



Mission, Goals, and Values

Vanderbilt University is a center for scholarly research, informed and creative teaching, and service to the community and society at large. Vanderbilt will uphold the highest standards and be a leader in the:

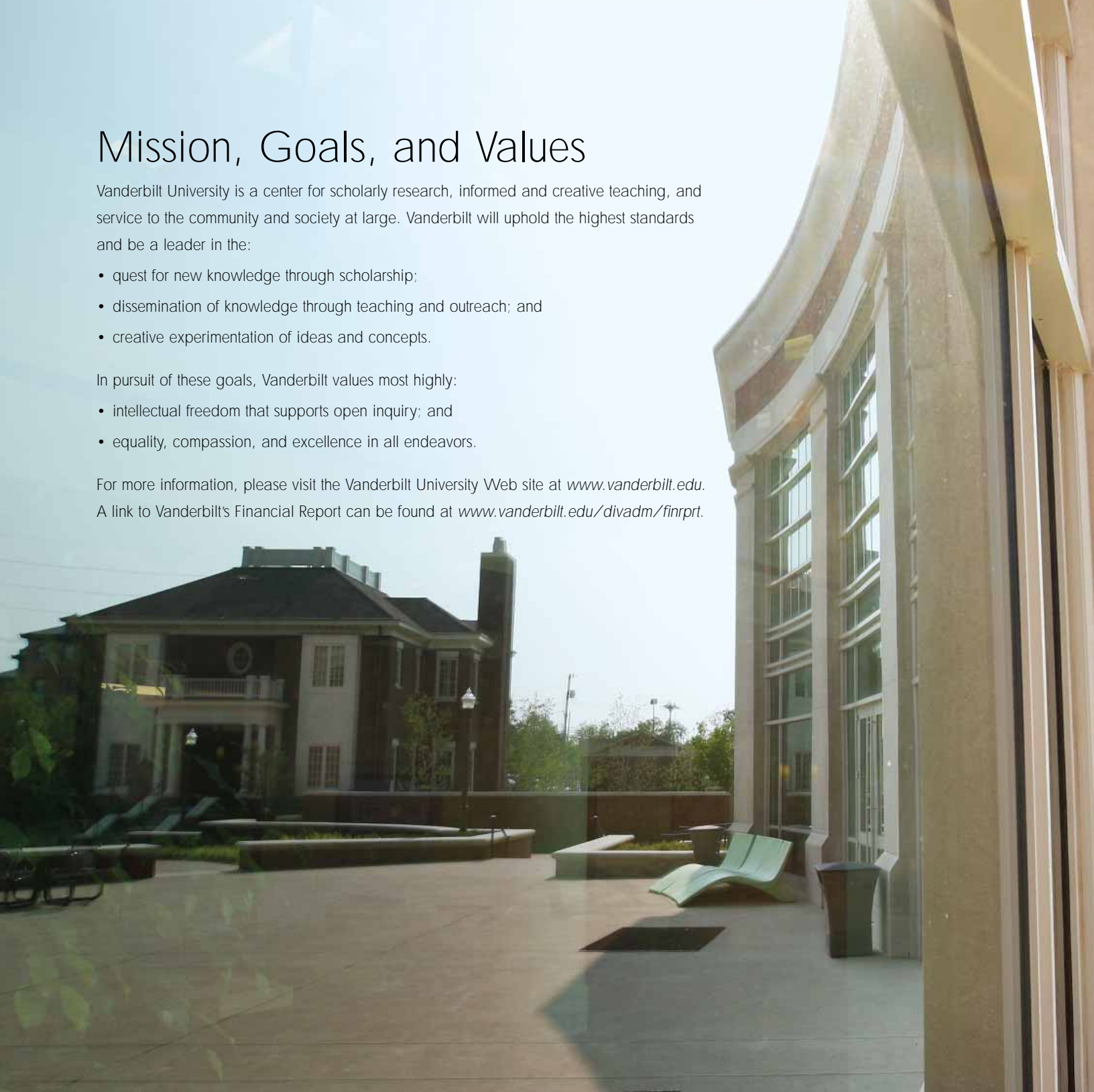
- quest for new knowledge through scholarship;
- dissemination of knowledge through teaching and outreach; and
- creative experimentation of ideas and concepts.

In pursuit of these goals, Vanderbilt values most highly:

- intellectual freedom that supports open inquiry; and
- equality, compassion, and excellence in all endeavors.

For more information, please visit the Vanderbilt University Web site at www.vanderbilt.edu.

A link to Vanderbilt's Financial Report can be found at www.vanderbilt.edu/divadm/finrpt.





THE COMMONS

The Commons at Vanderbilt is one of the most exciting enterprises in American higher education today, a living-learning community of first-year students, resident faculty, and university staff. Ten years ago, the idea was born to create both a place and a philosophy that would give first-year students the support they need to grow into leaders and scholars. The result—The Commons—is an innovative approach both to the undergraduate experience and to the environment that is its home.

Creating The Commons required a transformation of the southeastern corner of the Vanderbilt campus, and from the beginning, the goal was to respect and protect natural resources through innovative building and maintenance practices that have the added benefit of reducing operating costs and enhancing comfort and health.

As The Commons welcomed its first class in August 2008, more than 1,500 new students moved into a community where the very buildings in which they sleep, study, dine, and play give evidence of Vanderbilt's commitment to their quality of life, and to the long-term well-being of our world.

REDUCE REUSE RECYCLE





about the university

Vanderbilt University is a privately endowed, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, the university operated under the auspices of the Methodist Episcopal Church South until 1914. Since that time, it has been governed by an independent, self-perpetuating Board of Trust. The university is named for the shipping and railway magnate Commodore Cornelius Vanderbilt, who gave one million dollars to build and endow a university that would “contribute to strengthening the ties which should exist between all sections of our common country.”

Today, Vanderbilt is internationally recognized as one of the premier research and teaching universities. Vanderbilt's undergraduate, graduate, and professional programs rank among the finest in the world. The university's students—approximately 6,500 undergraduates and 5,300 graduate and professional students—along with nearly 3,400 faculty and more than 18,900 staff members work together to support multidisciplinary study, academic research, public service, and patient care. Vanderbilt provides health care services through its hospitals and clinics, which include the Vanderbilt University Hospital and Clinic, the Monroe Carell Jr. Children's Hospital at Vanderbilt, and the Vanderbilt Psychiatric Hospital.

The university maintains state-of-the-art facilities on its 330-acre campus. Vanderbilt's academic enterprise comprises interdisciplinary programs and centers, as well as 10 schools and colleges—College of Arts and Science, Graduate School, Blair School of Music, Divinity School, School of Engineering, Law School, School of Medicine, School of Nursing, Owen Graduate School of Management, and Peabody College of education and human development.



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letter
FROM THE
chairman
OF THE
board of trust

As chairman of the Board of Trust, I feel a deep sense of pride and even awe when I observe the accomplishments of our outstanding faculty, the promise of our bright young students, and the opportunities that continue to unfold for Vanderbilt University to be a leader in all of higher education.

The university is doing exceptionally well. Vanderbilt continues to move forward with a single purpose that is executed in a thousand different ways. This is evident from the life-changing discoveries in our medical center to the creation of new knowledge in the arts and sciences, to the recognized excellence in each of our schools and colleges.

And yet, for all this progress that is building on such long tradition, I believe we will one day mark 2008 in the history of Vanderbilt University as the year we began a new era of progress and leadership in the world. I am confident we will look back on this as the year we welcomed our new chancellor, Nick Zeppos, and his exciting vision for the future of our university.

It was Nick's leadership—first as provost and later as our interim chancellor—that gave life to the ideas of the College Halls initiative, the exciting hub of activity known as The Commons, the program to enhance graduate education, the new joint degree program in economics and law, and the university's ongoing commitment to engage with the larger community of Nashville. He also has led our *Shape the Future* fundraising campaign, which exceeded its \$1.25 billion goal two years ahead of schedule and set a new target of \$1.75 billion by 2010. I have no doubt whatsoever that this ambitious goal will also be met.

I am honored to be the chairman of Vanderbilt's active and engaged Board of Trust, and to be a participant with all my colleagues in the evolution of this amazing and vibrant university. We are confident that Vanderbilt's best days truly are yet to come.

Martha R. Ingram

CHAIRMAN, BOARD OF TRUST

Vanderbilt University has a unique mission of educating, healing, and advancing scientific research. In fulfilling these noble goals, we are entrusted with the care and cultivation of some of life's most precious aspects. In classrooms, professors take on the awe-inspiring responsibility of nurturing and shaping young minds and characters. In our hospital nurseries, Vanderbilt doctors and nurses share in the joy of bringing new life into the world. In our laboratories, dedicated scientists work to find cures for the diseases and conditions that diminish the capacity for a productive and fulfilling existence.

We view these responsibilities as distinct privileges and pledge our best in all of these undertakings. Similarly, we view our financial resources as the means that allow us to achieve these goals. For without careful and deliberate financial planning, Vanderbilt's goals would languish as unfulfilled ideas and unconnected thoughts.

With the tremendous progress occurring across Vanderbilt's campus, we must plan wisely and steward our resources with the highest level of fiduciary oversight. In 2008, I am pleased to report that the university has witnessed the commencement of several significant initiatives, the completion of many important accomplishments, and the birth of numerous ideas that will serve to sustain our future.

The opening of The Commons fulfilled the first step in our goal of providing one of the most creative and nurturing residential environments among our nation's university campuses. This first phase of our College Halls initiative is just the beginning of a plan that, when fully executed, will create a community even more closely knit and conducive to collaborative study, with faculty and students engaging in social and educational programming.

In 2009, the university will implement perhaps the most significant financial aid initiative in Vanderbilt's history in which need-based loans will be replaced with institutional grants and scholarships. This new program will greatly reduce barriers that previously deterred highly qualified students with financial need from applying to this university. In turn, our entire student body will benefit from an enriched, more dynamic community composed of talented, intelligent young men and women from all economic, cultural, and geographic backgrounds.

Vanderbilt University Medical Center garnered recognition earning elite honor roll status in *U.S. News and World Report's* "America's Best Hospitals" in 2008 for highest rankings in multiple specialties and for its world-renowned level of advanced medical care. This is a high honor indeed for our medical center to be included among a select group of only 19 facilities for this acknowledgement of excellence in patient care and medical advancement.

Vanderbilt's graduate and professional schools are collaborating in unprecedented ways. Working together, the Law School and the School of Medicine offer joint degree programs that allow students opportunities to develop two distinct viewpoints that foster the comprehensive, critical thinking needed to ensure that in pursuit of medical miracles, we carefully consider outcomes from an ethical as well as a goal-oriented perspective.

As you review this financial report, I hope this brief summary, describing just a few of our many exciting initiatives, will give you an expanded view of the institution's goals and how the careful application of our financial resources is allowing Vanderbilt to achieve its future promise and realize its greatest potential.

Nicholas S. Zeppos

CHANCELLOR



letter FROM THE chancellor





REDUCE

The structures of The Commons are a showcase of sustainable materials and a model for environmentally responsible building. In fact, Vanderbilt received the Tennessee Governor's Environmental Stewardship Award in 2008 for The Commons, recognizing its positive impact on the state's natural resources.

- With daylight harvesting, special controls determine when enough natural light is available for artificial lighting to be dimmed.
- The use of regionally made bricks and other materials reduced the environmental impact of construction of The Commons, whose architectural style is in keeping with the nearby buildings of Vanderbilt's Peabody College, a registered National Historic Landmark.
- At The Commons Center fitness facility, user-powered equipment reduces the amount of electricity needed to power treadmills.
- Low-flow faucets and sensors, waterless urinals, and dual-flush toilets reduce water usage in The Commons Center restrooms, which should save 900,000 gallons of potable water per year.



the year at a glance



JULY 2007

Zeppos named interim chancellor.

The Board of Trust appoints Provost and Vice Chancellor for Academic Affairs Nicholas S. Zeppos as interim chancellor following Gordon Gee's resignation. Gee, who served for seven years as Vanderbilt's seventh chancellor, leaves to take the presidency of Ohio State University.

Vanderbilt ranks among nation's best hospitals.

The Vanderbilt University Medical Center (VUMC) further advances its status among the nation's elite health care providers, according to rankings released by *U.S. News & World Report*. Nine of VUMC's specialty programs rank among the top 50 in their respective fields, including notable advances for Vanderbilt's heart, gynecology, endocrinology, and kidney disease programs.

Churchwell named CEO of Children's Hospital.

Kevin B. Churchwell, a Nashville native recognized as one of America's best pediatricians, is named chief executive officer of the Monroe Carell Jr. Children's Hospital at Vanderbilt. Churchwell replaces Jim Shmerling, who leaves to become president and CEO of The Children's Hospital of Denver. "I'm very excited," Churchwell says. "I look forward to working with everyone to continue to make a difference for children."

Team identifies genetic variations associated with multiple sclerosis.

An international, multicenter research team, featuring Jonathan L. Haines, T. H. Morgan Professor of Human Genetics in

Vanderbilt's Center for Human Genetics Research, announces the discovery of new genetic variations associated with multiple sclerosis. Utilizing genomic information from more than 12,000 people, the team identifies genetic variations contributing to MS and suggests a possible link to other autoimmune diseases. The team's work creates new understandings about how certain genes affect the immune system and opens new windows to possible treatments of MS. In addition to Haines, the groundbreaking group includes experts from the University of Cambridge School of Clinical Medicine, the Karolinska Institute of Stockholm, Massachusetts Institute of Technology, and other premier institutions.

New trauma program begins.

The Monroe Carell Jr. Children's Hospital at Vanderbilt introduces a Level 1 Trauma Center to treat children 24 hours a day, seven days a week. Before opening the trauma program in the pediatric emergency department, physicians had to treat severely injured children in Vanderbilt's adult trauma center. "Not only is there no other children's hospital in the state that is a stand-alone pediatric Level 1 Trauma Center, but there are only 15 in the country recognized by the American College of Surgeons," says Stephen Morrow, medical director of the trauma program at Children's Hospital.

VUMC expands off campus.

Vanderbilt agrees to lease more than half of 100 Oaks mall in Nashville for medical center services and programs.



Community leaders applaud Vanderbilt's plans to revitalize the highly visible mall area. With the planned opening of outpatient clinics and offices, the new location will relieve congestion on VUMC's main campus, preserve space on campus for hospital and research programs, lower the costs associated with the expansion of health and wellness outpatient clinics, and provide patients with easier access.

AUGUST 2007

Vanderbilt among Top 20 national universities. In an annual survey conducted by *U.S. News & World Report*, Vanderbilt ranks 19th among the nation's best universities. The Commons, a new program for first-year students beginning in 2008, is named a "Program to Look For" in the First-Year Experiences category. The *U.S. News* survey recognizes Vanderbilt for its economic diversity, citing that 19 percent of undergraduates receive federal Pell grants. Further, Vanderbilt is named the 11th best education "deal" among all national universities based on the average level of need-based financial aid awarded per student and the quality of academic programs offered.

Vanderbilt launches new joint law/economics degree program.

Vanderbilt Law School launches an innovative degree program giving students the opportunity to earn a J.D. and a Ph.D. The program explores areas where law and applied economics intersect, such as through the application of economic analysis to corporate and anti-trust law, environmental issues, and medical malpractice. Joining Vanderbilt to head the new program are former Harvard University professors Kip Viscusi, University Distinguished Professor of Law, Economics, and Management, and his wife, Joni Hersch, professor of law. Viscusi is widely regarded as one of the world's leading authorities on cost-benefit analysis, and Hersch is one of the most prominent female economists in the world.

Engineering dean receives prestigious award. The Nuclear and Plasma Sciences Society (NPSS) of the Institute of Electrical and Electronics Engineers recognizes Ken Galloway, dean of the School of Engineering, with the Richard F. Shea Distinguished Member annual award. The award is given for Galloway's outstanding contributions through leadership and service to the NPSS and to the fields of nuclear and plasma sciences.



SEPTEMBER 2007

Vanderbilt announces its largest government research grant.

Vanderbilt officials announce a \$40 million Clinical and Translational Science Award designed to expedite the translation of laboratory discoveries to patients in the community. The grant from the National Center for Research Resources of the National Institutes of Health (NIH) will help create a new Vanderbilt Institute for Clinical and Translational Research to move new therapies and diagnostic tests to the bedside. The new institute, in partnership with Meharry Medical College in Nashville, will provide next-generation support, innovative training programs, state-of-the-art informatics, and biostatistical methods to faculty working to translate fundamental scientific discoveries into clinical practice.



Vanderbilt professor testifies before Congress about women and popular culture.

Tracy Sharpley-Whiting, director of the African American and Diaspora Studies Program, tells the U.S. Congress that she finds American culture "deeply gratifying and simultaneously disturbing" during a hearing in Washington about stereotypes and degrading images in popular culture. She testifies along with other scholars before the Subcommittee on Commerce, Trade, and Consumer Protection of the Committee on Energy and Commerce during the hearing, titled "From Imus to Industry: The Business of Stereotypes and Degrading Images." With critical references to



the entertainment industry and radio talk show hosts, Sharpley-Whiting points out to the subcommittee that “demeaning, degrading, and objectifying black women are undeniably profitable pastimes.”

Owen student gives personal insight on Darfur. At a lecture on campus, Ebenezer Aryee, a Vanderbilt Owen Graduate School of Management student, shares observations, challenges, successes, lessons, and wisdom gathered during almost two decades of direct peacekeeping experience on the front lines of many of Africa’s most troubled spots. Throughout the 1990s, Aryee served as a Ghanaian military officer and operations specialist and was assigned to United Nations peacekeeping efforts in many of Africa’s major crisis regions, including Liberia, the Congo, and Rwanda. In 2005, Aryee took a leave from his studies at the Owen School to help a U.N. peacekeeping mission in Sierra Leone.



University officials gather at Vanderbilt to ponder strengthening education degrees. Representatives from more than 25 universities gather at Vanderbilt’s Peabody College of education and human development to discuss strategies to improve the training of education professionals. The event is part of the Carnegie Project on the Education Doctorate, a three-year program to improve the quality of the education doctorate. The conference is held at Peabody to provide other universities with the opportunity to learn from the Peabody model and discuss how its components can be applied elsewhere.

