2017 FINANCIAL REPORT

VANDERBILT UNIVERSITY

Contents

Letter from the Chancellor

Vanderbilt University is a large and complex organization fueled by the unique investments of cultural and human capital made by our students, faculty, and staff. Our people, and their investment in the university's mission of serving society through the advancement of education and research, are the heart and soul of all that we do. Poised at the threshold of the new fiscal year, we reflect on the many achievements and strong financial results of the previous year that will serve to propel us to even greater accomplishments in the year ahead.

Our bold reach has been extended ever further by the hard and smart work of Vanderbilt faculty, staff, and supporters over the past 12 months. The September 2016 opening of the Engineering and Science Building, for example, connects Vanderbilt's brilliant faculty members and entrepreneurs with bright, promising students to create transformational teaching and research opportunities. These discoveries in turn produce real-world solutions for the critical challenges humanity faces. This state-of-the-art building lies adjacent to the new Wond'ry at the Innovation Pavilion – a hub of creativity and entrepreneurship. Together, these facilities are vital to Immersion Vanderbilt, connecting every undergraduate with mentors in a multiyear, immersive learning experience.

Generous philanthropic support and fiduciary discipline empower us to further invest in our mission to build a rich, dynamic community of diverse voices with varied backgrounds and experiences. Our sustained commitment to Opportunity Vanderbilt, a no-loan financial aid policy, ensures that every undergraduate with financial need can attend this great university without the crippling burden of debt. By replacing loans with Vanderbilt grants, we welcome young people from all walks of life who possess amazing talents and intellectual gifts. Once admitted, we must provide an environment that fosters the collaborative creativity to shape these future leaders of society. Our residential college halls provide the canvas for these undergraduates to paint a vibrant community where they live and learn alongside faculty and graduate student mentors.

Grounded by the knowledge that our people define our greatness, during fiscal 2017 we conducted an in-depth study through the Committee on Diversity, Inclusion and Community. We are acting on the recommendations of this committee to build on existing strengths and make Vanderbilt an even more welcoming environment that values difference, mutual respect, and the unique contributions of every individual.

In fiscal 2017, we officially embarked on FutureVU, a campuswide project to plan for Vanderbilt's growth over the coming decades. Shaped by our Academic Strategic Plan, FutureVU reinforces goals to infuse inclusiveness and sustainability into everything we do. By maximizing the utility of our precious land and determining its highest use, we aim to be a model for a sustainable living and learning environment.

We take none of this progress for granted, and we maintain an unflagging commitment to our fiduciary and stewardship roles. Vanderbilt's financial strength is the foundation for our success and what we bequeath to those who will follow us in our shared mission. We are energized by an ever-growing sense of shared purpose and the palpable momentum that carries us forward together.

Sincerely,

Nicholas S. Zeppos
Chancellor

Vanderbilt University Statistics

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
STUDENTS					
Undergraduate	6,871	6,883	6,851	6,835	6,796
Graduate and professional	5,716	5,684	5,835	5,922	5,914
Total fall enrollment	12,587	12,567	12,686	12,757	12,710
Undergraduate admissions					
Applied	32,442	31,464	29,518	31,099	28,348
Accepted	3,487	3,674	3,865	3,963	4,034
Enrolled	1,601	1,607	1,605	1,613	1,608
Selectivity	10.7%	11.7%	13.1%	12.7%	14.2%
Yield	45.9%	43.7%	41.5%	40.7%	39.9%
Degrees conferred					
Baccalaureate	1,716	1,723	1,644	1,663	1,675
Master's	1,487	1,421	1,497	1,416	1,421
M.D.	98	104	120	91	111
Other doctoral	585	564	598	580	551
Total degrees conferred	3,886	3,812	3,859	3,750	3,758
Undergraduate six-year graduation rate	91.5%	92.3%	92.0%	92.9%	92.5%
Undergraduate tuition	$ 44,496	$ 43,620	$ 42,768	$ 41,928	$ 41,088
% increase over prior year	2.0%	2.0%	2.0%	2.0%	1.9%
FACULTY AND STAFF [1]					
Full-time faculty	1,421	1,404	3,740	3,742	3,672
Full-time staff	4,177	4,060	19,305	19,671	19,967
Part-time faculty	318	323	439	405	430
Part-time staff	521	509	692	709	763
Total faculty and staff	6,437	6,296	24,176	24,527	24,832
GRANT AND CONTRACT FUNDING [2] (in thousands)					
Government sponsors	$ 155,446	$ 147,980	$ 150,760	$ 358,632	$ 377,839
Private sponsors	24,345	31,087	26,497	69,466	61,714
Facilities and administrative costs recovery	57,489	55,426	54,610	140,051	142,609
Total grants and contracts	$ 237,280	$ 234,493	$ 231,867	$ 568,149	$ 582,162
ENDOWMENT					
Market value (in thousands)	$ 4,136,465	$ 3,795,586	$ 4,093,388	$ 4,046,250	$ 3,635,343
Endowment return	11.5%	-4.3%	3.7%	13.3%	9.3%
Endowment per student	$ 328,630	$ 302,028	$ 322,670	$ 317,179	$ 286,022
Endowment payout	5.1%	4.7%	4.1%	4.1%	4.3%

[1] In addition to the faculty employed by Vanderbilt University ("Vanderbilt") at the end of fiscal year 2017, an additional 2,811 employees of Vanderbilt University Medical Center ("VUMC") held Vanderbilt University faculty appointments. This amount comprised 2,680 full-time and 131 part-time appointments. At the end of fiscal year 2016, an additional 2,588 employees of VUMC held Vanderbilt University faculty appointments. This amount comprised 2,463 full-time and 125 part-time appointments. On April 29, 2016, Vanderbilt and VUMC became two separate legal entities. Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with related assets and liabilities, to VUMC as a newly incorporated Tennessee not-for-profit corporation in exchange for consideration of $1,230 million (the "Transaction"). The Transaction drove a decrease in faculty and staff numbers from fiscal 2015 to 2016.

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

FINANCIAL OVERVIEW

The university ended fiscal year 2017 with net operating results of $70 million compared to $67 million in fiscal 2016. Vanderbilt's unrestricted net assets increased $191 million from fiscal 2016 to 2017 reflective of the impact of positive operating results, favorable investment returns, and gifts to the university.

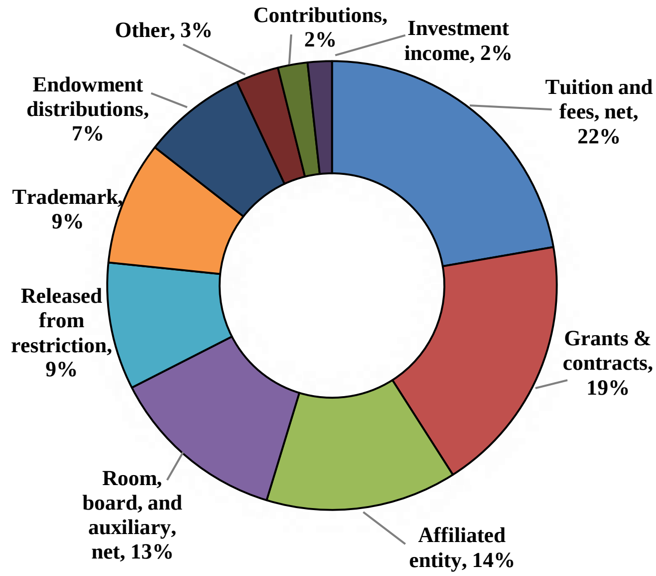
UNRESTRICTED OPERATING REVENUE

Vanderbilt's unrestricted operating revenues for the years ended June 30, 2017 and June 30, 2016 are as follows:

