)	-	34,577
Other investments	2,563	-	-	178	-	-	2,741
Interests in trusts held by others	28,577	-	8,147	-	(5,971)	-	30,753
Total Level 3	**$ 101,489**	**$ 1,686**	**$ 13,971**	**$ 2,383**	**$ (14,247)**	**$ -**	**$ 105,282**

**Total change in unrealized gains/(losses) relating to Level 3 investment assets held by the university at June 30, 2018, is $13,971 and is reflected in "Appreciation of endowment, net of distributions" for private capital and natural resources categories as well as "Investment income (loss)" for remaining categories in the Consolidated Statement of Activities.*

	Beginning balance as of June 30, 2016	Net realized gains (losses)	Net change in unrealized gains (losses)*	Purchases	Sales	Transfers into/(out of) level 3	Ending balance as of June 30, 2017
LEVEL 3 ASSETS							
Global equities	$ 680	$ (8)	$ -	$ 408	$ (1,080)	$ -	$ -
Private capital	2,368	-	-	-	-	-	2,368
Real estate	179	-	18	-	(3)	-	194
Natural resources	31,442	-	1,238	-	(2,109)	-	30,571
Trusts	35,882	715	2,427	4,896	(6,704)	-	37,216
Other investments	7,623	219	97	-	(5,376)	-	2,563
Interests in trusts held by others	26,601	-	1,976	-	-	-	28,577
Total Level 3	**$ 104,775**	**$ 926**	**$ 5,756**	**$ 5,304**	**$ (15,272)**	**$ -**	**$ 101,489**

**Total change in unrealized gains/(losses) relating to Level 3 investment assets held by the university at June 30, 2017, is $3,788 and is reflected in "Appreciation of endowment, net of distributions" for private capital and natural resources categories as well as "Investment income (loss)" for remaining categories in the Consolidated Statement of Activities.*

The following tables 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; securities sold short; and the fair value of interest rate exchange agreements.

Also included in the following tables, 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.

The total asset values for short-term securities, global equities, fixed income, hedged strategies, and commodities provide varying levels of liquidity, with daily to 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.

The total asset values for private capital, real estate, natural resources, and other investments are illiquid as of June 30, 2018. 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.

Trusts are restricted by donors according to the underlying gift agreement with assets held to satisfy annuity obligations or until a remainder portion becomes available upon termination. As such, trusts are illiquid until termination, the timing of which is unknown.

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, 2018

	Fair Value Measurements				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents	$ 602,652	$ -	$ -	$ -	$ 602,652
Short-term securities	12,088	-	-	-	12,088
Global equities	912,752	45,657	-	390,731	1,349,140
Fixed income	255,707	203,840	-	78,817	538,364
Hedged strategies	513,997	362,091	-	232,965	1,109,053
Private capital	2,304	-	2,368	1,438,434	1,443,106
Real estate	-	-	194	155,938	156,132
Natural resources	299	-	34,649	263,319	298,267
Commodities	151,771	-	-	-	151,771
Trusts	-	-	34,577	-	34,577
Other investments	3,859	-	2,741	-	6,600
Interests in trusts held by others	-	-	30,753	-	30,753
Total assets reported at fair value	**$ 2,455,429**	**$ 611,588**	**$ 105,282**	**$ 2,560,204**	**$ 5,732,503**

Liabilities Reported at Fair Value as of June 30, 2018

Securities sold short	$ 190,609	$ 49,838	$ -	$ -	$ 240,447
Interest rate exchange agreements	-	28,089	-	-	28,089
Total liabilities reported at fair value	**$ 190,609**	**$ 77,927**	$ -	$ -	**$ 268,536**

Assets Reported at Fair Value as of June 30, 2017

	Fair Value Measurements				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents	$ 935,446	$ -	$ -	$ -	$ 935,446
Short-term securities	137	-	-	-	137
Global equities	851,749	-	-	276,939	1,128,688
Fixed income	238,924	69,988	-	40,054	348,966
Hedged strategies	758,365	280,729	-	220,925	1,260,019
Private capital	2,891	-	2,368	1,145,741	1,151,000
Real estate	-	-	194	168,183	168,377
Natural resources	281	-	30,571	230,579	261,431
Commodities	133,644	-	-	-	133,644
Trusts	-	-	37,216	-	37,216
Other investments	3,590	-	2,563	-	6,153
Interests in trusts held by others	-	-	28,577	-	28,577
Total assets reported at fair value	**$ 2,925,027**	**$ 350,717**	**$ 101,489**	**$ 2,082,421**	**$ 5,459,654**