NOVEMBER 2007

Delbert Mann passes away. Delbert Mann, a Vanderbilt emeritus trustee, dies at the age of 87. Mann is best known as a director and the winner of the 1955 Academy Award for Best Picture for his film *Marty*. Mann directed scores of other television productions and Hollywood films, including *The Last Days of Patton*, *All Quiet on the Western Front*, and *Heidi*. After graduating from Vanderbilt in 1941, Mann served as a bomber pilot in World War II. He later attended the Yale School of Drama before launching his directing career in community theater in South Carolina. Mann established and raised money for the Fred Coe Artist-in-Residence-in-Theatre program at Vanderbilt, donated his papers to the Jean and Alexander Heard Library, and was active in fundraising for the university.

OCTOBER 2007

Bennett sets SEC receiving record. Earl Bennett, a junior from Birmingham, Alabama, breaks the Southeastern Conference all-time receiving record in a game against Miami (Ohio). Bennett, who passes former Kentucky standout Craig Yeast to set the record, finishes the year with 236 career receptions. In the same month, the Commodores defeat the sixth-ranked South Carolina Gamecocks by a score of 17-6 in Columbia, South Carolina.

Researchers link law with neuroscience. Funded by a \$10 million grant from the John D. and Catherine T. MacArthur Foundation, Vanderbilt takes the lead in a landmark study on how the brain’s actions impact the law. Owen Jones, professor of law and biological sciences, helped procure the grant and is co-director of the MacArthur Foundation Research Network on Decision Making. His team studies the decisions that lead to criminal behavior and examines neurological aspects of emotion, choice, risk, inhibition, and temptation.

YouTube channel launched. Continuing its leadership among universities in online communications, Vanderbilt launches a channel on the popular video-sharing site, YouTube™. The channel (www.youtube.com/vanderbilt) offers a broad range of content including lectures, concerts, and news pieces. The site brings a bit of the Vanderbilt experience to interested people around the world—for free.



DECEMBER 2007

Vanderbilt receives grant for Parkinson's research.

The Michael J. Fox Foundation for Parkinson's Research awards a multimillion-dollar grant to Vanderbilt to help develop a new class of drugs for the treatment of Parkinson's disease. Jeffrey Conn, professor of pharmacology and director of Vanderbilt's Program in Translational Neuropharmacology, leads a research team that will use a combination of medicinal chemistry, molecular biology, and animal studies to engineer identified molecules into compounds that can be clinically tested for use as drugs that could provide sustained symptomatic relief for those suffering from Parkinson's.

Vanderbilt-Ingram Cancer Center ranks in the Top 10 in research.

The Vanderbilt-Ingram Cancer Center ascends to a seventh-place national ranking for total cancer research awards. Vanderbilt's awards include major grants from the National Cancer Institute (NCI) for research in lung cancer, breast cancer, and gastrointestinal cancer. The NCI also provides funds to Vanderbilt for the Southern Community Cohort Study, which is a long-term study of cancer incidence in the region encompassing nearly 100,000 participants. "At a time when many programs are shrinking, our cancer center investigators are achieving not only remarkable growth in NCI funding, but also are making game-changing advances that will make a difference for patients," says Jeffrey R. Balsler, interim dean of Vanderbilt University School of Medicine.

Vanderbilt professor develops program to help rural students.

Billy Hudson, Elliot V. Newman Professor of Medicine and professor of biochemistry, earns recognition for a pilot program launched in his hometown of Grapevine, Arkansas, to enrich the educational opportunities of students in that rural community. The program,

titled "Aspirnaut Initiative," makes use of the idle time spent on long bus rides to and from school typical in rural America. Each student in the program is assigned a laptop and, on a specially equipped bus allowing Internet access, is able to study and attend advanced online math and science courses not offered in their school.

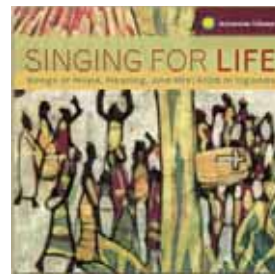
Blair professor nominated for Grammy.

Gregory F. Barz, associate professor of ethnomusicology at Vanderbilt's Blair School of Music, is nominated for a Grammy in the Best Traditional World Music Album category for his album *Singing for Life: Songs of Hope, Healing, and HIV/AIDS in Uganda*. Released in 2007, the album features uplifting music from Uganda compiled by Barz. "Music is a key weapon in the fight against AIDS in Africa, and the music on *Singing for Life* is also just really great African music," Barz says. Through his studies, Barz identifies how efforts to convey useful information by storytellers, dancers, musicians, and other artists play a prominent role in combating HIV/AIDS in Africa.

JANUARY 2008

Iraqi judges visit Vanderbilt Law School.

Iraqi judges who presided over the Anfal genocide proceedings participate in a panel discussion at Vanderbilt Law School to provide analysis of the case, which led to the conviction of the infamous Chemical Ali, Ali Hassan Abd al-Majid al-Tikriti. Tens of thousands of Kurds were killed during the Anfal campaign and numerous villages were destroyed. Nashville is home to the largest settlement of Kurds in the U.S., and the judges visit with members of the Kurdish community while in Nashville. The panel was organized by Vanderbilt international law expert Michael A. Newton, who went to Iraq several times to advise the judges and assisted in drafting the Statute of the Iraqi High Tribunal.





Gauthier honored by National Academy of Sciences. Isabel Gauthier, associate professor of psychology, wins a Troland Research Award from the National Academy of Sciences. The prestigious national award is given annually to two recipients in experimental psychology. Gauthier's research focuses on how people develop expertise in perceiving certain images, and what changes occur in the brain as this expertise develops.



Vanderbilt professor nominated to National Council on the Humanities. President George W. Bush nominates Carol M. Swain, professor of political science and law, to the National Council on the Humanities, which serves as an advisory board of the National Endowment for the Humanities. Swain is widely recognized for her studies on race relations and public policy, and her book *Black Faces, Black Interest: The Representation of African Americans in Congress* has won numerous awards.

Grant to bring more arts to Divinity School. The Henry Luce Foundation allocates a generous five-year grant for an effort to make Vanderbilt Divinity School ring with music and other arts. "It has the potential to spark a real culture shift for the school," says Robin Jensen, the Luce Chancellor's Professor of the History of Christian Worship and Art, who will administer the grant.



Vanderbilt offers local gifted youth a connection. Fifth and sixth graders from Nashville-area schools who have tested in the highest range on achievement tests participate in a new program called Saturday Academy at Vanderbilt for the Young. Part of Vanderbilt's Programs for Talented Youth, the seven-week sessions held at the University School of Nashville tackle topics ranging from persuasion to nuclear energy and climate change.

FEBRUARY 2008

School of Medicine vaults into top 10 of National Institutes of Health funding. Vanderbilt School of Medicine surpasses the University of Michigan and Stanford University to move up to 10th place in funding based on data released by the NIH for the prior year. While many of the year's top-ranked medical schools experienced flat or even decreased funding, Vanderbilt achieved the largest increase in grant funding among the top 10 schools of medicine.

Mathematician's formula may reduce spread of bacteria in hospitals. A sophisticated mathematical model is presented by Glenn F. Webb, professor of math, to help combat the spread of antibiotic-resistant bacteria in hospitals. Hospital infections cause about 100,000 deaths each year. Webb presents his research at the annual meeting of the American Association for the Advancement of Science in Boston, where he proposes changing how antibiotics are prescribed and administered.

Engineers receive grant to link war fighters to Global Information Grid. An Air Force Research Laboratory grant allows Vanderbilt engineers to partner with BBN Technologies, Boeing, and the Institute for Human Machine Cognition to develop a system to link seamlessly to the U.S. Department of Defense's Global Information Grid. Heading up Vanderbilt's team is Douglas C. Schmidt, professor of computer engineering, who has a wealth of experience testing the interface of increasingly complex systems. The software tools and platforms developed at Vanderbilt are designed to empower pilots, fighters, and their commanders to communicate with each other no matter the circumstances.

Metro Nashville's top students get hands-on lessons. The new Vanderbilt School for Science and Math takes Metro Nashville high school students beyond their textbooks into the world of applied science. Students attending the new school are selected based on academic performance on test scores, an essay, and teacher recommendations. The program is funded by the NIH, the Alliance for Public Education, and Vanderbilt.

Geer wins Goldsmith Book Prize. Harvard University's Joan Shorenstein Center on the Press, Politics, and Public Policy recognizes *In Defense of Negativity: Attack Ads in Presidential Campaigns* by John G. Geer, Distinguished Professor of Political Science, as the winner of its Goldsmith Book Prize. The award was established in 1991 to encourage a "more insightful, spirited public debate about government, politics, and the press."

School of Nursing launches Doctor of Nursing Practice program. The Vanderbilt Board of Trust approves a new degree, the Doctor of Nursing Practice (D.N.P.), to be offered by the School of Nursing. "Doctoral programs in nursing have traditionally been research-focused," says Donna McArthur, director of the new program. "The D.N.P. program is different because it is practice-focused." Practice doctorates have been in place for many health care disciplines for decades, but no such equivalent degree for nursing existed in the U.S. until a national initiative was introduced by the American Association of Colleges of Nursing in 2004.

Students look to alleviate global poverty. Vanderbilt students from four disciplines—business, divinity, economics, and education—set an ambitious goal for a spring break trip to Bangladesh: find ways to reduce poverty in the poorest parts of the world. The students, as part of a program titled Project Pyramid, meet with Muhammad Yunus, who earned a doctoral degree in economics

at Vanderbilt and won the 2006 Nobel Peace Prize for his work to combat poverty by extending small loans to low-income people. "The students want the opportunity not only to engage people there on issues of alleviating poverty but to make this a real learning experience where we have a chance to make an impact," according to Ryan Igleheart, a first-year student at the Owen Graduate School of Management and an organizer of the Project Pyramid trip.

The Commons Center wins facility design award. The Commons Center is awarded a Facility Design of Excellence Award by the Association of College Unions International. The center, which is at the heart of The Commons, includes a 600-seat, 40,000-square-foot dining hall and a food production facility that features five platforms based on a Euro-kitchen design. The new facility also has a student center with an exercise facility, retail campus market, post office, lounges, academic offices, administrative spaces, and a 300-seat multipurpose event space. The architects, Bruner & Cott, deliberately designed the building's façade to reflect Vanderbilt's classical-style architecture, while transitioning to interior spaces with a decidedly modern look.

MARCH 2008

Zeppos named Vanderbilt's eighth chancellor. After a seven-month search, the Board of Trust unanimously appoints Nicholas S. Zeppos, a distinguished legal scholar, teacher, and administrator who has been a vital presence on campus for two decades, as the university's eighth chancellor. Zeppos, 53, served as provost and vice chancellor for academic affairs since 2002, and served as interim chancellor after former Chancellor Gordon Gee's July 2007 resignation. "We wanted someone with an effective balance of executive leadership and scholarship, an individual who understands the centrality of the undergraduate experience and, at the same time, recognizes the crucial role of our graduate and professional schools



and medical center,” notes Board of Trust Vice Chairman Dennis C. Bottorff, chair of the nine-member search committee. “Our search identified the person who uniquely possesses these qualities, and he is Nick Zeppos.”

VUMC tops national nursing satisfaction survey. Among 277 of the nations’ top hospitals, VUMC nurses say their working environment is the best, according to a national registered nurse satisfaction survey conducted by the National Database for Nursing Quality Indicators. The survey addressed five key areas: nurse participation in hospital affairs, foundations for quality of care, nurse manager leadership and support, staffing adequacy, and collegial nurse-physician relations. Vanderbilt nurses score VUMC at or above all other hospitals in all five categories.

Study addresses health care options for senior citizens. Vanderbilt researcher Mike Shor earns an NIH grant to study why people make poor choices when faced with complex decisions. Shor, assistant professor of management (economics) at the Vanderbilt Owen Graduate School of Management, is particularly interested in senior citizens facing critical decisions about health care. Preliminary research shows that people faced with too many detailed options make sub-optimal decisions.

APRIL 2008

Shan Foster named recipient of the Lowe’s Senior CLASS Award.

Vanderbilt senior Shan Foster is named the recipient of the national Lowe’s Senior CLASS Award for NCAA men’s basketball. The award, Celebrating Loyalty and Achievement for Staying in School, recognizes personal qualities that define a complete student-athlete including excellence in the classroom, character, and community service, as well as the candidate’s performance on the court. A double-major student in leadership and health and human services, Foster

is an accomplished musician, is involved with Vanderbilt’s Susan Gray School for children with developmental disabilities, and frequently visits local schools and churches in Nashville. Foster was the second Commodore in as many years to win the SEC Basketball Player of the Year Award from league coaches after leading the SEC in scoring.

Graduate schools rank among the best. Vanderbilt’s Peabody College of education and human development is the second-ranked education school in the nation, according to the latest rankings by *U.S. News & World Report*. The annual rankings move Peabody from a third-place tie to sole possession of the No. 2 spot behind Stanford University. Gains are also made by Vanderbilt Law School (up one place to number 15) and VUMC (up two places to number 16 in medical research).

Vanderbilt attracts record number of applications. As letters of acceptance are mailed out, Vanderbilt reports receiving more than 16,900 freshman applications—a 31 percent increase over the prior year—allowing for the university’s most selective class ever. As a result, the freshman class of 2008 ends up being the most academically talented, diverse, and international class in Vanderbilt’s history, with 84 percent of the students ranked in the top 10 percent of their high school class, 23 percent classified as students of color, and 71 of them attending as international students. The nearly 1,570 students who are accepted and enroll in fall 2008 become the inaugural class to experience first-year life in The Commons, the first phase of College Halls at Vanderbilt.

Major financial aid and research initiatives declared. During the Spring Faculty Assembly, Chancellor Nicholas S. Zeppos declares the university’s intention to greatly bolster the financial aid system. “It is the right thing to do and it will benefit us all by making our university



stronger and better, and by making us all feel better each day we come into work,” Zeppos says. Additionally, Vanderbilt will commit more funds to transinstitutional and cross-disciplinary ventures that have been transforming the university for the past few years.

Interdisciplinary team researches impact of individual behavior on climate change. The Vanderbilt Climate Change Research Network, an interdisciplinary team of experts from earth and environmental sciences, political science, law, engineering, business, management, economics, and nursing, investigates one of the most important and most widely overlooked sources of greenhouse gases—individual behavior. The researchers attempt to understand the magnitude of the contribution from individuals and households to climate change. “Our goal is to identify the legal, economic, and social responses that can generate effective, low-cost emissions reductions by those individuals and their families in their everyday lives,” says Michael Vandenbergh, professor of law and co-director of the Vanderbilt Regulatory Program.

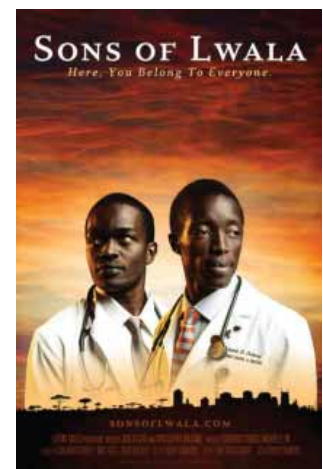
Sons of Lwala film earns national recognition. National Public Television awards the 2008 NPT Human Spirit Award to the documentary film *Sons of Lwala*. The documentary tells the moving story of two Vanderbilt medical students who were sent to America by their Kenyan village, Lwala, to become doctors. The students, Milton and Fred Ochieng, could not afford the airfare to come to America so their village sold livestock in order to raise the money. After their parents died of AIDS these two young men set about fulfilling their father’s dream of building a clinic and establishing quality medical care in Lwala, a village that is 30 kilometers from the closest medical facility and where approximately 32 percent of the population is infected with AIDS.

Professor receives NSF award. Sharon M. Weiss, assistant professor of electrical engineering and assistant professor of physics, receives a prestigious National Science Foundation (NSF) Faculty Early Career Development Award. The award will support her continuing efforts to achieve faster and more accurate detection of biological and chemical materials by using portable porous silicon waveguides. Her work has a significant impact in medical diagnostics, environmental monitoring, and homeland security. Weiss becomes the seventh Vanderbilt engineering professor to receive the NSF award in the last two years, putting the School of Engineering among the top recipients of these awards nationally.

MAY 2008

Richard McCarty named provost. Richard McCarty is approved by the Board of Trust as the university’s next provost and vice chancellor for academic affairs, succeeding Nicholas S. Zeppos, who held the position until becoming chancellor in March 2008. McCarty, who joined Vanderbilt in 2001, led the College of Arts and Science during one of the most important periods in its history. Under his direction, Vanderbilt embarked on a significant faculty recruitment initiative; undergraduate student quality, diversity, and selectivity ranked among the highest in the country; graduate student enrollment and diversity increased dramatically; and a number of new facilities were dedicated, including the E. Bronson Ingram Studio Arts Center and the renovated and expanded Buttrick Hall.

Partnership offers new tool to evaluate school leaders. Discovery Education and Vanderbilt announce a partnership to launch a new research-based evaluation tool that measures the effectiveness of school principals. The Vanderbilt Assessment of Leadership in Education (VAL-ED) is made possible by a grant from the Wallace Foundation. Developed by Peabody faculty, VAL-ED





has been tested at more than 300 schools nationwide and assesses principals in core components related to school performance, including high standards for student learning, quality instruction, performance accountability, and connections to external communities.

Women's lacrosse team sets school record in wins. Coached by Cathy Swezey, the women's lacrosse team finishes the regular season ranked ninth in the country and earns its fourth NCAA tournament berth in seven years. Following notable wins over Notre Dame and Duke University, the Commodores claim a school-record 13th victory of the season with a win over Johns Hopkins University.