(in millions)	**2017**	**2016**
Tuition and educational fees, net of financial aid	$ 282	$ 280
Government grants and contracts	156	148
Private grants and contracts	24	31
F&A costs recovery	57	55
Contributions	27	17
Endowment distributions	96	105
Investment income	22	16
Trademark, license, and royalty	113	23
Affiliated entity revenue	174	262
Room, board, and other auxiliary services, net of financial aid	162	133
Other sources	45	40
Net assets released from restriction	116	86
Total unrestricted operating revenue	**$ 1,274**	**$ 1,196**

Unrestricted operating revenues increased $78 million, or 7%, to $1,274 million in fiscal 2017, as compared to $1,196 million in fiscal 2016. Trademark, license, and royalty revenue increased $90 million primarily due to revenue generated under the Trademark Licensing Agreement with VUMC. Room, board, and auxiliary revenue increased $29 million primarily due to revenue from VUMC under the Master Service Agreement and Ground Lease. Partially offsetting these increases, affiliated entity revenue decreased by $88 million primarily due to pre-Transaction funds from VUMC classified as affiliated entity revenue in fiscal 2016 but reflected in trademark or auxiliary revenue post-Transaction. Additionally, net assets released from restriction increased $30 million primarily due to increased endowment distributions utilized during fiscal 2017, and contributions revenue increased $10 million due to additional giving.

Unrestricted Operating Revenue by Type (Fiscal 2017)



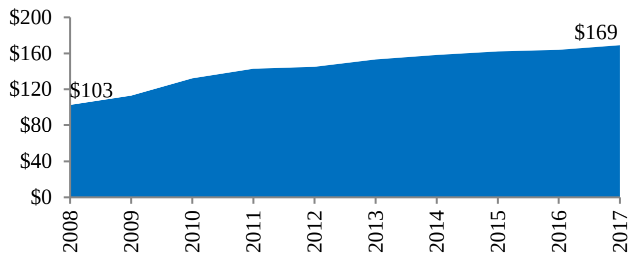
TUITION, ROOM, AND BOARD

To facilitate Vanderbilt's commitment to student access and affordability, the university provides significant financial aid to students and their families. In fiscal 2017, Vanderbilt provided $265 million in support to its students for tuition and room and board as shown in the table below.

	Undergrad	**Professional**	**Graduate**	**Total**
Student count	*6,871*	*3,598*	*2,118*	*12,587*
(in millions)				
Tuition and fees	$ 317	$ 146	$ 50	$ 513
Financial aid[(1)]	(135)	(52)	(44)	$ (231)
Tuition and fees, net	**$ 182**	**$ 94**	**$ 6**	**$ 282**
Room and board	$ 79	$ -	$ -	$ 79
Financial aid[(1)]	(34)	-	-	(34)
Room and board, net	**$ 45**	**$ -**	**$ -**	**$ 45**
Total financial aid[(1)]	**$ (169)**	**$ (52)**	**$ (44)**	**$ (265)**

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

Undergraduate Financial Aid
fiscal 2008 - 2017 (in millions)



Vanderbilt has expanded its undergraduate financial aid significantly over the past decade. For undergraduate students, aid as a percentage of gross tuition, room and board, and educational fees in fiscal 2017 was 43%. In fiscal 2017, nearly half of Vanderbilt's undergraduate financial aid was funded. A portion of operations ($90 million), endowments ($68 million), working capital investments ($6 million), external agencies ($4 million), and gifts ($1 million) funded this aid. The university's Opportunity Vanderbilt fundraising initiative, which began in fiscal 2009 to support undergraduate financial aid, is critical to this support. Through June 30, 2017, this initiative raised $278 million.

GRANTS AND CONTRACTS

The pool of direct grant revenue increased by 1%, or $1 million, to $180 million in fiscal 2017 from $179 million in fiscal 2016. Despite continued pressure, government grants and contracts revenue increased $8 million, or 5%, to $156 million in fiscal 2017 from $148 million in fiscal 2016, primarily due to a $9 million increase in Department of Health and Human Services (NIH) funding. Private grants and contracts direct revenues decreased $7 million, or 23%, over the same period to $24 million in fiscal 2017 from $31 million in fiscal 2016.

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

Grants and Contracts Revenues by Funding Source

(in millions)	2017	%
Department of Health and Human Services	$ 84	54%
Department of Education	19	12%
National Science Foundation	16	10%
Department of Defense	15	10%
Department of Energy	8	5%
Other government agencies	14	9%
Total government grants and contracts by funding source	**$ 156**	**100%**

Sponsored research and project awards (awards that represent research funding commitments that have not yet been expended by Vanderbilt), which include multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled $230 million in fiscal 2017 as compared to $235 million in fiscal 2016 as shown in the following table.

Sponsored Programs

(in millions)	2017	2016
Government awards	$ 180	$ 185
Private awards	50	50
Total sponsored research and project awards	**$ 230**	**$ 235**

Vanderbilt's continued support from government awards is particularly impressive given the pressures on federal funding.

PHILANTHROPY

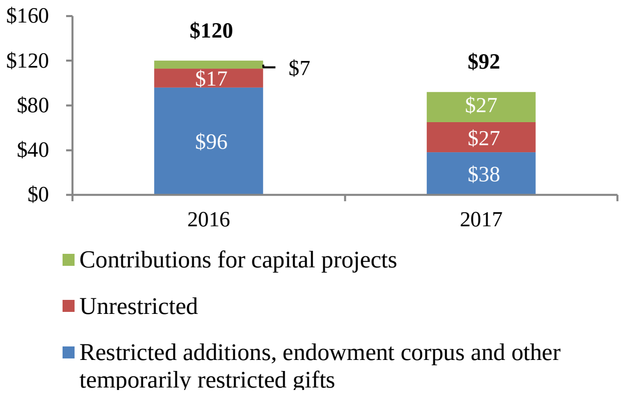
Vanderbilt reports contributions revenue within the consolidated financial statements based on GAAP. This basis for measurement differs from guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines represent the development reporting standard for colleges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

GAAP to CASE Reconciliation

(in millions)		2017
Contributions revenue		
Unrestricted	$	27
Temporarily restricted		6
Permanently restricted		32
Total contributions revenue	$	65
Total gifts for plant		27
Total consolidated GAAP contributions	**$**	**92**
Grants and similar agreements meeting CASE guidelines (gifts per CASE standards)		86
Net decrease in contributions receivable (fiscal 2016 to 2017)		21
Other		(2)
Total CASE reported gifts (cash basis)	**$**	**197**

Vanderbilt reported $92 million in consolidated contributions revenue, including pledges and contributions for plant, a 23% decrease compared to $120 million in fiscal 2016. Fiscal 2017 CASE grants of $86 million include $76 million from VUMC in support of research and education.

Consolidated Contributions (GAAP basis)
(in millions)

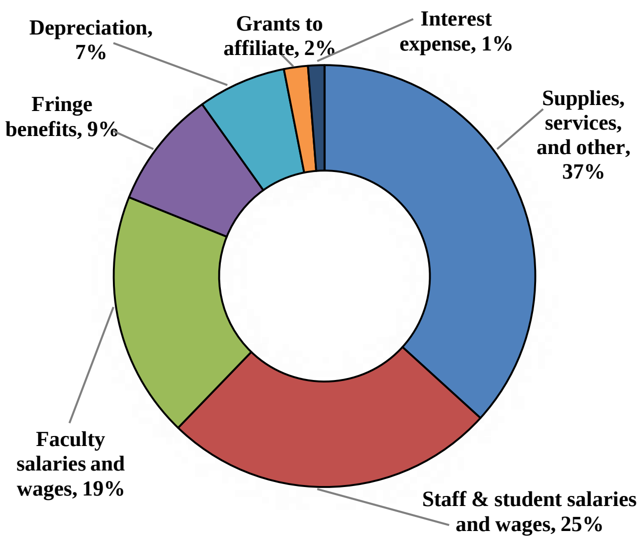


OPERATING EXPENSE

(in millions)	2017	2016
Salaries, wages, and benefits	$ 646	$ 644
Supplies, services, and other	440	369
Interest expense	15	15
Depreciation and amortization	81	77
Grants to affiliates	22	24
Total operating expenses	**$ 1,204**	**$ 1,129**

Consolidated operating expenses increased $75 million, or 7%, to $1,204 million in fiscal 2017 as compared to $1,129 million in fiscal 2016. The primary driver of this increase was a $71 million, or 19%, increase in supplies, services, and other driven by increased costs due to services provided to VUMC related agreements.