Liabilities Reported at Fair Value as of June 30, 2017

Securities sold short	$ 310,698	$ 42,327	$ -	$ -	$ 353,025
Interest rate exchange agreements	-	54,784	-	-	54,784
Total liabilities reported at fair value	**$ 310,698**	**$ 97,111**	$ -	$ -	**$ 407,809**

Redemption Terms and Restrictions as of June 30, 2018 and 2017

	2018 Fair Value	Redemption Terms	Redemption Restrictions
Cash and cash equivalents	$ 602,652	Daily, with same-day to 90 day notice	No restrictions
Short-term securities	12,088	Daily, with 1 day notice	No restrictions
Global equities	1,349,140	Daily to annually, with 1 to 95 day notice	Lock-up provision ranging from none to 4 years
Fixed income	538,364	Daily to annually, with 1 to 365 day notice	No restrictions
Hedged strategies	1,109,053	Daily to annually, with 1 to 135 day notice	Lock-up provision ranging from none to 4 years
Private capital	1,443,106	N/A	Not redeemable
Real estate	156,132	N/A	Not redeemable
Natural resources	298,267	N/A	Not redeemable
Commodities	151,771	Daily, with 1 to 30 day notice	No restrictions
Trusts	34,577	N/A	Not redeemable
Other investments	6,600	N/A	Not redeemable
Interests in trusts held by others	30,753	N/A	Not redeemable

14. OTHER REVENUE

The major components of other sources of revenue as of June 30 were as follows *(in thousands)*:

	2018	2017
Television revenue	$ 31,315	$ 28,660
Endowment funding of internal management costs	11,634	12,300
Tournament revenue	10,893	11,879
Student athletics ticket revenue	9,717	9,043
Miscellaneous revenue from affiliate	8,375	8,618
Conference and seminar revenue	6,638	6,286
Educational and other academic services	3,294	3,478
Child care operations	2,281	2,972
Other miscellaneous revenue	15,405	14,407
Total other sources revenue	**$ 99,552**	**$ 97,643**

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)*:

	2018	2017
Tuition and educational fees, gross	$ 538,470	$ 513,103
Less: Financial aid for tuition and educational fees	(239,628)	(231,424)
Tuition and educational fees, net	**$ 298,842**	**$ 281,679**

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

	2018	2017
Room and board, gross	$ 80,807	$ 79,278
Less: Financial aid for room and board	(35,998)	(33,812)
Room and board, net	**$ 44,809**	**$ 45,466**

16. FUNCTIONAL CLASSIFICATION OF EXPENSES AND ALLOCATIONS

The following tables summarize operating expenses for the fiscal years ended June 30 *(in thousands)*:

	2018	2017
Instruction	$ 355,818	$ 353,059
Research	177,277	178,035
Public service	33,899	32,611
Academic support	138,057	126,331
Student services	126,220	127,761
Institutional support	203,456	201,618
Room, board, and other auxiliary services	168,598	184,757
Total operating expenses	**$ 1,203,325**	**$ 1,204,172**

Natural expense classifications include certain allocations of institutional and other support costs to Vanderbilt's primary programs such as instruction, research, and public service. 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)*:

2018

	Depreciation	Interest
Instruction	$ 16,752	$ 2,297
Research	16,018	1,072
Academic support	3,743	403
Student services	10,468	679
Institutional support	18,961	478
Room, board, and other auxiliary services	20,811	6,294
Total	**$ 86,753**	**$ 11,223**

2017

	Depreciation	Interest
Instruction	$ 14,912	$ 2,517
Research	13,356	1,458
Academic support	6,769	908
Student services	9,864	725
Institutional support	14,910	690
Room, board, and other auxiliary services	21,520	8,320
Total	**$ 81,331**	**$ 14,618**

17. RETIREMENT PLANS

Vanderbilt's full-time faculty and staff members participate in defined contribution retirement plans administered by a third party investment firm. For eligible employees, these plans require employee and matching employer contributions. The employee immediately vests in these contributions upon eligibility.