U.S. senator visits with roundtable of community health care leaders. U.S. Senator Bob Corker participates in a roundtable at Vanderbilt to hear from those on the frontlines of issues related to reforming the country's health care system. Corker discusses how addressing private health care financing and the rising cost of care are critical issues that need to be resolved. The roundtable also discusses the effects of competitions among different sectors of the health care community, the expansion of nurse practitioner responsibilities, pay-for-performance incentives, and preventive care rewards. Panelists include Chancellor Nicholas S. Zeppos along with six other Vanderbilt nursing and hospital faculty and administrators.

Vanderbilt senior women's tennis player named All-American. Senior Amanda Taylor is named to the 2008 Intercollegiate Tennis Association All-American Team for Division I women's tennis. Taylor is the fifth player in Vanderbilt women's tennis history to earn ITA All-American honors in singles. The Richland, Washington, native finishes the year ranked in the Top 20 and closes her senior season with a 27-8 overall record. Taylor led the Commodores to their 14th straight NCAA tournament appearance,



where the women advanced to the round of 16 for the 10th straight year before falling to Florida.

JUNE 2008

Children's Hospital ranks among the best. In the *U.S. News & World Report* ranking of America's best children's hospitals, the Monroe Carell Jr. Children's Hospital at Vanderbilt ranks 23rd and two specialties, neonatal neurology and neurosurgery, are particularly recognized for their excellence. "Our ranking reflects what we already know at Children's Hospital: All our staff including physicians, nurses, environmental services, medical receptionists, respiratory therapists, and others are doing great work and it is being recognized at a national level," says Dr. Kevin B. Churchwell, chief executive officer and executive director of Children's Hospital.

Peabody hosts federal roundtable on economics and education. Education experts including officials from Vanderbilt, the Career College Association, and the National Council of Higher Education Loan Programs convene at Peabody College of education and human development for a daylong discussion of the impact of the nation's economic downturn on low- and moderate-income students. The panel is hosted by the U.S. Department of Education's Advisory Committee on Student Financial Assistance.

The Commons Center earns gold-level LEED certification. Vanderbilt's environmentally friendly construction of The Commons Center earns the university a gold-level certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system. The facility also earns Vanderbilt a Governor's Environmental Stewardship Award for its positive impact on Tennessee's natural resources. As the first gold-certified building in Nashville, The Commons Center has become a touchstone for collaborative

environmental initiatives as well as a model for sustainability and comprehensive environmental responsibility on a college campus. The Commons incorporates LEED ideals for construction of new and renovated buildings, attractive and energy-saving building features, waste reduction and recycling programs, selection of recycled and renewable materials, and use of alternative fuels.

Bush names director of Vanderbilt-Ingram Cancer Center to Cancer Advisory Board. President George W. Bush appoints Jennifer A. Pietenpol, Ingram Professor of Cancer Research and director of the Vanderbilt-Ingram Cancer Center, to a six-year term on the National Cancer Advisory Board. Pietenpol is also the B. F. Byrd Jr. Professor of Oncology and a professor of biochemistry. “We all have one job as cancer researchers—to promote the basic and translational research that will make a difference for cancer patients and their families,” Pietenpol says.

Creative practices elevated through new program. Vanderbilt undertakes a new initiative on and off campus to prepare students to work with global markets, engage emerging technologies, and navigate increasingly complex intellectual property rules. The Mike Curb Creative Campus Program, an expansive new program to be funded by recording industry executive Mike Curb, will be administered by the Curb Center for Art, Enterprise, and Public Policy at Vanderbilt. It will affect every student on campus through new courses, faculty, internships, guest speakers, and the implementation of the first national research program on creativity, the arts, and higher education.

NIH grant puts researcher at the forefront of HIV research. James Crowe, Ingram Professor of Cancer Research and professor of microbiology and immunology, and Mark Hicar, instructor in pediatrics, are studying new avenues of HIV vaccine research under an NIH grant. Crowe is one of 10

principal investigators across the nation receiving NIH support from a newly announced five-year push to strengthen and expand knowledge of B cells. “Our lab has developed very powerful tools for the study of human B cells, the body’s source of antibodies,” Crowe says. “We can take blood from an immune individual and find rare, one-in-a-million cells with antibodies of interest, and we can pull that needle out of the haystack.”

Director hired for expanded LGBTQI office. Nora Spencer is named the first director of the Office of Lesbian, Gay, Bisexual, Transgender, Queer, and Intersex Life at Vanderbilt. The office is housed at the K. C. Potter Center, named for a former dean who supported faculty and students of all sexual identities. Spencer will lead the office in its efforts to create educational, cultural, and social opportunities for students, faculty, staff, and alumni. Further, a new committee, chaired by David Boyd, associate professor of medicine, health, and society, is formed to advise the university’s administration on issues affecting LGBTQI life on campus.

Monroe Carell mourned. Monroe J. Carell, Jr., a member of the Vanderbilt Board of Trust since 1991 and namesake of the Monroe Carell Jr. Children’s Hospital at Vanderbilt, dies peacefully at his home at 76 after a courageous battle with cancer. The former chairman and chief executive officer of Central Parking Corporation provided strong volunteer leadership for Vanderbilt initiatives and numerous other charitable causes throughout the country. Carell and his wife, Ann, supported many segments of the university, including undergraduate education, the Children’s Hospital, the School of Medicine, and athletics. He also led the ongoing university-wide \$1.75 billion *Shape the Future* campaign. A 1959 cum laude graduate of the Vanderbilt School of Engineering, Carell received the school’s Distinguished Alumnus Award in 2001.



faculty awards and appointments

Vanderbilt University invests in its faculty and is eager to support their endeavors by acknowledging and rewarding their achievements. Two very important ways the university celebrates the accomplishments of its faculty are through the conferral of named chairs and university professorships and the presentation of faculty awards, which in 2007/2008 included those listed below.

HARVIE BRANSCOMB DISTINGUISHED PROFESSOR AWARD

Awarded for a combination of talents and achievements in creative scholarship, stimulating and inspiring teaching, and service to students, colleagues, Vanderbilt, and society at large

DANIEL B. CORNFIELD (Sociology)

ALEXANDER HEARD DISTINGUISHED SERVICE PROFESSOR AWARD

Awarded for distinctive contributions to the understanding of problems of contemporary society

DALE C. FARRAN (Education/Psychology)

JOE B. WYATT DISTINGUISHED UNIVERSITY PROFESSOR AWARD

Awarded for accomplishments spanning multiple academic disciplines in the development of significant new knowledge from research or exemplary innovations in teaching

DAVID C. WOOD (Philosophy)

ELLEN GREGG INGALLS AWARD

Awarded for excellence in classroom teaching

JAMES LOVENSHEIMER (Musicology)

THOMAS JEFFERSON AWARD

Awarded for distinguished service to Vanderbilt through extraordinary contributions as a member of the faculty in the councils and government of the university

VIRGINIA L. SHEPHERD (Pathology)

MATTHEW RAMSEY (History)

MADISON SARRATT PRIZE

Awarded for excellence in undergraduate teaching

STEPHEN G. BUCKLES (Economics)

EARL SUTHERLAND PRIZE

Awarded for achievements in research, scholarship, or creative expression that have significant critical reception and are recognized nationally or internationally

DAVID ROBERTSON (Autonomic Disorders)

CHANCELLOR'S CUP

Awarded for contributions outside the classroom to undergraduate student-faculty relationships

MOLLY F. MILLER (Earth and Environmental Sciences)

CHANCELLOR'S AWARD FOR RESEARCH

Awarded for excellence in research, scholarship, or creative expression

BRUCE H. APPEL (Biological Sciences)

JAMES E. CROWE, JR. (Pediatrics)

PETER T. CUMMINGS (Chemical Engineering)

RICHARD D. LLOYD (Sociology)

DAPHNE MANOUSSAKI (Mathematics)

KEIVAN G. STASSUN (Astronomy)



FACULTY APPOINTED TO NAMED CHAIRS AND UNIVERSITY PROFESSORSHIPS

(ACADEMIC YEAR 2007/2008)

NICHOLAS P. B. BOLLEN

*E. Bronson Ingram Research Professor of Finance
Owen Graduate School of Management*

PAUL A. COBB

*Peabody Professor of Teaching and Learning
Peabody College*

BRUCE K. COOIL

*Dean Samuel B. and Evelyn R. Richmond Professor of Management
Owen Graduate School of Management*

JOHN G. GEER

*Distinguished Professor of Political Science
College of Arts and Science*

TRACEY E. GEORGE

*FedEx Research Professor
Law School*

JONATHAN D. GITLIN

*James C. Overall Professor of Pediatrics
School of Medicine*

F. PETER GUENGERICH

*Harry Pearson Broquist Professor of Biochemistry
School of Medicine*

DAWN IACOBUCCI

*E. Bronson Ingram Professor of Marketing
Owen Graduate School of Management*

LARRY W. ISAAC

*Distinguished Professor of Sociology
College of Arts and Science*

MICHAEL A. LAPRE

*E. Bronson Ingram Research Professor of Operations Management
Owen Graduate School of Management*

CRAIG M. LEWIS

*Madison S. Wigginton Professor of Management
Owen Graduate School of Management*

C. MICHAEL STEIN

*Dan May Professor of Medicine
School of Medicine*

VANDERBILT UNIVERSITY statistics

Students

Vanderbilt continues to attract many of the nation's most highly accomplished and diverse students. Such attraction manifests itself in applications for undergraduate admission, which reached an all-time high of 12,910 in the fall of 2007. The degree of selectivity exercised by Vanderbilt also increased as only 32.8% of freshman applicants were accepted. Most notably, while Vanderbilt increasingly competes for students with the most elite universities in the country, the university has been able to maintain a strong yield rate as 39.5% of accepted students chose to enroll at Vanderbilt last year.

Vanderbilt's undergraduate, graduate, and professional student enrollment for the 2007/2008 academic year totaled 11,847 students, about 94% of whom were full-time students. In addition to these students, the educational enterprise extended to fellows and medical residents.

Hospitals and Clinics

As the health care provider of choice in Middle Tennessee, Vanderbilt University Hospitals and Clinics continued efforts to expand inpatient and outpatient clinical facilities for the planned and expected volume growth in the coming years. During the past year, VUMC continued construction of the new critical care tower, assumed space at 100 Oaks mall to expand its clinical practice, and began planning for expansion of the Monroe Carell Jr. Children's Hospital at Vanderbilt. Over the past five years, the university's hospitals experienced average annual increases of 6.7% in surgical operations, 7.6% in emergency room visits, 5.1% in patient days, and 6.9% in patient discharges. Meanwhile, the number of outpatient visits to Vanderbilt's clinics has increased an average of 9.4% per year since 2003/2004.

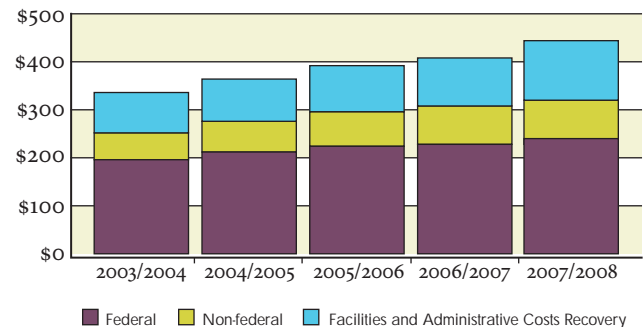
Faculty and Staff

Vanderbilt employed 22,309 regular and temporary faculty and staff in 2008, including those employed in wholly owned affiliated entities. In addition to this figure there are approximately 1,350 clinical and adjunct faculty affiliated with Vanderbilt but not paid directly by the university. In fiscal 2008, Vanderbilt attracted new full-time faculty and increased staffing levels particularly to support patient care growth, the expansion of sponsored research efforts, and increases in graduate and professional enrollments.

Research Expenditures

Expenditures for externally funded sponsored research and separately budgeted university research totaled \$444.3 million in fiscal 2008, resulting in an average annual increase of 7.1% per year over the past five years. Sponsored research and project awards, which include multiple-year grants and contracts, have averaged 7.8% annual growth over the past five years to total \$521.0 million in fiscal 2008. Included within those awards, in addition to current and future funding for research activities, are external grants and contracts for instruction, public service, and other activities.

RESEARCH EXPENDITURES (IN MILLIONS)



Endowment

The market value of Vanderbilt's endowment totaled \$3.495 billion as of June 30, 2008. Strategic endowment management resulted in a positive return of 2.1% for fiscal 2008, with particularly strong returns continuing in emerging markets and other industrialized international markets. These returns are calculated net of investment management fees and costs to operate the university's Office of Investments. Endowment distributions per the payout policy are calculated at 4.5% of the average of the previous three calendar year-end market values. Additional endowment distributions commenced in fiscal 2003 to support strategic initiatives through the Academic Venture Capital Fund. In fiscal 2008, these factors resulted in the combined distribution of 4.0% of the year's average market value to fund scholarships, faculty chairs, research, operating activities, and strategic investments in transinstitutional initiatives.

	2007/2008	2006/2007	2005/2006	2004/2005	2003/2004
STUDENTS					
Undergraduate	6,532	6,378	6,402	6,272	6,283
Graduate and professional	5,315	5,229	5,079	5,022	4,809
Total fall enrollment	11,847	11,607	11,481	11,294	11,092
Undergraduate admissions					
Applied	12,910	12,189	11,663	11,170	10,960
Accepted	4,237	4,128	4,115	4,279	4,405
Enrolled	1,672	1,590	1,620	1,601	1,545
Selectivity	32.8%	33.9%	35.3%	38.3%	40.2%
Yield	39.5%	38.5%	39.4%	37.4%	35.1%
Degrees conferred					
Baccalaureate	1,541	1,468	1,499	1,519	1,514
Master's	1,081	1,062	1,031	1,011	1,017
M.D.	94	114	111	90	107
Other doctoral	519	498	455	416	383
Total degrees conferred	3,235	3,142	3,096	3,036	3,021
Undergraduate graduation rates	89.4%	90.9%	89.2%	87.9%	86.0%
Undergraduate tuition rate	\$ 34,414	\$ 32,620	\$ 30,920	\$ 29,240	\$ 27,720
% increase over prior year	5.5%	5.5%	5.7%	5.5%	5.0%
HOSPITALS AND CLINICS					
Licensed beds	847	847	832	832	800
Hospital surgical operations	39,957	40,248	38,647	35,022	30,803
Hospital patient discharges	51,831	50,716	46,785	42,599	39,640
Hospital patient days	267,947	260,977	254,396	238,266	219,518
Average daily census	732	715	697	653	600
Average length of stay (days)	5.2	5.1	5.4	5.6	5.5
Clinic outpatient visits	1,178,841	1,095,559	1,019,715	940,018	824,103
Emergency room visits	102,998	98,229	90,870	82,051	76,831
LifeFlight (helicopter) missions	2,458	2,803	2,842	2,667	2,384
FACULTY AND STAFF					
Full-time faculty	2,997	2,876	2,689	2,527	2,379
Full-time staff	16,992	16,260	15,613	15,066	14,052
Part-time faculty	361	346	315	334	383
Part-time staff	1,959	2,020	1,954	1,776	1,653
Total headcount	22,309	21,502	20,571	19,703	18,467
RESEARCH EXPENDITURES (in thousands)					
Federal	\$ 244,117	\$ 227,565	\$ 221,995	\$ 210,533	\$ 195,582
Non-federal	89,368	81,797	70,223	65,009	58,000
Facilities and administrative costs recovery	110,847	101,730	95,639	89,053	84,151
Total research expenditures	\$ 444,332	\$ 411,092	\$ 387,857	\$ 364,595	\$ 337,733
ENDOWMENT					
Market value (in thousands)	\$ 3,495,439	\$ 3,488,258	\$ 2,915,620	\$ 2,598,227	\$ 2,264,845
Endowment per student	\$ 295,048	\$ 300,531	\$ 253,952	\$ 230,054	\$ 204,187
Total return on endowment	2.1%	21.9%	14.0%	17.8%	16.9%
Endowment distributed per payout policy	3.8%	3.7%	3.7%	3.9%	4.5%
Endowment distributed for strategic initiatives	0.2%	0.3%	0.5%	0.8%	0.6%
Total endowment distributed	4.0%	4.0%	4.2%	4.7%	5.1%





REUSE

The Commons Center is the first building in Nashville to receive gold-level certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Green Building Rating System, making Vanderbilt the first university in Tennessee to receive such a certification.

- A wall of windows offers natural light and a lovely view from the dining area of The Commons Center, while automatic sunshades and high-performance glass help keep things comfortable and energy efficient.
- China plates and real silverware—rather than disposables—make for a more pleasurable, and less wasteful, dining experience at The Commons Center's Food Gallery.
- When the original Hill Center was torn down in order to build The Commons, nearly 75 percent of the materials were salvaged, recycled, or sold, including sandstone pavers which were used in the patios of The Commons Center.
- Old oak library chairs have new life at The Commons Center.



2008 financial report, overview

One University, Serving Humanity and Improving the World. The Vanderbilt community aims to serve humanity and improve the world with energy, passion, and creativity. Through a transinstitutional approach that capitalizes on the university's unique intellectual assets, culture, and location, Vanderbilt impacts society in many ways and in many places.

Building upon the solid relationships among the units of Vanderbilt's academic and health care enterprise, our strategic decisions occur from the perspective of what we can accomplish as one, whole university. As Vanderbilt enhances its position among the world's preeminent learning institutions, a sense of the long term and a focus upon prudent financial stewardship are always present.

In fiscal 2008, despite competitive pressures and a volatile economic climate, Vanderbilt's financial performance reflects an institution committed to preserving its long-term financial health while also continuing the expansion of strategic investments in academic priorities, facilities, and breakthrough research. This financial report and the financial statements herein reflect that commitment.



Vanderbilt's Financial Position

TOTAL NET ASSETS

As of June 30, 2008, Vanderbilt's financial position consisted of assets totaling \$6,790.9 million and liabilities totaling \$1,808.1 million—resulting in net assets of \$4,982.8 million.

Vanderbilt's endowment, which totaled \$3,495.4 million as of June 30, 2008, reached its highest ever year-end total and comprises the largest portion of the university's net assets.