Operating Expenses by Type (Fiscal 2017)



OTHER CHANGES IN UNRESTRICTED NET ASSETS

(in millions)	2017	2016
Appreciation of endowment, net of dist.	$ 73	$ (150)
Appreciation of other investments, net of distributions	23	(27)
Appreciation of interest rate exchange agreements	32	(41)
Contributions and releases from restriction for plant	25	11
Nonoperating net asset reclassifications	(4)	(3)
Debt defeasance costs	(6)	(77)
Total changes from non-operating	**$ 143**	**$ (287)**

Fiscal 2017 non-operating activity primarily consisted of appreciation of endowment, net of distributions, totaling $73 million in fiscal 2017, an increase of $223 million compared to fiscal 2016. The change in appreciation for the endowment resulted from a 11.5% investment return offset by 5.1% of the endowment utilized for distributions during fiscal 2017, compared to a 4.3% negative investment return and 4.7% of the endowment utilized for distributions during fiscal 2016. Other changes in net assets also includes the impact of $23 million of unrealized gains on working capital invested alongside the endowment.

In fiscal 2017, Vanderbilt recognized net appreciation on interest rate exchange agreements of $32 million, compared to a $41 million loss in fiscal 2016. The improvement noted in fiscal 2017 was primarily attributable to an increase in the 30-year LIBOR paired with continued interest rate exchange agreement terminations and decreased termination costs.

Noncontrolling Interests

Net assets related to noncontrolling interests decreased $21 million to $62 million in fiscal 2017 from $83 million in fiscal 2016 due to distributions of $26 million offset slightly by $4 million of appreciation and $1 million of cash contributions during fiscal 2017.

STATEMENT OF FINANCIAL POSITION

Vanderbilt's summarized Statement of Financial Position as of June 30, 2017, and June 30, 2016, is as follows:

(in millions)	2017	2016
ASSETS		
Cash and cash equivalents	$ 935	$ 963
Accounts and contributions receivable	217	220
Promissory notes receivable	94	99
Investments	4,496	4,047
Property, plant, and equipment, net	1,020	944
Prepaid expenses and other assets	79	82
Total assets	**$ 6,841**	**$ 6,355**
LIABILITIES		
Payables and accrued liabilities	$ 230	$ 226
Deferred revenue	49	48
Interest rate exchange agreements	55	115
Long-term debt and commercial paper	374	309
Securities sold short	353	251
Total liabilities	**1,061**	**949**
NET ASSETS		
Unrestricted net assets	3,090	2,898
Temporarily restricted net assets	1,365	1,224
Permanently restricted net assets	1,325	1,284
Total net assets	**5,780**	**5,406**
Total liabilities and net assets	**$ 6,841**	**$ 6,355**

Vanderbilt's assets increased $486 million, or 8%, from fiscal 2016 to fiscal 2017. This increase is primarily attributable to a $449 million, or 11%, increase in investment balances. The endowment, net of securities sold short, returned 11.5% and its value, after the impact of distributions in support of operations and the addition of new gifts and unrestricted quasi-endowments, increased to $4,136 million in fiscal 2017 from $3,796 million in fiscal 2016.

Total liabilities increased $112 million, or 12%, from fiscal 2016 to fiscal 2017. This increase is primarily attributable to a $102 million increase in fair value of securities sold short. Long-term debt and commercial paper increased $65 million primarily due to $139 million of Series 2016 debt issued, $63 million of which the university used to refund scheduled maturities of the Series 2009A. A $60 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 partially offset these increases.

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, 2017, $902 million of liquid assets were available on a same-day basis and an additional $1,006 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 2017, Vanderbilt terminated $500 million and $50 million notional of basis and fixed-payer interest rate exchange agreements, respectively, in order to reduce the university's aggregate collateral exposure and eliminate ongoing settlement costs. Over the past eight fiscal years, Vanderbilt terminated and novated a total of $825 million notional of fixed-payer interest rate exchange agreements and incurred net amortization of $22 million. As a result of these terminations and novations, Vanderbilt reduced its fixed-payer portfolio notional balance to $164 million at the end of fiscal 2017 as compared to $1,011 million at the end of fiscal 2009.

Capital Expenditures

Fundamental to achieving Vanderbilt's mission is maintaining the university's campus, which dates back to 1873, and investing in the university's capital assets.

Over the past five 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 multi- and inter-disciplinary 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 mission and values.

Capital Projects

(in millions)		2017		2016
Academic projects	$	35	$	67
Housing projects		34		5
Infrastructure projects		32		19
Minor Capex		29		40
Acquisitions		20		12
Athletics projects		9		6
TOTAL	**$**	**159**	**$**	**149**

During fiscal 2017, Vanderbilt University invested $159 million in capital projects and acquisitions as compared to $149 million in fiscal 2016. This enabled progress on several significant projects, including, but not limited to:

- Ongoing construction of a new residential college, E. Bronson Ingram College, which will foster VU's culture of collaboration and creativity;
- Completion of the Engineering and Science Building, a seven-story tower, including the Innovation Center and Wond'ry space, that fosters project teamwork and offers school-specific program and instrumentation areas;
- Acquisition of properties immediately adjacent to Vanderbilt's campus;
- Ongoing implementation of a new cloud-based enterprise resource planning (ERP) system for Human Resources and Finance activity;
- Ongoing enhancements to university baseball facilities, including renovation of the fieldhouse, installation of a new video board, and control room upgrades;
- Completion of the Hill Center data center hardening project to install a secondary, back-up power supply and chilled water cooling enhancements to the university's primary, on-campus data center; and
- Replacement of a gas turbine to increase energy efficiency, reduce operating costs, and improve performance.

As capital projects conclude or new acquisitions occur during the fiscal year, capital asset balances increase. A total of $173 million of completed projects and purchased equipment came into service during fiscal 2017.

The Board of Trust Executive Committee reviews the university's five-year capital plan annually; however, major capital projects are approved individually. The FY2017 – FY2021 capital plan brings a continued focus on the academic strategic plan, including the student experience through new residential colleges.

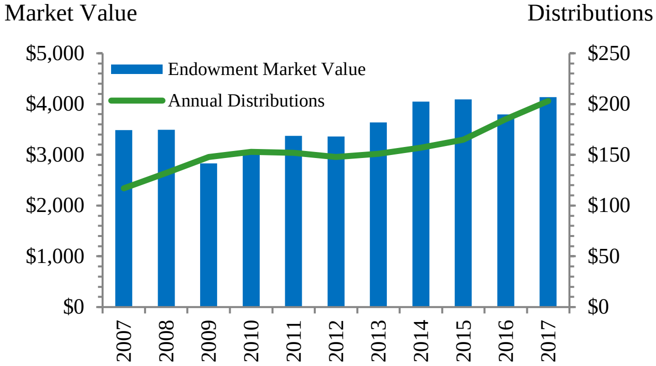
ENDOWMENT

For fiscal 2017, Vanderbilt's endowment portfolio returned 11.5%. The endowment, net of securities sold short, ended fiscal 2017 with a total market value of $4,136 million, compared to $3,796 million at the end of fiscal 2016. 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 2017, the university added $129 million to the endowment portfolio through new gifts, recapitalizations, and additions to institutional endowments. Endowment distributions totaled $203 million in fiscal 2017, compared to $185 million in fiscal 2016. 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 23%, with significant positive performance across U.S. large caps (up 18%), U.S. small caps (up 25%), non-U.S. developed markets (up 20%), and emerging markets (up 24%). U.S. bond markets were flat as U.S. Treasury yields climbed and credit spreads remained tight. Commodity prices continued their downward trajectory (down 9%) and the value of the U.S. dollar on a trade-weighted basis climbed during the first half of the fiscal year and subsequently gave up most of those gains during the second half.