Vanderbilt funds the obligations under these plans through payroll transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2018 and 2017 were $19.7 million and $18.6 million, respectively.

18. LEASES

Vanderbilt is obligated under numerous operating leases to pay base rent through the respective lease expiration dates. Operating leases primarily consist of equipment and real property with remaining lease terms of up to 10 years. Total operating lease expense was $15.2 million and $14.7 million in the years ended June 30, 2018, and June 30, 2017, respectively.

As of June 30, 2018, 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)*:

2019	$ 13,389
2020	13,072
2021	12,619
2022	10,966
2023	10,417
Thereafter	35,151
Total future minimum rentals	**$ 95,614**

The following table provides a detail of significant noncancelable operating leases by type *(in thousands)*:

	% of Minimum Rentals	Minimum Rentals
Property leases	96%	$ 92,142
Equipment leases	4%	3,472
Total future minimum rentals	**100%**	**$ 95,614**

Property leases for buildings owned by Vanderbilt University Medical Center (60%) and 2100 West End Avenue (28%) account for approximately 88% of the total future minimum rentals as of June 30, 2018.

19. COMMITMENTS AND CONTINGENCIES

(A) *Construction.* As of June 30, 2018, Vanderbilt had contractual commitments for approximately $67.9 million of projects under construction and equipment purchases. The largest components of these commitments were for residential college hall construction at the Tarpley site ($27.8 million) and E. Bronson Ingram College ($19.5 million).

(B) *Litigation.* On August 12, 2016, Vanderbilt University was served with a lawsuit in Federal District Court styled Cassell, et al. v. 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 multidistrict 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. Vanderbilt is otherwise involved in various legal actions occurring in the normal course of activities which will not have a material adverse effect on Vanderbilt’s 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 any potential liability from such reviews would 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 materially impact the consolidated financial position.

(F) *Partnership Investment Commitments.* Vanderbilt had $605.8 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2018. 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. Included in these commitments is $10.0 million of commitments for which Vanderbilt is a secondary guarantor for commitments in certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

20. 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.

See Note 21 to the consolidated financial statements for discussion regarding the ongoing economic relationship between Vanderbilt and VUMC.

21. VANDERBILT UNIVERSITY MEDICAL CENTER

Following the Transaction, Vanderbilt has 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 recognizes 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. The AAA will remain in effect until termination of the TML or Ground Lease.

Pursuant to the 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. The TML will remain in effect until termination of the AAA or Ground Lease.

The Ground Lease allows VUMC to use the land on which its campus and related buildings are located. The initial term of the Ground Lease ends June 30, 2114, with the option to extend for up to two additional terms of 50 to 99 years each upon mutual agreement by Vanderbilt and VUMC.

Following the Transaction, Vanderbilt and VUMC provide specified services to one another for agreed-upon consideration as outlined in the MSA. Vanderbilt continues to provide services to VUMC such as IT support, utilities, and law enforcement staffing. VUMC will continue to provide graduate medical education and training to Vanderbilt. The terms of these service agreements between Vanderbilt and VUMC are unique to each agreement.

22. SUBSEQUENT EVENTS

Vanderbilt evaluated events subsequent to June 30, 2018, through October 11, 2018, the date of issuance of the consolidated financial statements.

In July 2018, Vanderbilt securitized the upcoming 30-year term of one of the university's trademark revenue streams and the remaining $89.6 million balance of a promissory note receivable that resulted from the Transaction. This securitization occurred on a true-sale basis to a group of external investors in exchange for net cash consideration of $1.43 billion and a special interest obligation equivalent to the remaining future promissory note interest stream.

In July 2018, Vanderbilt entered into a note purchase agreement for a $300 million long-term debt private placement. The university will use a portion of the proceeds for the next phases of residential college construction. Vanderbilt signed the term sheet, which locked the rate for this agreement in May 2018. The university may draw the proceeds anytime during the six-month period following the signing of the term sheet. Vanderbilt has not drawn any amounts as of the time of issuance of the fiscal 2018 financial statements.

Vanderbilt did not identify any other material subsequent events for recognition or disclosure.

VANDERBILT UNIVERSITY