Net assets designated for plant facilities totaled \$819.6 million. This amount represents the university's property, plant, and equipment-related assets, net of accumulated depreciation and capital-related debt.

Other net assets, which totaled \$667.8 million as of June 30, 2008, include working capital, contributions receivable, undesignated gift assets, and interests in trusts held by others, net of the mark-to-market on interest rate swap agreements.

Summary of Changes in Net Assets

The university's total net assets decreased by \$34.9 million in fiscal 2008 following an unprecedented increase of \$691.9 million in fiscal 2007. The table below summarizes the components of the changes in total net assets. Unrestricted operating results (change in unrestricted net assets from operating activity) are consistently a positive contributor, totaling a healthy \$50.9 million and \$81.5 million in fiscal 2008 and 2007, respectively.

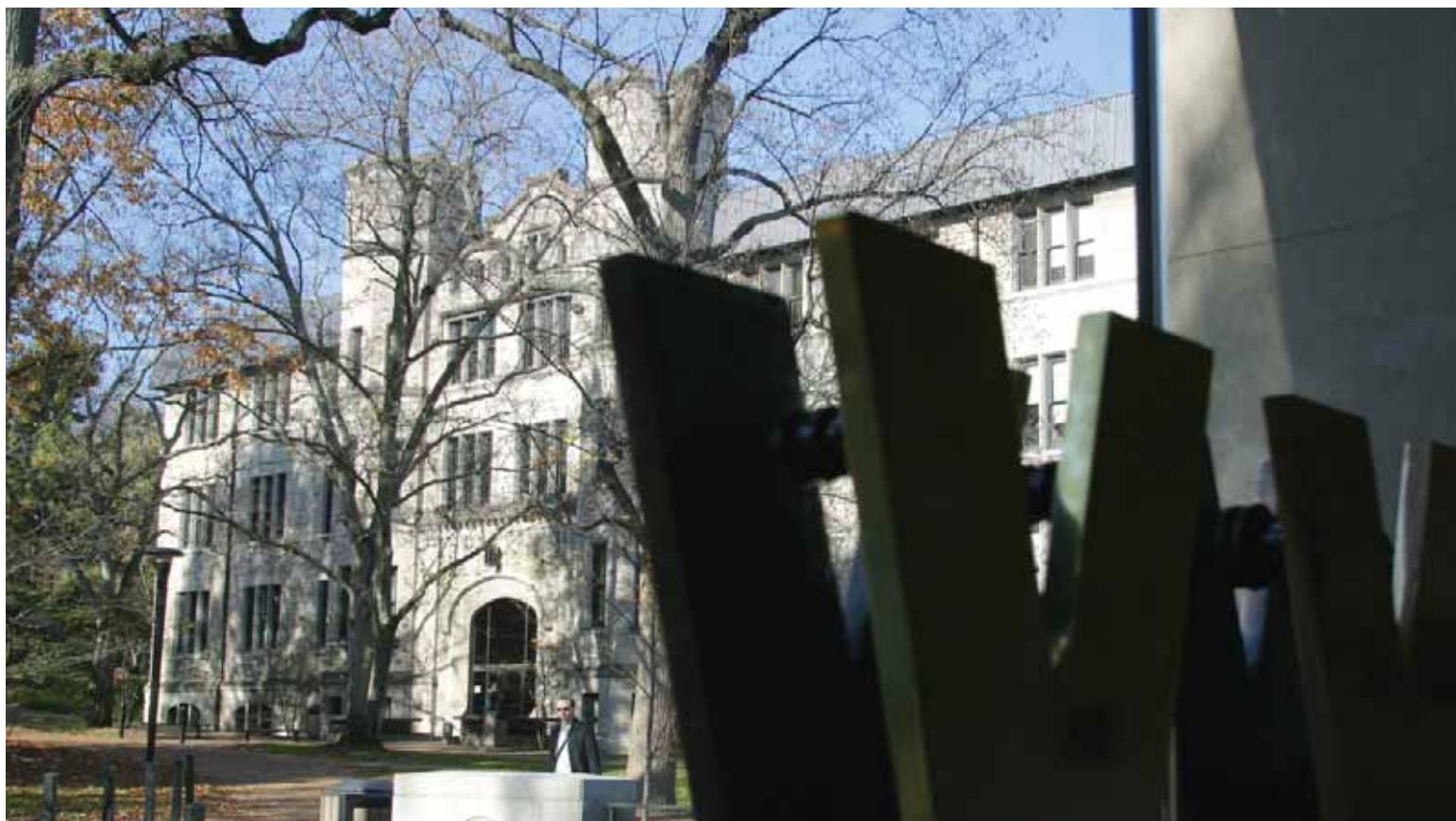
SUMMARY OF CHANGES IN NET ASSETS (IN MILLIONS)

	2008	2007
Unrestricted operating results	\$ 50.9	\$ 81.5
Non-operating endowment and investment activity, net of endowment distributions	(56.2)	552.6
Non-operating gifts and pledges for plant, endowment, and temporarily restricted purposes	70.2	55.4
Other non-operating results, net	(99.8)	2.4
Total (decrease) increase in net assets	\$ (34.9)	\$ 691.9
Ending balance of net assets	\$ 4,982.8	\$ 5,017.7

Vanderbilt's operating results include endowment distributions and net gains on unrestricted, non-endowment investments. Separately, non-operating endowment and investment activity is reported net of endowment distributions to fund operating activities. Despite negative equity markets, returns on Vanderbilt's endowment totaled a positive 2.1% in fiscal 2008. Net of endowment distributions, the endowment return rate resulted in negative \$56.2 million of non-operating endowment and investment activity in fiscal 2008. By comparison, in fiscal 2007 the endowment experienced a return rate of 21.9% and net activity totaling \$552.6 million.

Contributing to the change in net assets in both fiscal 2008 and 2007 were \$70.2 million and \$55.4 million, respectively, of new gifts and pledges for plant, endowment, and temporarily restricted purposes. In particular, donor-endowed gifts comprised a majority of these amounts and contributed to overall increases in the endowment market value. Endowment return rates and net growth, as described above, will fluctuate from year to year; however, the long-term growth and impact of the endowment greatly depends upon the annual inflow of endowed gifts.

Finally, other non-operating results decreased by \$99.8 million in fiscal 2008 as compared to an increase of \$2.4 million in fiscal 2007. The decline was primarily attributable to an unrealized \$87.1 million mark-to-market loss on interest rate swap agreements reported in fiscal 2008.



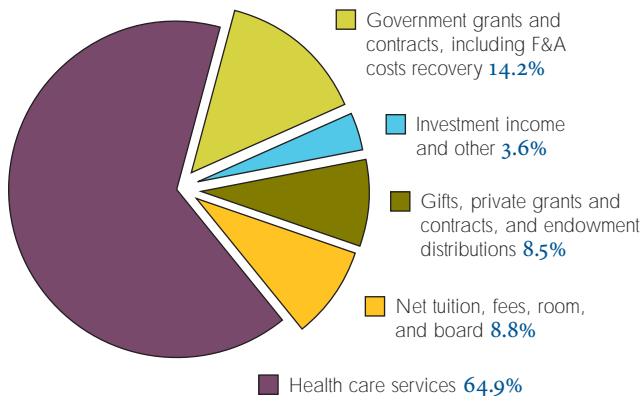
Operating Revenues and Expenses

UNRESTRICTED OPERATING RESULTS

Vanderbilt's net operating results totaled \$50.9 million in fiscal 2008 and \$81.5 million in fiscal 2007. Most of the year-to-year decline can be attributed to net operating gains on investments, which were unusually strong in fiscal 2007 and relatively modest in fiscal 2008.

OPERATING REVENUES BY SOURCE

\$2,887.6 MILLION IN FISCAL 2008



Operating revenues totaled \$2,887.6 million in fiscal 2008. The graph above illustrates the proportional revenues by source contributing to our operating performance.

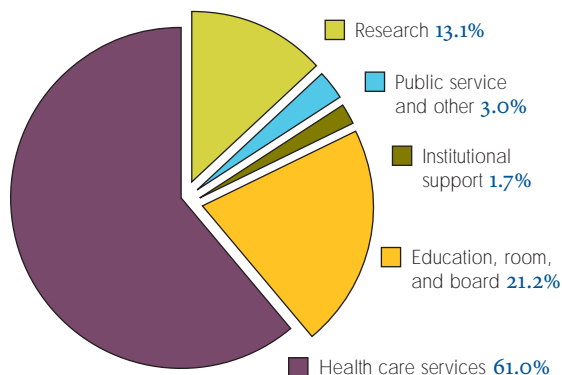
Vanderbilt's health care services revenue, which constituted 64.9% of total operating revenues, increased by 7.2% in fiscal 2008 due to negotiated contract rate increases and annual rate escalators combined with a continuing trend of increased patient care volumes.

Among the university's other operating revenues, government grants and contracts revenue, including indirect costs recovery, constituted 14.2% of total operating revenues in fiscal 2008. Growth in these revenues continued despite Congressional restraints on federal research budgets. Vanderbilt's outlook remains bright as indicated by a second straight year of sponsored research and project awards totaling more than \$500 million, which includes amounts for research in fiscal 2008 and future years.

Tuition, fees, room, and board revenues, net of student financial aid, increased 10.6% and accounted for 8.8% of total operating revenues in fiscal 2008. The university implemented a 5.5% increase in the undergraduate tuition rate to \$34,414 for the academic year. The effect of enrollment increases largely was offset by planned strategic increases in student financial aid.

OPERATING EXPENSES BY FUNCTION

\$2,836.7 MILLION IN FISCAL 2008



Operating expenses totaled \$2,836.7 million in fiscal 2008. These expenses are depicted by functional classification in the consolidated statements of activities and in the chart above.

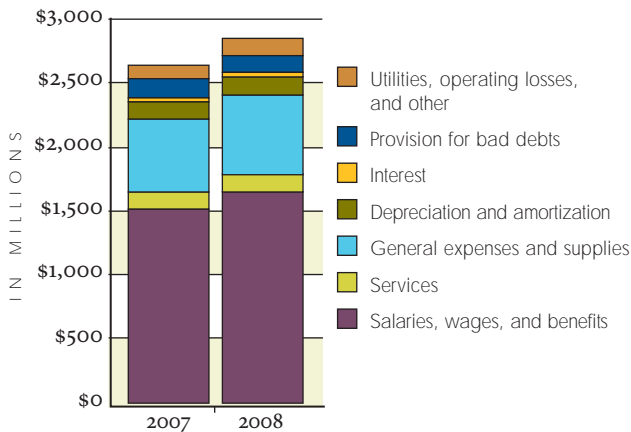
Education, room, and board expenses, which include instruction and other student-related services reported in the consolidated statements of activities, comprised 21.2% of total operating expenses in fiscal 2008. To support operating expenses for the core function of educating students we rely upon operating gifts, endowment support, and other alternative sources of revenue in addition to revenues generated from tuition, fees, room, and board charges.

Meanwhile, the proportion of operating expenses related to health care services and research comprised a combined 74.1% of total operating expenses in fiscal 2008. These expenses were more than offset by operating revenues generated from health care payors and government funding agencies.



OPERATING EXPENSES BY NATURAL CLASSIFICATION

\$2,836.7 MILLION IN FISCAL 2008



Vanderbilt’s total operating expenses increased by 7.0% in fiscal 2008. While the consolidated statements of activities and the preceding pie chart present operating expenses by function, the chart above depicts operating expenses by natural classification type.

Salaries, wages, and benefits expenses increased 8.4% from the prior year to total \$1,652.8 million in fiscal 2008. Vanderbilt’s faculty and staff levels increased about 4%, particularly in the research and patient care areas, and the remaining increase in salaries, wages, and benefits resulted from pay rate increases and modest increases in fringe benefit costs. Health promotion initiatives for faculty and staff have helped the university mitigate the growth in health care benefit costs over the past few years.

Depreciation and amortization expenses increased from \$130.4 million in fiscal 2007 to \$141.3 million in fiscal 2008, consistent with expectations established in our capital plans. While total interest expense increased to \$37.3 million in fiscal 2008, Vanderbilt’s debt service burden remained relatively low. Despite volatile credit markets, interest rate swap agreements and debt structuring strategies enacted within the past few years yielded stable average interest rates of 3.5% and 3.6% on Vanderbilt’s debt portfolio in fiscal 2008 and 2007, respectively.

The provision for bad debts expense, also reflected in the bar graphs, decreased from \$146.5 million in fiscal 2007 to \$119.7 million in fiscal 2008. The decline in bad debt expense was due to the implementation of new financial assessment tools and procedures that more accurately identify indigent charity care patients previously classified as bad debt expense. These changes provided high-quality financial information for more realizable patient billing.

Students

Vanderbilt's leadership remains committed to the academic priorities listed below:

- create a unique and outstanding undergraduate experience that educates the whole person;
- hire and retain extraordinary faculty in strategic areas;
- implement a unique curriculum and areas of inquiry for undergraduate, master's, doctoral, and professional school students;
- create new places for learning, discovery, and belonging; and
- emphasize the associative aspects of learning and discovery through real-life experiences.

At Vanderbilt, our philosophy for undergraduate education is to focus on the whole person, and not solely on a student's achievements in the classroom. Students in our unique and unparalleled undergraduate programs benefit from an enriched, dynamic environment created by a community composed of highly talented and qualified students of all economic, cultural, and geographic backgrounds.

The Commons, our new living and learning experience for all freshmen had a successful launch as we opened the new academic year. As we celebrate the success of The Commons, the academic leadership team is busily making plans for the further development of residential colleges at Vanderbilt.

Long-term capital enhancements, discussed on page 36, are a critical component of our strategic initiatives as we strive to ensure that our students and faculty have the campus facilities in place to enhance their opportunities for learning and discovery.

Our commitment to all aspects of student life has cultivated increased demand for the Vanderbilt experience. The number of undergraduate applications for fall 2008 reached an all-time high exceeding 16,900, up over 30% from the previous year. Also, Vanderbilt continues to experience impressive gains in the quality and diversity of students attracted to our campus.

The average SAT profile score for incoming freshmen has risen by more than 50 points in the past six years and, during that same time, more international students have enrolled and the percentage of domestic minority freshmen has risen to more than 23%.

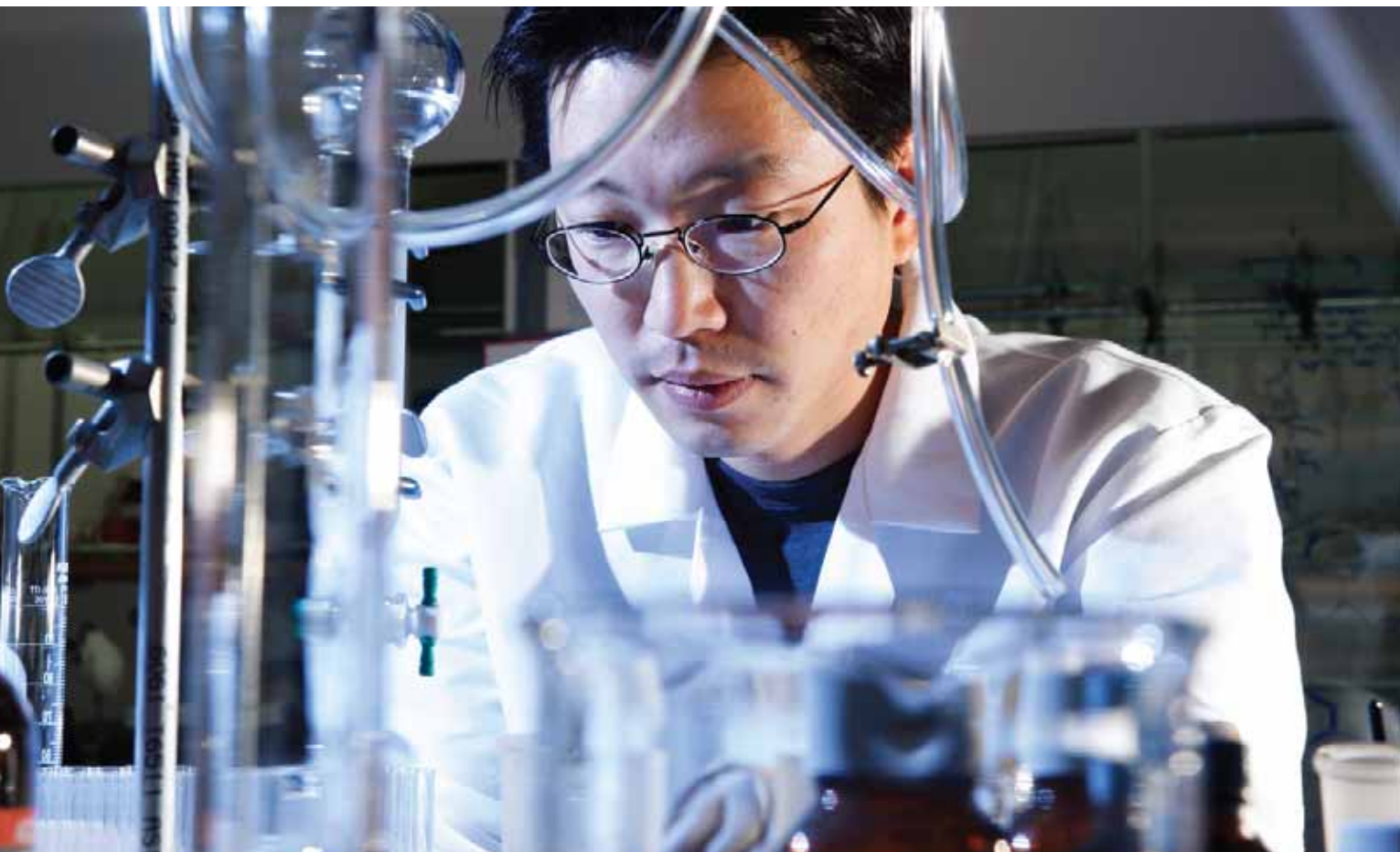
As the result of initiatives implemented over the past few years, Vanderbilt's latest freshman retention rates are at 96% and the university graduates nearly 90% of its undergraduates within six years.