Looking into the future, we continue to expect significant headwinds. U.S. equity valuations are high, European economies are slowly growing but are challenged by "Brexit" dynamics, and Asian markets may have to wrestle with a tense geopolitical situation. Globally, markets are wrestling with government intervention, changing regulatory pressures, and several surprising election outcomes. In addition, conversations about when the U.S. Federal Reserve will normalize monetary policy and how high it will increase the Fed Funds rate continue to contribute to market volatility. That said, these challenges will from time to time present chances to be opportunistic in deploying new investments. Meanwhile, Vanderbilt is laying a strong foundation for the endowment by collaborating with some of the world's best investment managers across all asset classes.

Endowment Market Value and Annual Distributions
(in millions)



Endowment Asset Allocation
As of June 30, 2017 (% of portfolio)

	Allocation
Global equities	23.1%
Hedged strategies	23.8%
Commodities	2.7%
Fixed income	8.0%
Cash and cash equivalents	11.3%
Total public investments	**68.9%**
Private capital	22.7%
Real estate	3.1%
Natural resources	5.3%
Total nonmarketable	**31.1%**
Total endowment	**100.0%**

LOOKING FORWARD

The university continues to proactively confront the economic challenges posed by constrained federal research funding and volatility in the capital markets. As a majority of Vanderbilt's research funding is provided by federal grants, the federal budget remains a key consideration for the university as we look to the future. Vanderbilt remains optimistic given our demonstrated sustained stability in academic and research areas, our diverse revenue base, strong endowment, and continued generosity of donors.

Included in the following pages are Vanderbilt's audited financial statements and other key financial metrics for fiscal 2017.

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, ("the University") which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets 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 as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 4, 2017

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Vanderbilt University
Consolidated Statements of Financial Position

As of June 30, 2017 and 2016 (in thousands)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 935,446	$ 963,001
Accounts receivable, net	146,931	130,259
Prepaid expenses and other assets	19,386	20,814
Contributions receivable, net	69,701	90,269
Promissory notes receivable	94,166	99,166
Student loans and other notes receivable, net	31,645	34,329
Investments	4,434,026	3,963,630
Investments allocable to noncontrolling interests	61,605	83,056
Property, plant, and equipment, net	1,019,893	943,984
Interests in trusts held by others	28,577	26,601
Total assets	**$ 6,841,376**	**$ 6,355,109**
LIABILITIES		
Accounts payable and accrued liabilities	$ 84,201	$ 82,569
Accrued compensation and withholdings	84,955	80,044
Deferred revenue	48,410	48,202
Actuarial liabilities	37,021	39,816
Government advances for student loans	24,411	23,422
Commercial paper	114,180	84,530
Long-term debt	260,030	223,755
Fair value of securities sold short	353,025	251,855
Fair value of interest rate exchange agreements	54,784	115,169
Total liabilities	**1,061,017**	**949,362**
NET ASSETS		
Unrestricted net assets controlled by Vanderbilt	3,027,864	2,814,990
Unrestricted net assets related to noncontrolling interests	61,605	83,056
Total unrestricted net assets	3,089,469	2,898,046
Temporarily restricted net assets	1,365,694	1,224,134
Permanently restricted net assets	1,325,196	1,283,567
Total net assets	**5,780,359**	**5,405,747**
Total liabilities and net assets	**$ 6,841,376**	**$ 6,355,109**

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 (loss)	21,727	3,124	4,315	29,166
Trademark, license, and royalty revenue	113,165	-	-	113,165
Affiliated entity revenue	173,945	-	-	173,945
Room, board, and other auxiliary services, net	162,581	-	-	162,581
Other sources	45,216	-	-	45,216
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 affiliates	22,396	-	-	22,396
Total expenses	**1,204,172**	**-**	**-**	**1,204,172**
Change in unrestricted net assets from operating activity	**69,992**			
OTHER CHANGES IN NET ASSETS				
Appreciation of endowment, net of distributions	72,698	139,487	-	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 plant	312	26,461	-	26,773
Net assets released from restrictions for plant	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	**142,882**	**141,965**	**3,878**	**288,725**
Increase in net assets controlled by Vanderbilt	**212,874**	**141,560**	**41,629**	**396,063**
Decrease in net assets related to noncontrolling interests	**(21,451)**	**-**	**-**	**(21,451)**
Total increase in net assets	**$ 191,423**	**$ 141,560**	**$ 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	**$ 3,089,469**	**$ 1,365,694**	**$ 1,325,196**	**$ 5,780,359**

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

Vanderbilt University
Consolidated Statement of Activities

Year Ended June 30, 2016 (in thousands)

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

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

Vanderbilt University
Consolidated Statements of Cash Flows

Years Ended June 30, 2017 and 2016 (in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets excluding discontinued operations	**$ 374,612**	**$ (398,662)**
Adjustments to reconcile change in total net assets from continuing operations to net cash used in operating activities of continuing operations:		
Change in net assets related to noncontrolling interests	21,451	27,898
Realized and unrealized loss (gain) on investments, net	(480,431)	191,801
Contributions for plant and endowment	(72,229)	(24,490)
Contributions of securities other than for plant	(9,501)	(16,784)
Proceeds from sale of donated securities	1,373	1,372
Depreciation	81,331	76,909
Amortization of bond discounts and premiums	(925)	(4,225)
Payments to terminate interest rate exchange agreements	28,098	44,042
Loss from disposals of property, plant, and equipment	2,155	2,979
Net change in fair value of interest rate exchange agreements	(60,385)	(4,204)
Change in:		
Accounts receivable, net of accrued investment income	(17,884)	(93,506)
Prepaid expenses and other assets	1,428	3,487
Contributions receivable, net	20,568	(21,310)
Interests in trusts held by others	-	(124)
Accounts payable and accrued liabilities, net of nonoperating items	1,416	(9,307)
Accrued compensation and withholdings	4,911	(26,701)
Deferred revenue	208	(3,431)
Actuarial liabilities	(2,795)	(2,049)
Net cash used in operating activities of continuing operations	**(106,599)**	**(256,305)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(8,301,403)	(7,501,890)
Proceeds from sales of investments	8,410,632	7,773,493
Purchases of investments allocable to noncontrolling interests	(820)	(840)
Proceeds from sales of investments allocable to noncontrolling interests	25,984	36,968
Change in accrued investment income	1,212	196
Payments to terminate interest rate exchange agreements	(28,098)	(44,042)
Acquisitions of property, plant, and equipment	(159,179)	(136,642)
Proceeds from sale of business	-	622,187
Principal collected on promissory notes receivable	5,000	833
Student loans and other notes receivable disbursed	(3,801)	(5,050)
Principal collected on student loans and other notes receivable	6,485	6,159
Net cash (used in) provided by investing activities of continuing operations	**(43,988)**	**751,372**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for plant and endowment	72,229	24,490
Change in government advances for student loans	989	1,066
Payments to retire or defease debt	(101,140)	(923,359)
Proceeds from issuance of debt	168,990	-
(Repayment) draw on line of credit	(1,000)	1,000
Proceeds from sale of donated securities restricted for endowment	8,128	15,412
Proceeds from noncontrolling interests in investment partnerships	820	840
Payments to noncontrolling interests in investment partnerships	(25,984)	(36,968)
Net cash provided by (used in) financing activities of continuing operations	**123,032**	**(917,519)**
DISCONTINUED OPERATIONS		
Net cash provided by operating activities	-	174,107
Net cash used in investing activities	-	(93,570)
Net cash provided by financing activities	-	13,285
Net cash flows provided by discontinued operations	**-**	**93,822**
Net decrease in cash and cash equivalents	**$ (27,555)**	**$ (328,630)**
Cash and cash equivalents at beginning of year	**$ 963,001**	**$ 1,291,631**
Cash and cash equivalents at end of year	**$ 935,446**	**$ 963,001**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 15,164	$ 57,725
Donated securities	9,501	16,784
Noncash investing activities include:		
Purchases of investments on margin	$ -	$ (82,000)
Sales of investments on margin	-	18,016