Meanwhile, Vanderbilt's intense focus on each student's academic experience has allowed the university to recruit and retain outstanding faculty. As student quality has improved, so has the quality of our faculty. This synergy results in stronger graduate programs and increases in external funding.

Student quality and diversity are also prominent in Vanderbilt's graduate and professional school admissions. For example, the Graduate School had almost 6,000 applications for about 450 student slots in the fall of 2008. The latest entering doctoral class was more diverse and of higher caliber than any in the past five years. Also, the School of Medicine is attracting the very best candidates in the country, garnering more than 5,000 applicants for 105 student slots. The latest entering class to the School of Medicine is widely diverse, with 20 of the 105 students coming from groups that are under-represented in medicine. The School of Medicine's average MCAT scores and GPAs rank among the top tier of all medical schools in the country.

Finally, Vanderbilt's leadership remains dedicated to improving the affordability of a Vanderbilt education. As outlined in the Letter from the Chancellor earlier in this report, Vanderbilt plans to eliminate need-based loans from its financial aid packages and, depending on each student's circumstances, replace those loans with grants and scholarships. Through this initiative, we believe that Vanderbilt will increasingly attract and retain outstanding students, regardless of their financial needs.





Faculty and Research

As Vanderbilt has transformed itself from a strong regional university to an internationally recognized research university, its impact on the world has increased dramatically. Today, Vanderbilt's faculty are leading research with ground-breaking consequences in areas ranging from local public school education to the environment, from personalized medicine to global health, from organ growth to the cosmos.

While the term "bench-to-bedside" has often been associated with medical research, we extend that same notion to all of our research, with the ultimate goal of serving humanity and improving the world. With that in mind, Vanderbilt's faculty are performing critical research to extend beyond the theoretical to the impactful.

Faculty at Vanderbilt's Peabody College are among the country's leading experts on public education. Under the leadership of James Guthrie, professor of public policy and education, the Peabody Center for Education has become the foremost authority on the issue of teacher pay-for-performance. The center recently received a \$10 million award from the U.S. Department of Education to test the efficacy of

providing public school teachers with extra pay for raising student performance. As Guthrie explains, "Ever since I was a high school science teacher I've been interested in changing the way that teachers are compensated, but doing so very carefully because we don't want to damage anything."

Environmental climate change is widely regarded as one of the most difficult problems facing modern society. Faculty within the Vanderbilt Climate Change Research Network are working to improve our understanding of individual behavior on the environment. The network combines researchers from earth and environmental sciences, political science, law, engineering, management, economics, and nursing. Their goal is to identify legal, economic, and social factors that encourage individuals and their families to reduce greenhouse gas emissions. One of their first projects has been to analyze and assess the different methods used to calculate "carbon footprints."

In health care, one of the most tantalizing prospects for the future is personalized medicine: the capability to tailor health care to each individual's genetic makeup. Our researchers are playing a key role in making this a reality. For instance,

a Vanderbilt team is probing the genetic traits underlying heart rhythm variations. At the same time, Vanderbilt faculty are exploring issues of privacy, confidentiality, and interactions with the broader community.

Globally, Vanderbilt is making an impact in world health. In the last two years, Vanderbilt’s Institute for Global Health has received federal grants to provide HIV/AIDS treatment and prevention services in Nigeria and Mozambique—countries where nearly five million people are inflicted with the disease. New treatment programs cannot keep pace with the epidemic spread of new HIV cases. So, while treatment efforts are essential, prevention measures are crucial. Thus, Vanderbilt doctors are providing HIV counseling, testing, prevention, and treatment efforts in Africa, while gaining knowledge to impact ongoing research in Nashville.

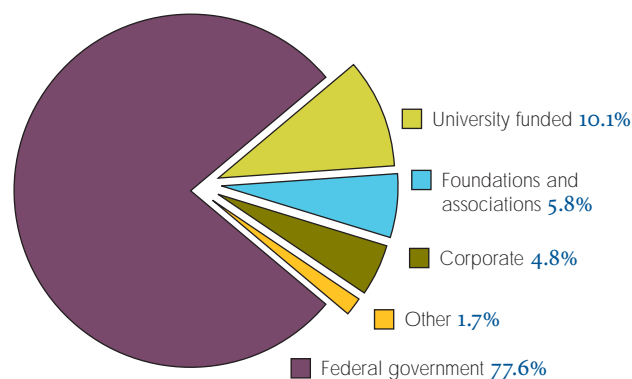
Some research now occurring was only recently in the realm of science fiction. A group of Vanderbilt researchers are part of a multicampus initiative called the System-Based Consortium for Organ Design and Engineering, which is researching ways to generate replacement organs and organ parts. The Vanderbilt team is working to grow replacement heart valves from a patient’s own stem cells. The project is part of a National Institutes of Health (NIH) initiative to speed scientific discoveries from the bench (research) to the bedside (patient care).

Moving to the cosmos, Keivan Stassun, associate professor of astronomy, heads up an effort to put Vanderbilt at the forefront of the digital revolution in the new discipline of “astro-informatics,” which exists at the interface of astronomy, physics, computer science, statistics, and information science. The Vanderbilt Initiative in Data-Intensive Astrophysics (VIDA) fosters research and training interactions among Vanderbilt’s astronomers, physicists, and informaticists. Among other goals, the program aims to make Vanderbilt the national leader in the training of underrepresented minorities earning Ph.D.’s in physics and astronomy. Through a cooperative agreement with the University of Cape Town, one of VIDA’s first major projects is the construction and installation of a specially designed telescope in South Africa to discover planets around other stars.

The costs of particular research initiatives, such as those described here, are largely funded through grants and contracts from government sources, foundations, associations, and corporations. Sponsored research and project awards, which include multiple-year grants and contracts, totaled \$521.0 million in fiscal 2008.

As illustrated in the graph below, Vanderbilt’s research expenditures totaled \$444.3 million in fiscal 2008, inclusive of indirect facilities and administrative costs related to research. The federal government funded 77.6% of the university’s research expenditures—and the Department of Health and Human Services, primarily through the NIH, provided about 82% of that federal research support.

RESEARCH EXPENDITURES—FUNDING BY SOURCE
\$444.3 MILLION IN FISCAL 2008
(INCLUDING INDIRECT COSTS)



While the majority of Vanderbilt’s research is funded by the federal government, foundations and associations have contributed to an increasing percentage of sponsored research over the past few years, supporting \$25.9 million, or 5.8% of research expenditures, in fiscal 2008. Further, the university internally funded 10.1% of research in fiscal 2008, which is consistent with recent years. In addition to the research represented in the pie chart above, Vanderbilt faculty participate in many departmental research efforts.

Health Care

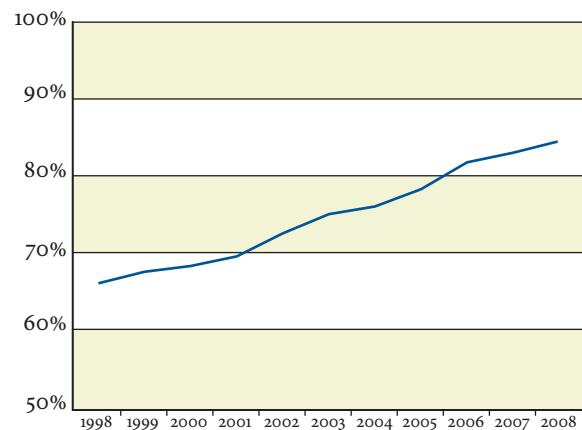
Vanderbilt's hospitals, clinics, and physician clinical practices continue to be the primary contributor to the university's total net operating results. Health care services revenue increased by 7.2% from the prior year and comprised 64.9% of the university's total operating revenues in fiscal 2008.

Revenue increases occurred due to negotiated rate increases and patient volume increases. Compared to the prior year, fiscal 2008 hospital patient discharges increased 2.2%, clinic outpatient visits increased 7.6%, and emergency visits increased 4.9%, while surgical operations increased 4.8% (including services provided at off-site ambulatory surgery centers). These factors were all critical to the overall growth in revenues.

Fiscal 2008 was a year of significant investment in the ambulatory practice as the clinical enterprise continued to advance its strategy of growth and outreach. On campus, the new Vanderbilt Eye Institute opened in March 2008. Also, we neared completion of the first phase of renovations at the Vanderbilt-Ingram Cancer Center. In the outlying communities, practice acquisitions were completed in rheumatology and ophthalmology and there was a large expansion of our orthopedics practice. New physician clinics were opened in several locations and, in total, more than 20 new physician providers were added in the outlying communities. As a result of these initiatives, Vanderbilt experienced more than 1,000 additional hospital admissions, including an 8.7% increase in cardiology patients and a 14.4% increase in cardiac surgery operations. This growth reflects the continuance of Vanderbilt's strategy to serve as the premier cardiovascular center in Middle Tennessee.

Vanderbilt continues to make investments in faculty recruitments focusing on neurological surgery, thoracic surgery, vascular surgery, and general surgery. In addition, substantial investments are being made in both faculty and facilities for the expanding services of the Vanderbilt-Ingram Cancer Center, one of the leading cancer centers in the nation.

PERCENTAGE OCCUPANCY (LICENSED BEDS)



As bed occupancy peaks, we are working creatively to decompress the on-campus hospital by moving outpatient services to community locations while developing new bed capacity on campus. During fiscal 2008, the medical center began working with a local developer to convert one of the oldest shopping malls in Nashville into a health and wellness center. Although the new center, Vanderbilt Health One Hundred Oaks, will not be fully occupied until spring 2009, the pediatric rehabilitation clinic has already begun seeing patients at the new location. Also, the medical center entered into a joint venture with Surgical Care Affiliates for partial ownership of an ambulatory surgery center. This created new operating room capacity and, combined with an existing ambulatory surgery joint venture, allowed almost 4,200 ambulatory surgical operations to be moved off campus and provided increased capacity for high-intensity inpatient surgical operations. In addition, great progress has been made in the construction of the new adult hospital critical care tower, scheduled to open in October 2009, which will add more than 120 new beds to the inpatient capacity.

Within the university's hospitals, the average length of stay for patients remained consistently low in fiscal 2008. The low length of stay, combined with one of the highest acuity indexes in the nation, primarily emanates from the implementation and refinement of new and existing clinical pathways focused on evidence-based medicine that improve the quality of care, reduce costs, and assist in more efficient and timely patient discharge planning. As evidence of this high quality of care, Vanderbilt has the fourth lowest mortality index in the nation among academic peer facilities. In addition, the Vanderbilt University Medical Center was recently rated as having the 15th best hospital in the nation by *U.S. News and World Report*.

The following table shows payor mix percentages based on gross patient revenues for Vanderbilt's hospitals and clinics in fiscal 2008, with a comparison to five years prior. Vanderbilt continues to see a decline in the percentage of TennCare (Medicaid) patients. Two new TennCare managed care organizations have been very effective in developing broader physician and hospital provider networks that allow health care services to be provided in the local communities other than through Vanderbilt.

PAYOR MIX

	2008	5 years prior
Managed care	42.9%	33.5%
Medicare	21.2	21.3
TennCare (Medicaid)	17.7	22.3
Commercial indemnity	9.7	12.8
Uninsured (self pay) and other	8.5	10.1
Total	100.0%	100.0%

Management remains focused upon new initiatives to improve patient throughput and patient access to care. These strategies are critical to enhanced financial performance for the present and future. These initiatives include the redesign of clinic operations, continued implementation of clinical applications to support pharmacy administration and nurse documentation, and the ongoing review of clinical programs. Overall, the clinical enterprise contributed greatly to the university's positive consolidated operating results in fiscal 2008.

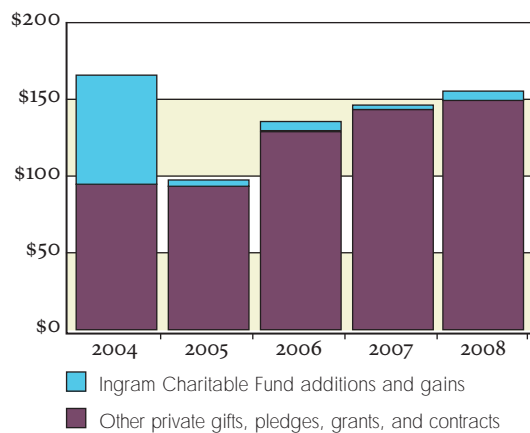


Philanthropy

Philanthropic support is vital to Vanderbilt in carrying out its mission of educating students, pursuing research and discovery, serving the public, and advancing patient care. Contributions and funding provided by alumni, parents of students, friends, corporations, foundations, and other organizations allow Vanderbilt to excel at meeting its mission. Endowment contributions, capital project gifts, and annual giving to Vanderbilt secure both the university's excellence and its financial strength.

Private gifts, pledges, grants, and contracts recognized in fiscal 2008 for operating, plant, and endowed purposes totaled \$157.6 million. Independent of Ingram Charitable Fund gift activity totaling more than \$400 million over the past decade, fiscal 2008 marked the best year of comprehensive private funding in Vanderbilt's history.

PRIVATE GIFTS, PLEDGES, GRANTS, AND CONTRACTS (OPERATING, PLANT, AND ENDOWMENT, IN MILLIONS)



During the year, Vanderbilt's *Shape the Future* campaign crossed the important milestone of \$1.5 billion climbing toward the goal of \$1.75 billion by December 2010. Since the campaign began eight years ago, 168,000 donors have made gifts or pledges in support of Vanderbilt.

With approval of the university's Board of Trust, *Shape the Future's* secondary goal for new bequest intentions was increased from \$100 million to \$150 million in November 2007. Soon after, generous alumni, parents, and friends exceeded the original campaign goal for bequests that, in years hence, will allow Vanderbilt to reach new heights.

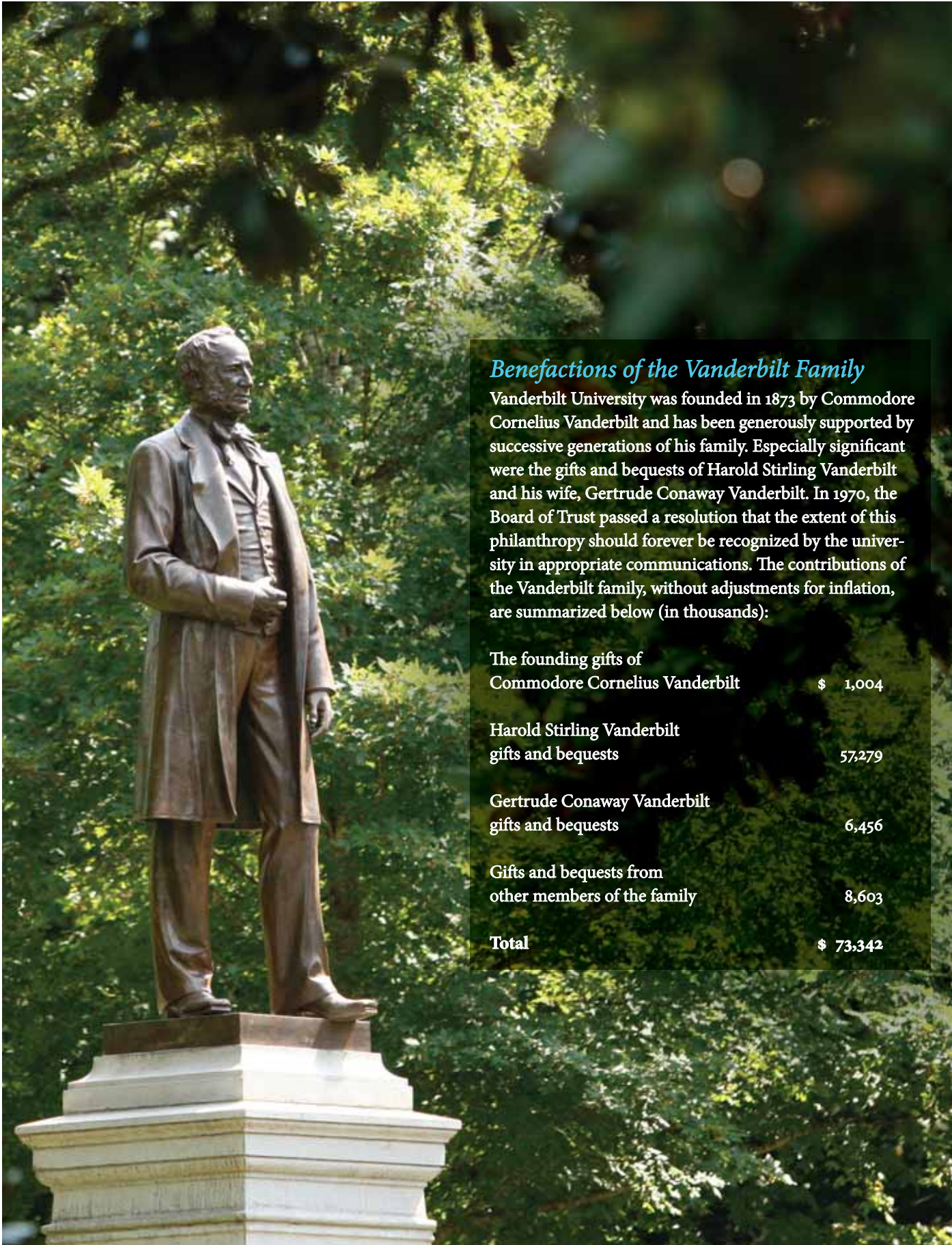
Much of the campaign's success can be attributed to the strong leadership of the late Monroe Carell, Jr., who served as chair from the earliest planning stages. He left a legacy of generous philanthropy which supports vital institutional priorities from scholarships to faculty chairs to the nationally recognized children's hospital that bears his name. His commitment to Vanderbilt and the success of *Shape the Future* continues to inspire other donors and staff alike.

Carrying on the torch of Carell's visionary leadership of *Shape the Future*, H. Rodes Hart has joined vice-chair Orrin H. Ingram II to lead the campaign through its conclusion. Together, they will work to advance and expand the possibilities the campaign can bring to Vanderbilt and its mission.