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

Vanderbilt University
Notes to the Consolidated Financial Statements

1. ORGANIZATION

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

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

Accordingly, the fiscal 2016 consolidated financial statements reflect VUMC operations prior to the Transaction date in discontinued operations. For more information on Vanderbilt's discontinued operations, see Note 20 to the consolidated financial statements.

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 net of income earned on unspent proceeds. Vanderbilt capitalizes donated assets at fair value on the date of donation, expenses repairs and maintenance costs as incurred, and expenses additions to the library collection at the time of purchase.

Vanderbilt calculates depreciation using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. 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. Refer to Note 9 to the consolidated financial statements for further discussion.

Debt Portfolio Financial Instruments

Vanderbilt reports long-term debt at carrying value. The carrying value of Vanderbilt's debt is the par amount adjusted for the net unamortized amount of bond premiums and discounts. Vanderbilt 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 allowable expenditures under such agreements occur.

Facilities and administrative (F&A) costs recovery—Vanderbilt recognizes F&A costs recovery as revenue. This activity represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Vanderbilt's federal F&A costs recovery rate for on-campus research was 57% in both fiscal 2017 and 2016. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2017 and 2016.

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.

Contributions

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

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

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

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

Unrestricted Operating Results

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

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

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

Vanderbilt allocates management and administrative support costs attributable to divisions that primarily provide auxiliary services based upon institutional budgets. Thus, institutional support expense reported in the functional expense footnote (Note 16) relates to Vanderbilt's other primary programs such as instruction, research, and public service.

Vanderbilt allocates costs related to the operation and maintenance of physical plant, including depreciation of plant assets, to operating programs and supporting activities based upon facility usage. Additionally, the university allocates interest expense to the activities that have benefited most directly from the debt proceeds. Refer to Note 16 for further detail.

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 ultimately could differ from management's estimates.

Reclassifications

Vanderbilt made certain reclassifications within functional expense categories to prior year amounts to conform to the current year presentation. These reclassifications were not material to the financial statements.

Subsequent Events

Vanderbilt evaluated events subsequent to June 30, 2017, through October 4, 2017, the date of issuance of the consolidated financial statements. During this period, Vanderbilt terminated $25 million notional of fixed-payer interest rate exchange agreements to further reduce the university's exposure. Vanderbilt did not identify any other material subsequent events for recognition or disclosure.

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. Vanderbilt continues to evaluate its population of revenue sources to assess the potential effects ASU 2014-09 will have on its financial statements and related disclosures. Vanderbilt expects the primary impact to be in the form of additional financial statement disclosures.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Vanderbilt adopted ASU 2015-05 during fiscal 2017 and has reported capitalized debt issuance costs as of June 30, 2017, accordingly.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 affects all entities that hold financial assets or owe financial liabilities and primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for non-public business entities for annual periods beginning after December 15, 2018. Vanderbilt early adopted the provisions of ASU 2016-01 eliminating the fair value disclosures for financial instruments not recognized at fair value for fiscal 2016. 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 will adopt the provisions of ASU 2016-02 in fiscal 2020. The adoption of ASU 2016-02 will increase total assets and total liabilities. Vanderbilt is currently evaluating the effect of adoption to the university's policies, procedures, and financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for-profit financial reporting model. Among other provisions, ASU 2016-14 requires enhanced disclosures around the nature and amount of net asset restrictions (both donor-imposed and board-designated), as well as enhanced disclosures regarding how entities manage their liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Vanderbilt is currently evaluating the effect of adoption to the financial statements and will adopt this ASU by fiscal 2019.

3. ACCOUNTS RECEIVABLE

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

	2017	**2016**
Receivable on secondary sale	$ 71,473	$ 54,389
Research and sponsored programs	34,925	26,265
VUMC related agreements	27,978	22,370
Tuition and fees	5,166	7,094
Accrued investment income	1,272	2,485
Other	7,854	19,509
Accounts receivable	**148,668**	**132,112**
Less: Allowance for student uncollectible amounts	(1,737)	(1,853)
Accounts receivable, net	**$ 146,931**	**$ 130,259**

The balance at June 30, 2017, includes $71.5 million related to a secondary sale of investments in general partnerships, $34.9 million related to research and sponsored programs, and $28.0 million related to agreements with VUMC. These receivables account for 92% of total net receivables at June 30, 2017.

4. CONTRIBUTIONS RECEIVABLE

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

	2017	2016
Unconditional promises expected to be collected:		
in one year or less	$ 32,331	$ 51,004
between one year and five years	44,308	48,208
in more than five years	4,300	1,776
Contributions receivable	**80,939**	**100,988**
Less: Discount	(2,626)	(1,711)
Less: Allowance for uncollectible promises	(8,612)	(9,008)
Contributions receivable, net	**$ 69,701**	**$ 90,269**

Vanderbilt discounts contributions receivable at a rate commensurate with the scheduled timing of receipt. Vanderbilt applied discount rates ranging from 0.5% to 2.0% to amounts outstanding as of June 30, 2017, and June 30, 2016. 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. The balance at June 30, 2016, includes a $12.0 million receivable from VUMC in support of trans-institutional programs (TIPs). This receivable accounts for 13.3% of total net contributions receivable at June 30, 2016, which was paid during 2017.

In addition to pledges reported as contributions receivable, Vanderbilt had cumulative bequest intentions and conditional promises to give of approximately $301.2 million and $251.0 million as of June 30, 2017 and 2016, 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)*:

	2017	2016
Temporarily restricted	$ 27,360	$ 32,525
Permanently restricted	42,341	57,744
Contributions receivable, net	**$ 69,701**	**$ 90,269**

5. STUDENT LOANS AND OTHER NOTES RECEIVABLE

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

	2017			2016		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student loans:						
Federal	$ 24,465	$ (2,140)	$ 22,325	$ 24,058	$ (2,178)	$ 21,880
Institutional	8,264	(1,278)	6,986	11,463	(3,060)	8,403
Total student loans	**32,729**	**(3,418)**	**29,311**	**35,521**	**(5,238)**	**30,283**
Faculty mortgages	2,334	-	2,334	4,046	-	4,046
Student loans, other notes receivable, and related allowances	**$ 35,063**	**$ (3,418)**	**$ 31,645**	**$ 39,567**	**$ (5,238)**	**$ 34,329**

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)*:

	2017	2016
Derivative contract collateral and short-term securities [1]	$ 137	$ 36,908
Global equities [1]	1,147,012	977,150
Fixed income [5]	363,487	242,325
Hedged strategies [6]	1,260,019	1,022,674
Private capital [3]	1,151,000	1,216,653
Real estate [3]	168,377	211,854
Natural resources [3]	261,431	206,868
Commodities [2]	133,644	120,378
Trusts [4]	4,371	3,909
Other investments [4]	6,153	7,967
Total value [7]	**$ 4,495,631**	**$ 4,046,686**
Total cost	**$ 3,400,587**	**$ 3,228,731**

[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 $435 million and $325 million of cash and cash equivalents classified as investments in fiscal 2017 and 2016, respectively.
[7] Net of securities sold short of $353 million and $252 million, total value of investments is $4,143 million and $3,795 million in fiscal 2017 and 2016, respectively.

Included in the amounts reported in the table above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. During fiscal 2017, the minority limited partners funded capital commitments totaling $0.8 million. Additionally, Vanderbilt made payments to the minority limited partners of $26.0 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. The change in appreciation allocable to minority limited partners totaled $3.7 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was $61.6 million as of June 30, 2017.

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

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

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

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

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

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

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

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

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

7. INVESTMENT RETURN

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

	2017	2016
OPERATING		
Unrestricted:		
Endowment distributions	$ 96,060	$ 105,132
Investment income	21,727	15,685
Total operating return	**117,787**	**120,817**
NONOPERATING		
Unrestricted:		
Appreciation of institutional endowments, net of distributions	72,698	(150,188)
Appreciation of other investments	23,539	(27,430)
Temporarily restricted:		
Endowment distributions	106,365	78,711
Investment income (loss)	3,124	(757)
Appreciation of donor-restricted endowments, net of distributions	139,487	(218,988)
Permanently restricted:		
Endowment distributions	772	919
Investment income (loss)	4,315	(13,690)
Appreciation of donor-restricted endowments, net of distributions	-	(4,457)
Total nonoperating return	**350,300**	**(335,880)**
Total investment return	**$ 468,087**	**$ (215,063)**

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

	2017	2016
Interest, dividends, and partnership losses, net of fees	$ (12,344)	$ (23,262)
Net realized gains	278,369	46,933
Change in unrealized appreciation	202,062	(238,734)
Total investment return	**$ 468,087**	**$ (215,063)**

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 $12.3 million in fiscal 2017 and $12.7 million in fiscal 2016. Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled $28.4 million and $17.5 million in fiscal 2017 and 2016, 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 2017 and 2016, 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*):

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**

2016	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowments	$ -	$ 1,109,691	$ 1,178,406	$ 2,288,097
Reinvested distributions of donor-restricted endowments	164,187	21,036	-	185,223
Institutional endowments	1,322,266	-	-	1,322,266
Endowment net assets as of June 30, 2016	**$ 1,486,453**	**$ 1,130,727**	**$ 1,178,406**	**$ 3,795,586**

In striving to meet the overarching objectives for the endowment, over the past 20 years the university has experienced an 11% annualized standard deviation in its returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components designed to serve a specific role in establishing the right balance between risk and return. These three components are global, public, and private equity investments. Vanderbilt expects these three components, including private capital and many hedge funds, to produce favorable returns in environments of accelerated growth and economic expansion. Vanderbilt expects hedged strategies and fixed income investments to generate stable returns and preserve capital during periods of poor equity performance. Vanderbilt uses real estate and natural resources allocations to provide an inflation hedge.

From time to time, the fair value of assets associated with an endowed fund may fall below the level that a donor or UPMIFA requires in terms of maintenance of perpetual duration endowments. As of June 30, 2017 and 2016, Vanderbilt had deficiencies of this nature of approximately $4.0 million consisting of 158 endowments and $14.4 million consisting of 573 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*):

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**

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

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

9. PROPERTY, PLANT, AND EQUIPMENT

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

	2017	2016
Land	$ 98,554	$ 80,443
Buildings and improvements	1,555,888	1,406,725
Moveable equipment	295,981	287,352
Construction in progress	87,530	121,831
Property, plant, and equipment	2,037,953	1,896,351
Less: Accumulated depreciation	(1,018,060)	(952,367)
Property, plant, and equipment, net	**$ 1,019,893**	**$ 943,984**

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 and building 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, 2017, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled $406 million.

Vanderbilt capitalized interest of $0.3 million to construction in progress and/or buildings and improvements in fiscal 2017; no interest was capitalized in fiscal 2016.

Vanderbilt reviews property, plant, and equipment for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The university recognizes an impairment loss only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Vanderbilt did not recognize any impairment losses in fiscal 2017 or 2016.

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, 2017 and 2016. 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, 2017	Fiscal 2017 Effective Interest Rate[1]	Outstanding Principal 2017	Outstanding Principal 2016
FIXED-RATE DEBT					
Series 2009A - Tax-exempt	2020	4.00%	4.8%	$ 7,080	$ 73,990
Series 2012D - Tax-exempt	2038	3.00%-5.00%	3.1%	106,230	106,230
Series 2016 - Taxable	2047	0.84%-3.44%	2.8%	138,990	-
Fixed-rate debt			3.2%	**252,300**	**180,220**
VARIABLE-RATE DEBT					
Series 2012B - Tax-exempt			1.2%	-	34,230
Variable-rate debt			1.2%	**-**	**34,230**
Par amount of long-term debt			3.0%	252,300	214,450
Net unamortized premium			-	8,965	8,305
Cost of Issuance			-	(1,235)	-
Draw on Hybrid Line with General Use Provisions			1.4%	-	1,000
Total long-term debt			**3.0%**	**260,030**	**223,755**
Taxable commercial paper	<1		1.1%	114,180	84,530
Total commercial paper			**1.1%**	**114,180**	**84,530**
Total long-term debt and commercial paper			**2.5%**	**$ 374,210**	**$ 308,285**

[1] Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 4.3%.

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)*:

	2017	2016
Payments for interest costs	$ 15,164	$ 57,725
Accrued interest expense	$ 14,618	$ 14,839

Payments for interest costs occur on varying scheduled payment dates for debt, maturity dates for CP, and settlement dates for interest rate exchange agreements. Fiscal 2016 interest costs include payments related to debt defeased through the Transaction and therefore reported in discontinued operations. Vanderbilt calculates accrued interest expense for its debt, CP, and interest rate exchange agreements based on applicable interest rates for the respective fiscal year.

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

2018	$ 7,830
2019	7,980
2020	8,140
2021	7,075
2022	7,285
Thereafter	213,990
Total long-term debt principal retirements	**$ 252,300**

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 in debt defeasance costs as a non-operating item.

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.

As of June 30, 2017 and 2016, Vanderbilt had $114.2 million and $84.5 million of taxable CP outstanding, respectively. The weighted average duration of Vanderbilt's CP portfolio totaled 95 days as of June 30, 2017, and 125 days as of June 30, 2016.

All tax-exempt CP was retired as part of the VUMC Transaction. Post VUMC Transaction, Vanderbilt reduced its commercial paper limitation to $200.0 million from $675.0 million. Vanderbilt can issue an additional $85.8 million under its current taxable CP program.

Liquidity support for debt with short-term remarketing periods (CP totaling $114.2 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, 2017, 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, 2017, or June 30, 2016.

Another line, which Vanderbilt chose not to renew at the line of credit's March 2017 expiration, totaled $100 million and included a general use provision. In order to optimize pricing, Vanderbilt drew one percent ($1.0 million) at inception and maintained this amount outstanding during the commitment. This draw was returned in March 2017 when the line expired.

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, 2017. This line of credit expires in October 2017. Vanderbilt had no outstanding draws against this credit facility as of June 30, 2017, or June 30, 2016.

None of Vanderbilt's fixed-rate debt has a mandatory tender date preceding the respective final maturity date. The Series 2009A bonds include amortizing principal amounts each year beginning fiscal 2016 and a final maturity date in October 2019. The Series 2012D bonds include amortizing principal amounts each year beginning in fiscal 2021 and a call feature at par beginning October 2023. The Series 2016 taxable bonds include amortizing principal amounts each year beginning in fiscal 2018 and are callable before the October 2046 maturity date only if Vanderbilt pays a make-whole call provision to the bondholders.