In 2008, the university announced an expanded aid program to eliminate need-based loans from its undergraduate financial aid awards. This is a powerful challenge with powerful potential. To ensure future funding of this ambitious plan, Vanderbilt is seeking additional gifts and pledges of \$100 million for endowed scholarships by 2011.

Greater institutional investment in resources and staffing in Development and Alumni Relations will strengthen and expand Vanderbilt's fundraising capacity for the completion of *Shape the Future* and beyond. Also, the designated position of vice chancellor for development and alumni relations has been reinstated with a candidate search currently underway.

As we look to the future, we recognize and acknowledge the importance of philanthropic support provided by the university's constituencies of alumni, parents, friends, corporations, and foundations. As an institution devoted to the goals of scholarly research, informed and creative teaching, and service to the community and society at large, Vanderbilt pledges conscientious stewardship and innovative implementation to achieve these goals and most effectively serve humankind.



Benefactions of the Vanderbilt Family

Vanderbilt University was founded in 1873 by Commodore Cornelius Vanderbilt and has been generously supported by successive generations of his family. Especially significant were the gifts and bequests of Harold Stirling Vanderbilt and his wife, Gertrude Conaway Vanderbilt. In 1970, the Board of Trust passed a resolution that the extent of this philanthropy should forever be recognized by the university in appropriate communications. The contributions of the Vanderbilt family, without adjustments for inflation, are summarized below (in thousands):

The founding gifts of Commodore Cornelius Vanderbilt	\$ 1,004
Harold Stirling Vanderbilt gifts and bequests	57,279
Gertrude Conaway Vanderbilt gifts and bequests	6,456
Gifts and bequests from other members of the family	8,603
Total	\$ 73,342

Capital Investments

Vanderbilt continues to invest capital in its infrastructure to ensure that the university's varied facilities are of the highest quality to solidify Vanderbilt's premier status in today's competitive research, patient care, and higher education environments.

As we invest in new construction and renovations, we remain focused on the ultimate purpose of capital investments: not just to build attractive facilities, but to create places for faculty, physicians, and students to excel. As Chancellor Zeppos recently noted during a tour of new research space, "Investments in state-of-the-art facilities are really investments in extraordinary scientists who are making important breakthroughs."

In the summer of 2008, one of Vanderbilt's premier initiatives, The Commons, the first phase of College Halls at Vanderbilt, was completed to house each year's incoming freshman class beginning in the fall of 2008. This transformative initiative brings together students, faculty, and campus leaders in a living and learning environment designed not only to foster academic excellence, but also to nurture the emotional, social, and community development of its residents. Beginning with the incoming class in the fall of 2008, each year's entire class of first-year undergraduate students will reside in the 10 houses of The Commons. Ten distinguished faculty were selected to serve as resident intellectual and community leaders living, along with their families, in each of the houses of The Commons.

Planning for the next stage of the College Halls initiative, to house students after their freshman year, is underway and will eventually replace the current Kissam Quadrangle at the northeast corner of the main campus.



Another transformative development in fiscal 2008 was the medical center's initial steps to expand onto a second campus at the former 100 Oaks mall site, located less than five miles from the medical center's primary campus. This second campus, Vanderbilt Health One Hundred Oaks, will provide a solution for future clinical growth and preserve space options on the medical center's main campus for growth in inpatient and tertiary services, as well as for basic research programs. At the new location, the medical center has begun renovating and occupying 455,000 square feet of space covered under a lease agreement that provides Vanderbilt with rights to purchase the property at a later date. A portion of the remodeling was completed in February 2008 as the medical center's pediatric rehabilitation department opened the doors to its newly refurbished space, which is more than twice the department's former size.

At the medical center's main campus, construction continues on a new adult hospital critical care tower addition, which, by fiscal 2010, will provide additional acute care beds to accommodate ongoing growth in surgical operations and cardiovascular services. The nine-story addition is adjacent to the





hospital's current south tower and will also include renovations of nearly 80,000 gross square feet of existing hospital space.

Occupancy of the second phase of Medical Research Building IV, which includes seven floors atop the newly refurbished Langford Auditorium, commenced in early spring 2008. The 385,000-square-foot facility supports Vanderbilt's growth in research activities, which has grown at one of the highest rates in the country over the last several years.

Finally, construction is underway on renovations to various Vanderbilt athletic facilities. Renovations will include upgrading of various entryways into the football stadium, new and expanded football meeting rooms, upgrades to the basketball locker rooms in Memorial Gym, and additional baseball seating at Hawkins Field.

Supported by fundraising efforts, Vanderbilt's leadership undertakes capital planning with a university-wide perspective. This strategic approach allows us to advance with our long-term capital plans in an intentional, coordinated manner.



Debt Portfolio Management

During fiscal 2008, Vanderbilt experienced a net increase of \$0.3 million in outstanding long-term debt, capital leases, and commercial paper (CP) to a balance of \$1,106.2 million as of June 30, 2008. The small increase belies the extent of transactions that actually occurred. The university issued series 2008A and 2008B traditional fixed-rate bonds in April 2008, and the net proceeds were used to refund approximately \$273 million of outstanding CP. Commercial paper had been issued to fund a number of strategic construction projects, including the hospital critical care tower, The Commons, and renovation of space leased at the 100 Oaks mall site. Additionally, in May and June 2008, CP of \$36 million was issued to refund two series of fixed-rate bonds. Principal debt service on long-term bonds and other miscellaneous changes accounted for the remainder of the net change.

As of June 30, 2008, Vanderbilt's debt portfolio had been managed to a near-term allocation of 67% fixed and 33% variable. Despite an overall environment of volatile markets, the structure of the debt portfolio, including hedging transactions entered into in the past several years, resulted in consistent and relatively low overall weighted average costs of capital: 3.5% in fiscal 2008 compared to 3.6% in fiscal 2007.

No doubt it is an understatement to characterize debt portfolio management in recent times as being eventful. Investors, borrowers, and other financial market stakeholders have faced dramatic challenges in deciding how to best proceed in what has looked to be the most troubling period for the world's financial systems since the 1930s. The turmoil has swallowed some of the most storied names on Wall Street. Three of its five major investment banks—Bear Stearns, Lehman Brothers, and Merrill Lynch—have either gone out of business or been forced to merge with another bank. The federal government's takeover of Fannie Mae and Freddie Mac will drastically reshape the home mortgage economy. Other unpredicted events have included announcements of the federal government's purchases of mortgage-related debts as well as guarantees, loans, and equity infusions involving numerous financial institutions.

General deleveraging arising from the credit and liquidity crisis in fall 2008 has yielded many unpredictable results. Further unpredictable outcomes may yet occur. One of the increasingly important lessons is that there is more "interconnectedness" in the capital markets than may be apparent from a cursory glance. Thus, as financial stewards, we take our responsibilities seriously and we know we must continually remain attentive and vigilant. Moreover, we recognize that the relationship between risk and potential rewards may undergo a significant paradigm shift, particularly as the federal government's bailout plans are executed. For an indeterminate period, fractiousness and substantial volatility may continue to be common.

The university continues to rely on what we believe are well-grounded debt portfolio management policies and structures. This framework has enabled Vanderbilt to execute major strategic initiatives while preserving working capital. Our long-term planning process sets forth a capital plan that identifies facility investment priorities. Projects relating to the university's core mission, and those generating net additional revenues, receive priority for debt financing. To finance such investments, Vanderbilt's formal comprehensive debt policy guides the use of long-term debt, CP, and interest rate hedging transactions in optimizing the university's debt portfolio. The utilization of CP over the past few years has continued to provide Vanderbilt with greater flexibility regarding the actual timing and structuring of long-term debt transactions.

Of all the risks inherent in a debt portfolio that includes variable-rate debt as well as synthetic hedging structures, we believe appropriately managing liquidity risk currently tops the list. Of course, our view of relative rank is not intended to unduly diminish the importance of managing other risks such as market risk, tax risk, and counterparty credit exposure. In terms of managing liquidity risk, the university has implemented progressive solutions to not only provide substantial self-liquidity based on Vanderbilt's marketable securities and other investment assets but also on external dedicated lines of credit. Notwithstanding that Vanderbilt continues to be a well-regarded credit by investors, we will continue to monitor and evaluate optimal asset and debt structures and strategies with a focus on long-term financial equilibrium and appropriate risk management.



Conclusion

In 2008, Vanderbilt achieved superior results on a number of fronts as the extraordinary demand for the Vanderbilt experience occurred throughout our university community. We enjoyed a record applicant pool for the Class of 2012, the first freshman class to live and learn together in The Commons. As the first phase of the College Halls initiative, The Commons embodies the true meaning of an undergraduate university experience by bringing together talented students with our outstanding teachers and scholars to live, grow, and learn as an organic Vanderbilt community.

Vanderbilt's financial standing remains strong. The university's hospitals and clinics consistently generate healthy operating margins while garnering national attention as models of achievement, service, and efficiency. Philanthropic

support, especially for endowed scholarships and faculty chairs, has grown tremendously. Vanderbilt continues to attract the best scholars to join its faculty ranks. And Vanderbilt is now one of the nation's top 10 recipients of NIH research awards for biological and health sciences.

Without a doubt, this university is on the right trajectory for continued long-term success. As we progress, we will remain mindful of the risks and challenges that surround us. And we will maintain the vision of Vanderbilt as one university, serving humanity and improving the world.



Lauren J. Brisky

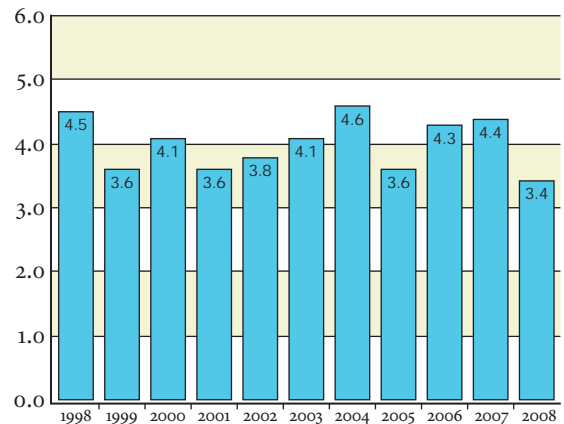
VICE CHANCELLOR FOR
ADMINISTRATION AND
CHIEF FINANCIAL OFFICER

FINANCIAL ratios

Debt Service Coverage Ratio

This ratio measures the ability to cover annual debt service from operating results before interest and depreciation. Each year's change in unrestricted net assets from operating activity, or operating results, is adjusted by interest and depreciation expenses to determine the operating surplus available to make debt service payments. The annual debt service is normalized to assume long-term, level principal and interest payments for all outstanding debt, including commercial paper.

AT VANDERBILT: *The university continues to maintain a healthy debt service coverage ratio. Vanderbilt's most recent 3.4x ratio is consistent with similarly rated private universities having a consolidated hospital. During fiscal 2008, the university's average balance of outstanding debt, and thus debt service, increased as compared to the prior year. The increased debt service, along with a decline in operating results, resulted in a decline in the debt service coverage ratio for fiscal 2008.*

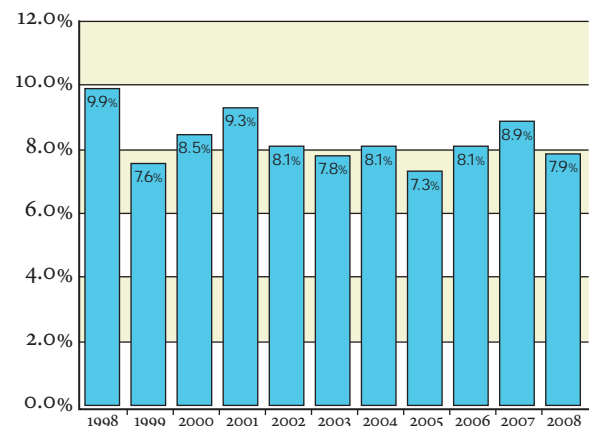


Operating Results before Interest and Depreciation
Normalized Annual Debt Service

Operating Surplus Ratio

This ratio measures the net margin on each dollar of operating revenue. The ratio is defined by each year's operating results before interest and depreciation expenses, or operating surplus, as a percentage of total operating revenues.

AT VANDERBILT: *The operating surplus ratio indicates that the university is effectively managing its operating margins while remaining committed to strategic growth initiatives. In fiscal 2008, Vanderbilt experienced a decline in operating results primarily due to lower gains on non-endowed investments in operating revenues as compared to the unusually strong prior year. This caused a decline in the operating surplus ratio from 8.9% in fiscal 2007 to 7.9% in fiscal 2008. Nonetheless, it is worth noting that, exclusive of each year's gains on non-endowed investments in operating revenues, Vanderbilt's operating margin increased in fiscal 2008 to its highest level in more than five years.*

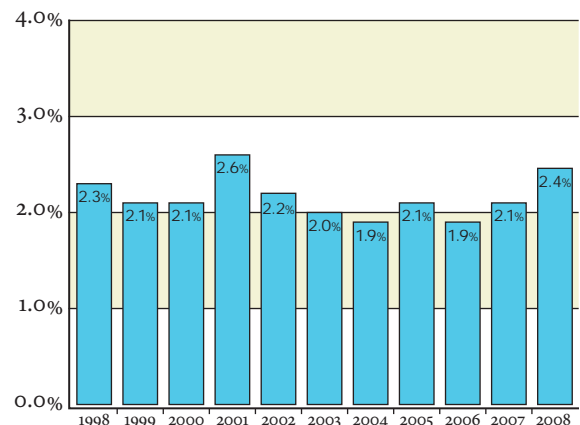


Operating Results before Interest and Depreciation
Total Operating Revenue

Debt Service Burden

This measurement is defined by normalized annual debt service as a percentage of total operating expenses.

AT VANDERBILT: *The university has maintained a low debt service burden throughout the past decade as annual debt service has grown at a pace somewhat consistent with the growth in the university's total operating base. Recent increases in the debt service burden to 2.4% in fiscal 2008 are the result of debt financing for major strategic capital projects, including the critical care tower, Vanderbilt Health One Hundred Oaks, and The Commons—the first phase of College Halls at Vanderbilt.*

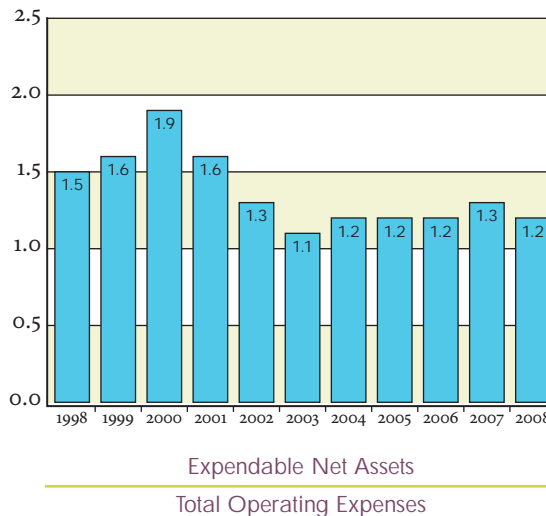


Normalized Annual Debt Service
Total Operating Expenses

Primary Reserve Ratio

This ratio measures financial strength by indicating how many years an institution could operate using its expendable net assets without relying on additional resources generated by operations. Expendable net assets consist of all unrestricted and temporarily restricted net assets other than amounts comprising the net investment in property, plant, and equipment.

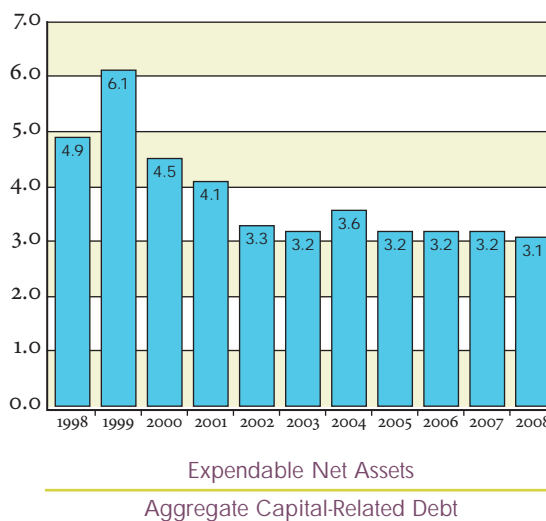
AT VANDERBILT: *The university's expendable net assets have consistently exceeded a full year's worth of operating expenses. Extraordinary endowment returns bolstered this ratio in the late 1990s through fiscal 2000. Then, in fiscal years 2001 and 2002, negative return rates on investments caused declines in the primary reserve ratio. Since 2003, Vanderbilt's primary reserve ratio has remained stable between 1.1x and 1.3x.*



Viability Ratio

This ratio measures the availability of expendable net assets to cover aggregate capital-related debt should an institution need to settle its obligations immediately. Aggregate capital-related debt includes long-term debt, capital project-related commercial paper, capital leases, and debt guaranty commitments.

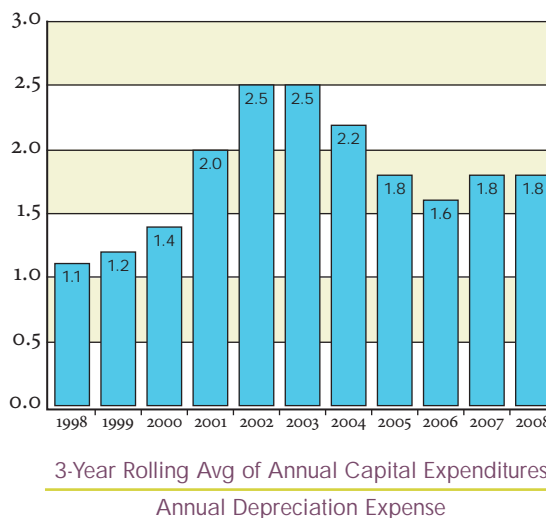
AT VANDERBILT: *This ratio is heavily influenced by new debt issuances, growth in the endowment, and operating results. Changes in Vanderbilt's viability ratio over the past several years have been consistent with strategic capital plans. A low return rate on the university's endowment in fiscal 2008 caused a slight decline in the viability ratio. Still, Vanderbilt's viability ratio of 3.1x as of June 2008 compares favorably to similarly rated private universities having a consolidated hospital.*



Capital Expenditures to Depreciation

This ratio measures the rate of capital expenditures as compared to annual depreciation of existing assets. A ratio above 1.0x indicates that an institution is in a growth mode. A ratio below 1.0x indicates that an institution may not be investing in its facilities and equipment at a rate fast enough to maintain its plant condition.