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 $6.3 million and $7.1 million in fiscal 2017 and 2016, 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 $54.8 million and $115.2 million as of June 30, 2017 and 2016, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2017 or 2016. During fiscal 2017, Vanderbilt terminated $50.0 million notional of fixed-rate payer interest rate exchange agreements at a cost of $19.2 million to reduce collateral exposure and eliminate ongoing settlement costs. Also during fiscal 2017, Vanderbilt terminated $500.0 million of basis interest rate exchange agreements at a cost of $8.9 million. There are no remaining basis interest rate exchange agreements at June 30, 2017.

Changes in the fair value of interest rate exchange agreements, reported in the nonoperating section of the consolidated statements of activities, resulted in a net gain of $32.3 million in fiscal 2017 and a net loss of $41.4 million in fiscal 2016. The $32.3 million change in appreciation of interest rate exchange agreements in fiscal 2017 includes $28.1 million of termination costs, 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, as well as a $3.3 million unrealized loss to adjust the discount rate to reflect counterparty credit risk. The $41.4 million appreciation of interest rate exchange agreements in fiscal 2016 includes $44.0 million of termination costs, a $3.3 million net unrealized gain from the combination of the positive effect of the termination of fixed-rate payer interest rate exchange agreements and the decrease in the long-term LIBOR rate, as well as a $0.7 million unrealized loss to adjust the discount rate to reflect counterparty credit risk. 30-year LIBOR increased to 2.5% as of June 30, 2017, from 1.8% as of June 30, 2016. 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, 2017, and $36.8 million held by counterparties as of June 30, 2016. 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 $90 million, but would not require Vanderbilt to pledge collateral.

As of June 30, 2017, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was fully hedged.

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

Description	**Rate Paid**	**Rate Received**	**Maturity**	**2017**	**2016**
Fixed-payer interest rate exchange agreements	Avg fixed rate of 3.95%	Avg of 68.5% of one-month LIBOR[1]	14 to 23 years	$ 163,800	$ 215,900
Basis interest rate exchange agreements	SIFMA[2]	Avg of 81.5% of one-month LIBOR[1]	n/a – terminated during fiscal 2017	$ -	$ 500,000

[1] LIBOR (London Interbank Offered Rate) is a reference rate based on interest rates at which global banks borrow funds from other banks in the London interbank lending market.

[2] SIFMA (Securities Industry and Financial Markets Association) is a seven-day high-grade market index rate based upon tax-exempt variable rate debt obligations.

12. NET ASSETS

Vanderbilt's unrestricted 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)*:

	2017	**2016**
Student scholarships	$ 447,347	$ 390,467
Endowed chairs	348,247	310,079
Operations	259,515	238,031
Program support	101,335	90,009
Capital improvements	20,729	12,425
Subsequent period operations and other	188,521	183,123
Total temporarily restricted net assets	**$ 1,365,694**	**$ 1,224,134**

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

	2017	**2016**
Donor restricted endowments	$ 1,233,575	$ 1,178,406
Gifts and grants	42,116	70,465
Life income and gift annuities	32,494	18,173
Interests in trusts held by others	17,011	16,523
Total permanently restricted net assets	**$ 1,325,196**	**$ 1,283,567**

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, 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							
Fixed income	$ 15,034	$ 160	$ (518)	$ 4,142	$ (4,297)	$ -	$ 14,521
Global equities	17,619	449	2,476	1,162	(3,382)	-	18,324
Private capital	2,368	-	-	-	-	-	2,368
Real estate	179	-	18	-	(3)	-	194
Natural resources	31,442	-	1,238	-	(2,109)	-	30,571
Trusts	3,909	98	469	-	(105)	-	4,371
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.*

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

**Total change in unrealized gains/(losses) relating to Level 3 investment assets held by the university at June 30, 2016, is $(3,049) and is reflected in "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.

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

The total asset values for private capital, real estate, natural resources, and other investments are illiquid as of June 30, 2017. These amounts predominantly consist of limited partnerships. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions relative to the timing for disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Unforeseen events prevent Vanderbilt from anticipating such changes. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related asset values are illiquid.

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

Assets Reported at Fair Value as of June 30, 2017

	Fair Value Measurements				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Cash and cash equivalents	$ 935,446	$ -	$ -	$ -	$ 935,446
Derivative contract collateral and short-term securities	137	-	-	-	137
Global equities	851,749	-	18,324	276,939	1,147,012
Fixed income	238,924	69,988	14,521	40,054	363,487
Private capital	2,891	-	2,368	1,145,741	1,151,000
Hedged strategies	758,365	280,729	-	220,925	1,260,019
Commodities	133,644	-	-	-	133,644
Natural resources	281	-	30,571	230,579	261,431
Real estate	-	-	194	168,183	168,377
Trusts	-	-	4,371	-	4,371
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**

Assets Reported at Fair Value as of June 30, 2016

	Fair Value Measurements				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Cash and cash equivalents	$ 963,001	$ -	$ -	$ -	$ 963,001
Derivative contract collateral and short-term securities	36,908	-	-	-	36,908
Global equities	689,781	-	17,619	269,750	977,150
Fixed income	227,291	-	15,034	-	242,325
Private capital	1,285	-	2,368	1,213,000	1,216,653
Hedged strategies	642,345	67,626	-	312,703	1,022,674
Commodities	120,378	-	-	-	120,378
Natural resources	201	-	31,442	175,225	206,868
Real estate	-	-	179	211,675	211,854
Trusts	-	-	3,909	-	3,909
Other investments	344	-	7,623	-	7,967
Interests in trusts held by others	-	-	26,601	-	26,601
Total assets reported at fair value	**$ 2,681,534**	**$ 67,626**	**$ 104,775**	**$ 2,182,353**	**$ 5,036,288**

Liabilities Reported at Fair Value as of June 30, 2016

Securities sold short	$ 239,969	$ 11,886	$ -	$ -	$ 251,855
Interest rate exchange agreements	-	115,169	-	-	115,169
Total liabilities reported at fair value	**$ 239,969**	**$ 127,055**	$ -	$ -	**$ 367,024**

Redemption Terms and Restrictions as of June 30, 2017 and 2016

	2017 Fair Value	Redemption Terms	Redemption Restrictions
Cash and cash equivalents	$ 935,446	Daily, with same-day to 90 day notice	No restrictions
Derivative contract collateral and short-term securities	137	N/A	Not redeemable
Global equities	1,147,012	Daily to annually, with 1 to 90 day notice	Lock-up provision ranging from none to 4 years
Fixed income	363,487	Daily, with 1 to 90 day notice	No restrictions
Private capital	1,151,000	N/A	Not redeemable
Hedged strategies	1,260,019	Daily to annually, with 1 to 180 day notice	Lock-up provision ranging from none to 3 years
Commodities	133,644	Daily to annually, with 1 to 30 day notice	No restrictions
Natural resources	261,431	N/A	Not redeemable
Real estate	168,377	N/A	Not redeemable
Trusts	4,371	N/A	Not redeemable
Other investments	6,153	N/A	Not redeemable
Interests in trusts held by others	28,577	N/A	Not redeemable

14. RETIREMENT PLANS

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

Vanderbilt funds the obligations under these plans through monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2017 and 2016 were $18.6 million and $16.2 million, respectively.

15. STUDENT FINANCIAL AID

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

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

	2017	2016
Tuition and educational fees, gross	$ 513,103	$ 495,330
Less: Financial aid for tuition and educational fees	(231,424)	(215,563)
Tuition and educational fees, net	**$ 281,679**	**$ 279,767**

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

	2017	2016
Room and board, gross	$ 79,278	$ 80,034
Less: Financial aid for room and board	(33,812)	(33,464)
Room and board, net	**$ 45,466**	**$ 46,570**

16. FUNCTIONAL CLASSIFICATION OF EXPENSES AND ALLOCATIONS

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

	2017	2016
Instruction	$ 353,059	$ 347,601
Research	178,035	175,341
Public service	32,611	33,856
Academic support	126,331	112,875
Student services	127,761	123,159
Institutional support	201,618	188,495
Room, board, and other auxiliary services	184,757	148,226
Total operating expenses	**$ 1,204,172**	**$ 1,129,553**

Natural expense classifications include certain allocations of institutional and other support costs to Vanderbilt's primary programs. Based on the functional uses of space on its campus, Vanderbilt allocated depreciation and interest on indebtedness to the functional operating expense categories as follows *(in thousands)*:

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**

2016

	Depreciation	Interest
Instruction	$ 14,215	$ 2,772
Research	12,525	1,194
Academic support	7,053	970
Student services	9,927	1,247
Institutional support	13,256	1,208
Room, board, and other auxiliary services	19,933	7,448
Total	**$ 76,909**	**$ 14,839**

17. RELATED PARTIES

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

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

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

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

18. LEASES

Vanderbilt is obligated under numerous operating leases to pay base rent through the 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 $14.7 million and $18.4 million in the years ended June 30, 2017, and June 30, 2016, respectively.

As of June 30, 2017, 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)*:

2018	$ 13,224
2019	12,493
2020	12,143
2021	11,903
2022	10,660
Thereafter	44,121
Total future minimum rentals	**$ 104,544**

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

	% of Minimum Rentals	Minimum Rentals
Property leases	97%	$ 101,256
Equipment leases	3%	3,288
Total future minimum rentals	**100%**	**$ 104,544**

Property leases for buildings owned by Vanderbilt University Medical Center (58%) and 2100 West End Avenue (28%) account for approximately 86% of the total future minimum rentals.

19. COMMITMENTS AND CONTINGENCIES

(A) *Construction.* As of June 30, 2017, Vanderbilt had contractual commitments for approximately $88.7 million of projects under construction and equipment purchases. The largest components of these commitments were for E. Bronson Ingram College ($74.7 million) and Divinity School renovations ($9.4 million).

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

In addition, on May 17, 2016, a former Vanderbilt football player filed suit against the NCAA, the SEC, and Vanderbilt in the Middle District of Florida in Orlando seeking class action status for students who played football at Vanderbilt between 1952 and 2010. The suit is styled *Walthour v. Vanderbilt University, et al*., No. 16-cv-834 (M.D. Fl.). Walthour alleged he suffered "several" concussions and now has cognitive functioning problems, such as loss of memory, mood swings, sensitivity to light, and blackouts. The suit has been transferred to the Northern District of Illinois for pre-trial purposes as a tag-along action to the multi-district litigation styled *In re: National Collegiate Athletic Association Student-Athlete Concussion Injury Litigation*, MDL No. 2492.

A pseudonymous complaint, *ZJ v. Vanderbilt* University, Tenn. Cir. Ct. 17C1122 (May 5, 2017) by a former student, "ZJ," was filed against Vanderbilt University in Davidson County, Tennessee Circuit Court in May 2017. The complaint which, as subsequently amended, includes a claim under Title IX and nine other state and federal claims, alleges that Vanderbilt wrongfully expelled the plaintiff based on an investigation conducted pursuant to the university's Sexual Misconduct Policy. The plaintiff seeks various relief including compensatory and punitive damages "in an amount not less than Ten Million Dollars ($10,000,000)." Vanderbilt removed the case to U.S. District Court for the Middle District of Tennessee and filed a Motion to Dismiss, which is pending.

Finally, in *United Therapeutics Corp. v. Vanderbilt University and Dr. James Loyd*, M.D.N.C. (Aug. 17, 2017), United Therapeutics, a drug company, filed suit against Vanderbilt alleging breach of a 1997 Research Grant Agreement for what United Therapeutics alleges was a failure by Vanderbilt to collaborate in the defense of certain patents held by United Therapeutics. The complaint requests damages, but does not specify the amount at this time.

Vanderbilt believes that the outcome of these actions will not have a significant effect on its consolidated financial position.

(C) *Regulations*. Vanderbilt's compliance with regulations and laws is subject to future government reviews and interpretations, as well as regulatory actions unknown at this time. Vanderbilt believes that 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 $531.0 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2017. 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 $11.6 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. DISCONTINUED OPERATIONS

On April 29, 2016, Vanderbilt transferred clinical services operations, post-graduate training programs, and clinical department research activities, along with the related assets and liabilities, to VUMC, a newly incorporated Tennessee not-for-profit corporation, in exchange for consideration of $1,230.0 million.

The following table sets forth the components of discontinued operations in fiscal 2016 *(in thousands)*:

	2016
Health care services revenue	$ 2,543,322
Other revenue	375,449
Total revenues	**2,918,771**
Salaries, wages, and benefits	1,550,915
Supplies, services, and other	1,136,550
Depreciation and amortization	37,711
Interest	28,904
Non-operating expense	17,435
Total expenses	**2,771,515**
Income from discontinued operations	**147,256**
Loss on disposal of discontinued operations	(317,856)
Change in net assets from discontinued operations, net	**$ (170,600)**

VUMC operations, reported in discontinued operations, generated income of $147.3 million for the year ended June 30, 2016. The change in net assets from discontinued operations for the year ended June 30, 2016, also includes a loss totaling $317.9 million related to the sale of VUMC assets and liabilities. Vanderbilt also reported Transaction-related expenses of $10.1 million within discontinued operations for the year ended June 30, 2016.

Through the Transaction, the university received consideration of $1,230.0 million, which consisted of cash of $1,130.0 million and a $100.0 million note receivable to be paid over 20 years (May 2016 through April 2036) in exchange for assets and liabilities whose net book value as of the Transaction date totaled $2,090.8 million and $542.9 million, respectively. The assets and liabilities transferred were subject to final adjustments within the 90 days following the Transaction date.

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

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

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. Vanderbilt reported revenues of $71.5 million and $11.7 million under the AAA in affiliated entity revenue for the years ended June 30, 2017 and 2016, respectively. 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. Vanderbilt reported revenues of $96.9 million and $15.2 million under the TML in trademark, license, and royalty revenue for the years ended June 30, 2017 and 2016, respectively. The TML will remain in effect until termination of the AAA or Ground Lease.

During the years ended June 30, 2017 and 2016, Vanderbilt recognized interest income of $3.1 million and $0.5 million, respectively, and received principal payments of $5.0 million and $0.8 million, respectively, associated with the promissory note receivable from VUMC. Promissory note interest income is reported in trademark, license, and royalty revenue.

The Ground Lease allows VUMC to use the land on which its campus and related buildings are located. Vanderbilt reported revenues of $18.1 million and $3.0 million under the Ground Lease in room, board, and auxiliary revenue for the years ended June 30, 2017 and 2016, respectively. 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 subsequent to the Transaction as outlined in the MSA. Vanderbilt continues to provide services to VUMC such as IT support, utilities, and law enforcement staffing. Vanderbilt reported revenues of $125.0 million and $19.7 million associated with these services in the years ended June 30, 2017 and 2016, respectively. Vanderbilt reported these revenues as affiliated entity, auxiliary, or other revenues based on the nature of the underlying services provided.

In conjunction with the Transaction, VUMC pledged $12.0 million in support of trans-institutional programs (TIPs) benefitting fiscal years 2017 through 2020. Vanderbilt received this amount in June 2017 and reported $3.0 million associated with fiscal year 2017 as net assets released from restriction in the year ended June 30, 2017.

VUMC will continue to provide health care, graduate medical education and training, and clinically related research to Vanderbilt. Vanderbilt incurred $51.2 million and $7.5 million of expenses related to services provided by VUMC reported as supplies, services, and other in the years ended June 30, 2017 and 2016, respectively. The terms of these service agreements between Vanderbilt and VUMC are unique to each agreement.

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