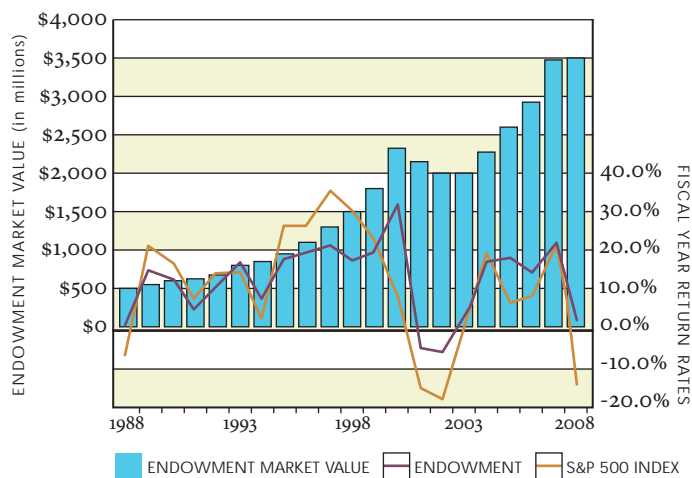
AT VANDERBILT: *The university's capital investment activity peaked in 2002–2003 with construction of the Biological Sciences Building/Medical Research Building III, the Monroe Carell Jr. Children's Hospital at Vanderbilt, and the School of Engineering's renovated and expanded facilities. In recent years this ratio has remained well above 1.0x as construction activity has progressed for Medical Research Building IV, the critical care tower, Vanderbilt Health One Hundred Oaks, The Commons, and other strategic capital projects.*



ENDOWMENT review

On the heels of the prior fiscal year's 20.6% return for the S&P 500, fiscal 2008 marked the first negative return for equity markets since 2003. The market faltered in response to escalating concerns regarding sub-prime mortgage defaults. Such defaults precipitated an unprecedented credit crisis exposing ills within the financial sector, which ultimately stifled liquidity and depressed economic growth. Despite a tumultuous market environment in which the S&P 500 fell 13.1% over the 12-month period ending June 30, 2008, the endowment preserved capital by posting a positive 2.1% return net of fees and expenses. Including gifts, distributions, and investment performance, the endowment ended the year with a \$3.495 billion total market value. By comparison, the ending market value for the prior fiscal year was \$3.488 billion. The endowment's annual spending distribution from pooled investments totaled \$132.4 million versus the prior year's \$116.5 million.

ENDOWMENT MARKET VALUE AND RETURN RATES



Consistent with prior periods of market dislocation, the endowment's broad diversification across a number of asset classes and strategies enabled positive returns despite significant declines by equity markets. While fiscal 2008 marked a challenging year for global equities, allocations to fixed income and natural resources proved favorable. Long-term Treasuries posted a 12.7% return as the Federal Reserve cut interest rates by 325 basis points and investors sought the safety of these securities. In addition, the continual demand for commodities and other raw materials within developing markets resulted in strong returns within the natural resources asset category. For the year, natural resource investments in energy and timber posted benchmark returns of 41.1% and 15.8%, respectively. Vanderbilt's investments within private oil, gas, and timber partnership funds represented approximately 5% of the overall endowment.

On a relative basis the endowment's 2.1% return for the fiscal year exceeded its policy benchmark return by 20 basis points. The policy portfolio is an internal benchmark consisting of a weighted average of various indices representative of the target investment portfolio, designed to achieve maximum long-term performance at an acceptable risk level. The difference between the endowment's performance and the policy benchmark represents the outcome of tactical decisions to overweight or underweight particular investments relative to the target portfolio and the selection of active managers who outperform a passive portfolio as represented by market indices.

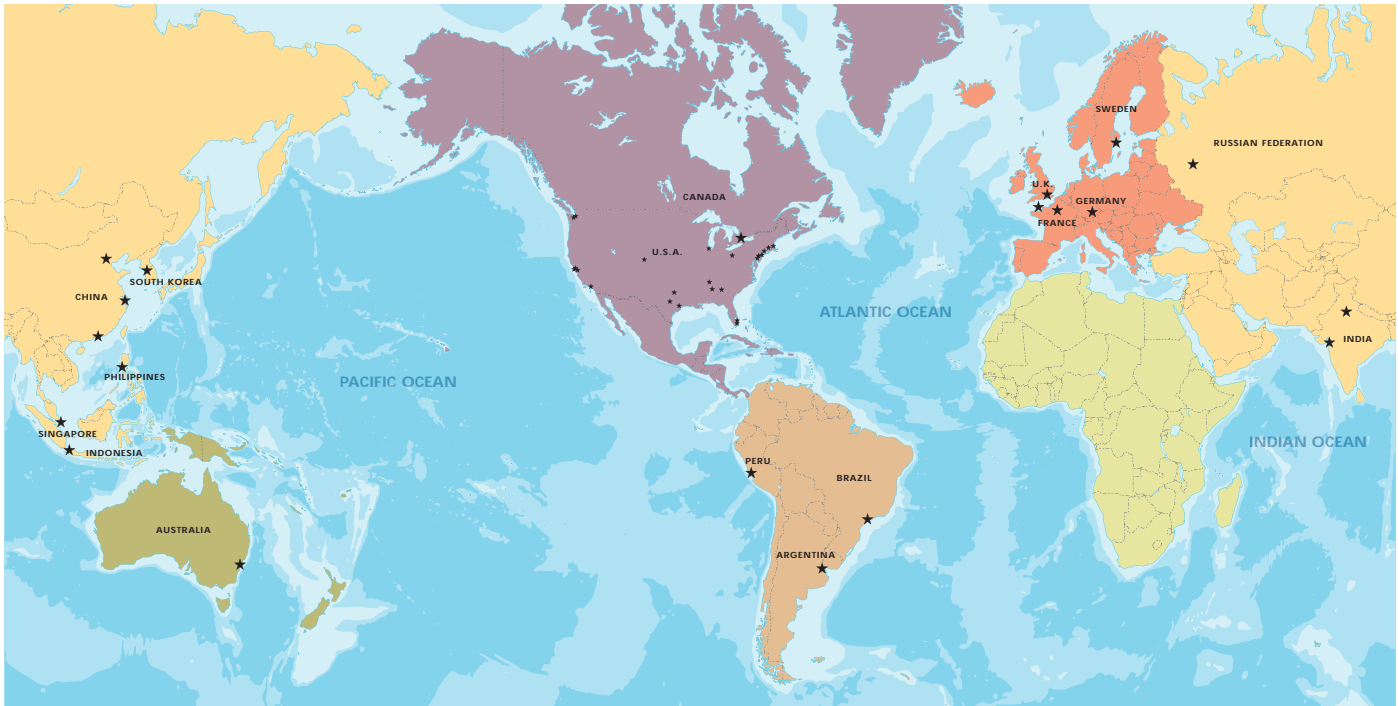
Several measures were taken by our office to add value during the year, such as reducing equity market exposure, terminating underperforming funds, and increasing cash positions. Within our underlying investments, favorable manager selection within global and private equity, fixed income, and natural resources contributed positively to relative performance. Despite such efforts, relative performance was hampered by underperforming managers within other alternative investments such as absolute return and real estate.

VANDERBILT UNIVERSITY ENDOWMENT ASSET ALLOCATION JUNE 2008 (% OF PORTFOLIO)

Asset Category	Actual	Policy Target
Global Equities	38.9%	40.0%
Fixed Income	10.1	10.0
Absolute Return	18.4	20.0
Cash	1.1	0.0
Total Marketable	68.5	70.0
Private Equity Markets	18.3	15.0
Real Estate	7.7	10.0
Natural Resources-Energy	4.0	3.5
Natural Resources-Timber	1.5	1.5
Total Non-Marketable	31.5	30.0
Total Endowment	100.0%	100.0%

Fiscal 2008 also marked a transitional year due to a change in leadership within the Office of Investments. After 22 years of service, William T. Spitz retired as vice chancellor for investments and treasurer last summer. We remain committed to continuing Vanderbilt's legacy of superior investment performance and have implemented a number of strategic initiatives to further this legacy. We seek to do so by broadening the scope and structure of the organization and increasing the portfolio's global breadth within a risk-controlled construct.

LOCATIONS OF INVESTMENT MANAGERS WITHIN VANDERBILT'S ENDOWMENT



During the year we instituted a number of new systems and policies to enhance our due diligence and monitoring efforts. In addition, we hired eight professionals including six investment professionals and two investment administration specialists. In total, our office now has 16 people of which 10 are investment professionals. This expansion will greatly improve our depth and capabilities in the areas of audit, credit, derivatives, reporting, financial market and manager research, and risk oversight. With these enhancements, we are now better positioned to navigate the challenges associated with overseeing Vanderbilt's investment portfolio, which currently has a 50 percent allocation to alternative strategies and a global presence that spans across a number of strategies, sub-strategies, relationships, and continents. Another major focus for the year was to expand and deepen relationships internationally, most notably within frontier and emerging markets in Asia, Eastern Europe, and South America. A number of investments were initiated in these markets across both traditional and alternative strategies. We will continue to explore opportunities in these regions, as we consider them vital enablers to future performance.

In closing, our transition initiatives are now complete. Despite a challenging year within the financial markets, we are pleased to report that the endowment generated a positive 2.1% return. Both my team and I are excited about the future and look forward to furthering the investment initiatives that directly align with the innovative spirit of Vanderbilt.



Matthew W. Wright, C.F.A.

VICE CHANCELLOR FOR INVESTMENTS





RECYCLE

Vanderbilt students were active in planning The Commons, and Vanderbilt student organization SPEAR (Students Promoting Environmental Awareness and Recycling) was the impetus behind the university applying for LEED certification. Factors assessed by LEED include site planning, water management, energy management, material use, indoor environmental air quality, and innovation in the design process.

- Food prep waste from the dining facility is composted behind the center to educate the campus community about the benefits of composting and provide nutrients for campus flowerbeds.
- Recycling is supported at The Commons Center and throughout the university with recycling bins in buildings and along walkways, plus a recycling initiative when students move out at the end of each academic year.
- The student-run Vanderbilt Biodiesel Initiative uses waste cooking oil from The Commons Center and other Vanderbilt dining facilities to create biodiesel fuel that is used in university vehicles.
- The beautiful and durable terrazzo flooring used in The Commons residence halls is also earth-friendly, made from bits of recycled glass and porcelain from discarded bottles, mirrors, sinks, and tubs.





independent auditors' REPORT

BOARD OF TRUST, THE VANDERBILT UNIVERSITY:

We have audited the accompanying consolidated statements of financial position of The Vanderbilt University and subsidiaries (Vanderbilt) as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Vanderbilt's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Vanderbilt University and subsidiaries as of June 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

KPMG LLP

October 13, 2008

Consolidated Statements of Financial Position

<i>As of June 30, 2008 and 2007 (in thousands)</i>	2008	2007
ASSETS		
Cash and cash equivalents	\$ 273,924	\$ 293,192
Collateral under security lending agreements	—	279,139
Accounts receivable, net	327,502	311,136
Prepaid expenses and other assets	96,987	163,942
Contributions receivable, net	71,816	65,142
Student loans and other notes receivable	42,342	39,914
Investments	4,225,719	4,247,902
Property, plant, and equipment, net	1,706,070	1,594,507
Interest in trusts held by others	46,581	49,065
Total assets	\$ 6,790,941	\$ 7,043,939
LIABILITIES		
Accounts payable and accrued liabilities	\$ 239,602	\$ 215,372
Accrued compensation and withholdings	201,732	207,127
Payable under security lending agreements	—	279,139
Deferred revenue	117,612	84,702
Commercial paper	127,415	362,920
Actuarial liability for self-insurance	90,493	76,383
Actuarial liability for annuities payable	35,895	41,350
Government advances for student loans	16,686	16,315
Long-term debt and capital leases	978,749	742,966
Total liabilities	1,808,184	2,026,274
NET ASSETS		
Unrestricted	3,995,880	4,073,213
Temporarily restricted	124,890	133,494
Permanently restricted	861,987	810,958
Total net assets	4,982,757	5,017,665
Total liabilities and net assets	\$ 6,790,941	\$ 7,043,939

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

Consolidated Statements of Activities

<i>Years Ended June 30, 2008 and 2007 (in thousands)</i>	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS		
OPERATING REVENUES		
Tuition and educational fees, net	\$ 217,619	\$ 199,035
Government grants and contracts	305,646	283,908
Facilities and administrative costs recovery	115,352	106,319
Private gifts, grants, and contracts	87,403	80,917
Endowment distributions	134,507	121,118
Net gains on investments	18,649	59,458
Health care services	1,874,913	1,748,713
Room, board, and other auxiliary services, net	86,309	78,252
Other sources	34,120	34,413
Net assets released from restrictions	13,057	20,719
Total operating revenues	2,887,575	2,732,852
OPERATING EXPENSES		
Instruction	390,499	354,014
Research	370,965	343,991
Health care services	1,730,949	1,616,501
Academic support	126,044	121,489
Institutional support	48,116	61,689
Student services	30,581	27,620
Public service	27,685	24,404
Room, board, and other auxiliary services	111,858	101,666
Total operating expenses	2,836,697	2,651,374
Change in unrestricted net assets from operating activity	50,878	81,478
NON-OPERATING ACTIVITY		
Gifts and contributions for plant	4,298	5,993
Net assets released from restrictions for plant	15,116	13,173
Donor designation changes	(4,474)	(4,144)
Change in endowment appreciation, net of distributions	(56,428)	510,795
Other, including change in value of interest rate swap agreements	(86,723)	20,756
Change in unrestricted net assets from other non-operating activity	(128,211)	546,573
(Decrease) increase in unrestricted net assets	(77,333)	628,051
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions and other	24,630	4,433
Donor designation changes	(3,130)	(13,168)
Net gain on contributions receivable	—	2,393
Endowment distributions	4,126	3,511
Net (losses) gains on investments	(6,057)	14,462
Net assets released from restrictions	(28,173)	(33,892)
Decrease in temporarily restricted net assets	(8,604)	(22,261)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions and other	41,302	45,011
Donor designation changes	7,604	17,312
Endowment distributions	1,617	1,482
Net investment gains	506	22,325
Increase in permanently restricted net assets	51,029	86,130
(Decrease) increase in total net assets	\$ (34,908)	\$ 691,920
Net assets at beginning of year	\$ 5,017,665	\$ 4,325,745
Net assets at end of year	\$ 4,982,757	\$ 5,017,665

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

Consolidated Statements of Cash Flows

<i>Years Ended June 30, 2008 and 2007 (in thousands)</i>	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in total net assets	\$ (34,908)	\$ 691,920
ADJUSTMENTS TO RECONCILE CHANGE IN TOTAL NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net realized gains on investments	(528,919)	(199,281)
Net decrease (increase) in unrealized appreciation on investments	510,251	(453,618)
Gifts for plant and endowment	(53,583)	(66,767)
Gifts of securities for operating activities	(21,848)	(36,845)
Depreciation and amortization	141,261	130,375
Amortization of bond premiums	(4,624)	(4,712)
Net decrease (increase) in fair value of interest rate swap agreements	87,076	(37,334)
(Increase) decrease in:		
Accounts receivable, net of accrued investment income	(24,360)	(44,770)
Prepaid expenses and other assets, net of non-operating items	6,030	(20,618)
Contributions receivable	(6,674)	15,466
Interest in trusts held by others	2,484	(6,129)
Increase (decrease) in:		
Accounts payable and accrued liabilities, net of non-operating items	826	42,115
Accrued compensation and withholdings	(5,395)	27,485
Deferred revenue	32,910	32,635
Actuarial liability for self-insurance	14,110	(1,013)
Actuarial liability for annuities payable	(5,455)	1,604
Net cash provided by operating activities	109,182	70,513
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,439,081)	(3,630,663)
Proceeds from the sale of investments	4,501,780	3,656,975
Decrease (increase) in accrued investment income	7,994	(8,799)
Acquisition of property, plant, and equipment	(257,480)	(272,498)
Proceeds from the disposal of property, plant, and equipment	1,909	3,949
Student loans disbursed	(6,751)	(6,991)
Principal collected on student loans	4,323	5,494
Net cash used in investing activities	(187,306)	(252,533)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for plant and endowment	53,583	66,767
Increase in government advances for student loans	371	308
Proceeds from the issuance of debt	313,645	220,324
Payments to retire or decrease debt	(308,743)	(16,343)
Net cash provided by financing activities	58,856	271,056
Net (decrease) increase in cash and cash equivalents	\$ (19,268)	\$ 89,036
Cash and cash equivalents at beginning of year	\$ 293,192	\$ 204,156
Cash and cash equivalents at end of year	\$ 273,924	\$ 293,192

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

notes to the CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

The Vanderbilt University (Vanderbilt) is a privately endowed, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational and research facilities as well as a health care system. Vanderbilt provides educational services to approximately 6,500 undergraduate and 5,300 graduate and professional students enrolled in its 10 schools and colleges. The Chancellor and the Board of Trust, the governing board of Vanderbilt, have oversight responsibility for all of Vanderbilt's financial affairs.

These consolidated financial statements include the accounts of all entities in which Vanderbilt has a significant financial interest and over which Vanderbilt has control, including its hospitals and clinics. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements of Vanderbilt have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

Based on the existence or absence of donor-imposed restrictions, Vanderbilt classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

UNRESTRICTED NET ASSETS are free of donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

TEMPORARILY RESTRICTED NET ASSETS are limited as to use by donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of Vanderbilt. These net assets may include unconditional pledges, split-interest agreements, and interest in trusts held by others.

PERMANENTLY RESTRICTED NET ASSETS are amounts required by donors to be held in perpetuity. These net assets may include unconditional pledges, donor-restricted

endowments (at historical cost), split-interest agreements, and interest 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 general or specific purposes.

Expirations of temporary restrictions on net assets, i.e., the passage of time and/or fulfilling donor-imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with nominal interest rate risk and original maturities of three months or less when purchased. Such investments primarily consist of money market funds, certificates of deposit, and commercial paper. The carrying amounts of these items are a reasonable estimate of their fair value.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets primarily represent inventories, prepaid expenses, and other segregated investment-related assets managed by third parties that are earmarked to ultimately settle certain liabilities. This latter group of assets, reported at fair value, is excluded from the investments category since Vanderbilt will not directly benefit from the investment return. The carrying amounts for inventories and prepaid expenses are a reasonable estimate of their fair value.

INVESTMENTS

Investments are reported at fair value, based primarily on market quotes. Fair values for certain alternative investments, mainly investments in limited partnerships where a ready market for the investments does not exist, are based primarily on estimates reported by fund managers. The estimated values are reviewed and evaluated by Vanderbilt.

Vanderbilt has significant exposure to a number of risks including interest rate, market, and credit risks for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in Vanderbilt's financial statements.

Vanderbilt management approves strategic use of derivatives by external investment managers to manage market risks. The most common strategies engaged by such managers are futures contracts, short sales, and hedges against currency translation risk for investments denominated in other than U.S. dollars. These derivative instruments are recorded at their respective fair values.

Through agreements with its primary investment custodian, Vanderbilt has participated in security lending to brokers. For pledged cash and cash equivalents collateral under the control of Vanderbilt, an asset and corresponding liability are recorded representing the market value of such collateral.

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

All donor-restricted endowment investments and unrestricted board-designated endowments are managed in an investment pool, unless donor-restricted endowment gift agreements require that they be held separately.

SPLIT-INTEREST AGREEMENTS AND INTEREST IN TRUSTS HELD BY OTHERS

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

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

PROPERTY, PLANT, AND EQUIPMENT

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

Depreciation is calculated by the straight-line method at rates estimated to allocate the cost of various classes of assets

over their estimated useful lives. Property, plant, and equipment are removed from the accounting records at the time of disposal.

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

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

DEBT PORTFOLIO FINANCIAL INSTRUMENTS

Using market quotations for similar issues or borrowings, Vanderbilt evaluates the estimated fair value of its fixed-rate long-term indebtedness relative to carrying value. Principal balances for fixed-rate debt are reported at carrying value, which is substantially equivalent to estimated fair value.

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

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

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The carrying values for accounts receivable, student loans and other notes receivable, accounts payable, and other accrued liabilities approximate fair value. The carrying amount of student loans receivable under the Vanderbilt loan programs approximates fair value, due to the rates and the relative short-term nature of the loans.

REVENUE RECOGNITION

Vanderbilt's revenue recognition policies are as follows:

TUITION AND EDUCATIONAL FEES, NET—Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by Vanderbilt for tuition and educational fees is reflected as a reduction of tuition and

educational fees. Financial aid does not include payments made to students for services provided to Vanderbilt.

GOVERNMENT GRANTS AND CONTRACTS—Revenues from government grants and contracts are recognized when allowable expenditures are incurred under such agreements.

FACILITIES AND ADMINISTRATIVE (F&A) COSTS

RECOVERY—F&A costs recovery, historically referred to as indirect cost recovery, is recognized as revenue and represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. The federal F&A costs recovery rate for on-campus research was 53.5% and 53.0% in fiscal 2008 and 2007, respectively.

HEALTH CARE SERVICES—Health care services revenue is reported at established rates, net of contractual adjustments and charity services. Third party contractual revenue adjustments under governmental reimbursement programs are accrued on an estimated basis in the period the related services are rendered. The estimated amounts are adjusted as final settlements are determined by the fiscal intermediary for each program. Health care services revenue includes that of Vanderbilt University Hospitals and Clinics, Vanderbilt Medical Group, Vanderbilt Health Services, Inc., and other activities directed toward the purpose of providing health care services to the community.

CONTRIBUTIONS

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Conditional promises (primarily bequest intentions) are not recorded until donor stipulations are substantially met.

Unconditional promises to give, with payments due to Vanderbilt in future periods, are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Amortization of the discount is recorded as additional contributions in the appropriate net asset class. Allowance is made for uncollectible contributions receivable based upon management's analysis of past collection experience and other judgmental factors.

Contributions with donor-imposed restrictions are recorded as unrestricted revenue if those restrictions are met in the same reporting period. Otherwise, contributions with donor-imposed restrictions are recorded as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction.

Contributions recorded as temporarily restricted net assets are released from restrictions and recognized as unrestricted net assets upon receipt of the gift or expiration of the time restriction, and after any donor stipulations are met. Gifts for plant facilities are released from restrictions and recognized as a non-operating item only after resources are expended for the applicable plant facilities.

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

OPERATING RESULTS

Operating results (change in unrestricted net assets from operating activity) in the consolidated statements of activities reflect all transactions that change unrestricted net assets, except gifts for plant facilities, certain activity associated with endowment investments, changes in the fair value of interest rate swap agreements, and certain other non-recurring items.

Endowment distributions reported as operating revenue consist of endowment returns (regardless of when such income or returns arose) distributed to support current operational needs. Vanderbilt's endowment distribution policy, which is approved by the Board of Trust, establishes the amount of endowment returns to be distributed from the endowment pool on an annual basis. Objectives of the policy include reducing 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.

In fiscal 2008 and 2007, approximately 58% and 54%, respectively, of private gifts, grants, and contracts revenue represent transactions where Vanderbilt services are provided to other parties.

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

Furthermore, costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon facility usage. Additionally, interest expense on

external debt is allocated to the activities that have benefited most directly from the debt proceeds.

INCOME TAXES

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

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement 109* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective July 1, 2007, and had no material impact on Vanderbilt's 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, revenue, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results ultimately could differ from management's estimates.

REDESIGNATIONS

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

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on operating results as previously reported.

3. Accounts Receivable

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

	2008	2007
Patient care	\$ 341,181	\$ 349,348
Students, grants, and other	107,685	94,900
Accrued investment income	7,453	15,447
Accounts receivable	456,319	459,695
Less: Allowance for bad debts	128,817	148,559
Accounts receivable, net	\$ 327,502	\$ 311,136

4. Contributions Receivable

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

	2008	2007
Unconditional promises expected to be collected:		
in one year or less	\$ 25,879	\$ 21,887
between one year and five years	57,982	58,706
in more than five years	5,750	3,192
Contributions receivable	89,611	83,785
Less: Unamortized discount	6,810	9,835
Allowance for uncollectible promises	10,985	8,808
Contributions receivable, net	\$ 71,816	\$ 65,142

During fiscal 2008, Vanderbilt received a gift distribution from the Ingram Charitable Fund (ICF), which reduced to zero the contributions receivable from the ICF as of June 30, 2008. Subsequent to fiscal 2008, the following two Ingram-related events occurred and are not reflected in the 2008 financial statements: (1) the Ingram family donated 2.8 million shares of Ingram Micro Inc. common stock directly to Vanderbilt, which resulted in gift income valued at \$53.2 million; and (2) the Ingram family donated shares of Ingram Micro Inc. common stock to the ICF, which led to a new contribution receivable from the ICF valued at \$19.3 million as of September 30, 2008.

Contributions receivable scheduled to be collected after one year are discounted at a rate commensurate with the anticipated timing of receipt. Such amounts outstanding as of June 30, 2008, generally are discounted at rates ranging from 2.5% to 3.5%, and amounts outstanding as of June 30, 2007, generally are discounted at 5.0%.

The methodology for calculating an allowance for uncollectible promises is based upon management's analysis of the aging of payment schedules for all outstanding pledges. This review resulted in allowances for uncollectible promises totaling 12.3% and 10.9% of contributions receivable (excluding the ICF) as of June 30, 2008 and 2007, respectively.

In addition to pledges reported as contributions receivable, Vanderbilt had received bequest intentions of approximately \$206.8 million and \$183.5 million as of June 30, 2008 and 2007, respectively. These intentions to give are not recognized as assets due to their conditional nature. If these bequests are received, generally they will be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of Vanderbilt.

5. Investments

Investments by security type as of June 30 were as follows (in thousands):

	2008	2007
Short-term securities	\$ 491,876	\$ 452,049
Bonds	386,067	407,026
Stocks	638,358	1,042,006
Partnerships	2,381,149	2,081,772
Mortgages	3,224	2,929
Real estate	279,188	220,680
Other	37,280	40,963
Net receivables for unsettled trades by investment managers	8,577	477
Total fair value	\$ 4,225,719	\$ 4,247,902
Total cost	\$ 3,737,869	\$ 3,249,801

Through an agreement with its primary investment custodian, Vanderbilt historically has participated in lending securities to brokers. In the latter portion of fiscal 2008, Vanderbilt transitioned to a new investment custodian. While there were no securities lent as of June 30, 2008, Vanderbilt expects to re-commence security lending through its new primary investment custodian in fiscal 2009.

On September 29, 2008, Vanderbilt was notified that Wachovia Bank, N.A., as trustee of the Commonfund's Short Term Fund investments (the Fund), is resigning as trustee, has initiated the process of terminating the Fund, and has established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. At June 30, 2008, and September 29, 2008, Vanderbilt had \$272.5 million and \$336.3 million, respectively, invested in the Fund. Such assets are reflected in the above table as short-term securities.

As permitted under the liquidation procedures, Vanderbilt withdrew \$130.4 million from the Fund between September 29 and October 13, 2008. Additional permitted withdrawals are expected to total about \$78 million through December 31, 2008, with the remaining balances to be made available within the next three years. Management believes that it has sufficient available liquidity in its current assets to meet its obligations as they become due.

In conjunction with the events related to the Fund, management has reclassified \$399.2 million as of June 30, 2007, from cash and cash equivalents to investments in the accompanying consolidated balance sheet. Likewise, the related purchases and sales activity has been reflected in the accompanying consolidated statement of cash flows.

6. Endowment

The endowment represents only those related net assets that are under the control of Vanderbilt. Endowment-related assets include donor-restricted endowments and Board-designated endowments. Gift annuities, interest in trusts held by others, and certain contributions pending transfer are not considered components of the endowment.

Effective July 1, 2007, the state of Tennessee adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines therein relate to prudent management, investment, and expenditure of donor-restricted endowment funds held by charitable organizations. Particularly noteworthy is that the legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an organization's endowment funds.

Within the context of this model legislation, in August 2008 the Financial Accounting Standards Board issued FASB Staff Position (FSP) 117-1 entitled *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. Vanderbilt will adopt this FSP effective with fiscal 2009 reporting. As a result, cumulative returns associated with donor-endowed funds aggregating approximately \$1.4 billion as of July 1, 2007, which previously have been reported as unrestricted net assets will be reclassified as temporarily restricted net assets.

The Board of Trust's interpretation of its fiduciary responsibilities for donor-restricted endowments under UPMIFA requirements, barring the existence of any donor-specific provisions, is to preserve intergenerational equity to the extent possible. Under this broad guideline, in perpetuity future endowment beneficiaries essentially should receive at least the same level of economic support that the current generation enjoys. Toward this end, investment goals are formulated to earn returns over the long term that equal or exceed (a) Board-approved endowment distribution rates plus (b) the impacts from inflation. Funds are invested in a highly diversified portfolio to mitigate downturns in a single sector.

UPMIFA specifies that unless stated otherwise in the gift agreement instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, Vanderbilt's policy is to report (a) the historical value for such endowments as permanently restricted net assets and (b) the net accumulated appreciation as unrestricted net assets. In this context, historical value represents (a) the original value of initial gifts restricted as permanent endowments plus (b) the original value of subsequent gifts along with (c) if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

Vanderbilt's Board has approved an endowment distribution policy whereby distributions are based on 4.5% of the average of the previous three calendar year-end market values. Actual endowment return earned in excess of distributions under this policy is reinvested as part of Vanderbilt's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by realized returns from prior years.

Specific appropriation for expenditure of funds under Vanderbilt's endowment distribution policy occurs each spring when the Board approves the university's operations budget for the ensuing fiscal year.

In addition to the foregoing general distribution policy, the Board has authorized the use of previously reinvested income, realized capital gains, and principal related to Board-designated endowments for special transinstitutional academic development initiatives. Endowment distributions reported in the consolidated statements of activities include both (a) distributions to support current operational needs under the policy as previously described and (b) supplemental endowment distributions for special academic initiatives to the extent operating expenditures have been incurred.

A summary of Vanderbilt's endowment as of June 30 follows (*in thousands*):

	2008	2007
UNRESTRICTED		
Board-designated endowments, at historical value	\$ 237,952	\$ 230,517
Accumulated net appreciation of pooled designated endowment funds	2,514,627	2,568,156
TEMPORARILY RESTRICTED		
Donor-restricted endowments, at historical value	14,323	11,777
PERMANENTLY RESTRICTED		
Donor-restricted endowments, at historical value	728,537	677,808
Fair value of endowment	\$ 3,495,439	\$ 3,488,258

The components of accumulated net appreciation of pooled designated endowment funds as of June 30 were as follows (*in thousands*):

	2008	2007
Net realized gains less endowment distributions	\$ 2,046,719	\$ 1,618,984
Net unrealized gains	467,908	949,172
Total	\$ 2,514,627	\$ 2,568,156

7. Investment Return

As previously noted, Vanderbilt employs a total return policy that establishes annual endowment distributions. Additionally, the Board of Trust authorized the use of funds functioning as endowment to support operating and capital needs of certain transinstitutional initiatives. Endowment distributions in fiscal 2008 and 2007 were based on 4.5% of the average of the previous three calendar year-end market values plus the use of \$6.6 million and \$9.6 million of funds functioning as endowment for operating expenses of transinstitutional initiatives in fiscal 2008 and 2007, respectively.

Further, \$0.6 million and \$1.1 million of unrestricted funds functioning as endowment were utilized for capital needs of transinstitutional initiatives in fiscal 2008 and 2007, respectively. Liquidations for these special capital investments are excluded from the following summary of endowment distributions and other investment income for the fiscal years ended June 30 (*in thousands*):

	2008	2007
OPERATING		
Endowment distributions	\$ 134,507	\$ 121,118
Net gains on investments	18,649	59,458
Total operating return	153,156	180,576
NON-OPERATING UNRESTRICTED		
Endowment appreciation	83,822	636,906
Endowment appreciation distributed	(140,250)	(126,111)
TEMPORARILY RESTRICTED		
Net (losses) gains on investments	(6,057)	14,462
Endowment distributions	4,126	3,511
PERMANENTLY RESTRICTED		
Net gains on investments	506	22,325
Endowment distributions	1,617	1,482
Total non-operating return	(56,236)	552,575
Total investment return	\$ 96,920	\$ 733,151

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

	2008	2007
Net interest, dividend, and partnership income	\$ 80,571	\$ 76,411
Net realized gains from original cost	528,919	199,281
Net (decrease) increase in unrealized appreciation	(512,570)	457,459
Total investment return	\$ 96,920	\$ 733,151

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

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled \$2.5 million and \$2.7 million in fiscal years 2008 and 2007, respectively.

8. Property, Plant, and Equipment

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

	2008	2007
Land	\$ 54,316	\$ 50,363
Buildings and improvements	2,195,368	1,918,400
Moveable equipment	673,936	608,362
Construction in progress	109,158	212,808
Property, plant, and equipment	3,032,778	2,789,933
Less: Accumulated depreciation	1,326,708	1,195,426
Property, plant, and equipment, net	\$ 1,706,070	\$ 1,594,507

Purchases for the library collection are not included in the foregoing since they are expensed at the time of purchase. As of June 30, 2008, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled \$235.9 million. Capitalized interest of \$1.7 million and \$0.4 million in fiscal 2008 and 2007, respectively, was added to construction in progress and/or buildings and improvements. Internally developed software costs of \$2.4 million and \$2.9 million were capitalized in fiscal 2008 and 2007, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of \$19.2 million and \$18.5 million as of June 30, 2008 and 2007, respectively. These liabilities, which are estimated using an inflation rate of 4.0% and a discount rate of 5.0%, are reported as accounts payable and accrued liabilities on the consolidated statements of financial position.

9. Long-Term Debt, Capital Leases, and Commercial Paper

Long-term debt consists of bonds and notes payable with scheduled final maturity dates at least one year after the original issuance date. Outstanding long-term debt, capital leases, and commercial paper obligations as of June 30 were as follows (*in thousands*):

	Years to Maturity	Fiscal 2008 Effective Interest Rate	Outstanding Principal	
			2008	2007
FIXED-RATE LONG-TERM DEBT				
1996 Series A	1	5.8%	\$ 1,145	\$ 2,230
1997 Series A	11	5.3%	20,960	22,335
1998 Series A	—	6.5%	—	18,185
1998 Series B	21	5.0%	32,580	33,450
1998 Series C ¹	7	4.9%	14,455	16,165
2001 Series A	8	5.0%	11,415	12,560
2001 Series B ¹	15	5.0%	49,750	51,930
2005 Series B-1 ¹	—	2.7%	—	61,235
2005 Series B-2 & 3 ^{1,2}	36	3.1%	216,515	216,515
2008 Series A	10	4.0%	136,100	—
2008 Series B ¹	10	3.9%	119,950	—
HUD	1	3.0%	130	260
Note payable	1	7.3%	7,528	7,984
Other	12	3.0%	78	154
Total fixed-rate long-term debt			610,606	443,003
VARIABLE-RATE LONG-TERM DEBT				
2000 Series A	23	2.8%	59,400	60,700
2000 Series B	23	3.0%	59,400	60,700
2002 Series A	25	3.0%	20,590	20,990
2003 Series A ¹	11	3.0%	30,525	33,410
2005 Series A	36	2.8%	113,300	113,300
2005 Series B-1 ¹	36	1.6%	61,235	—
Total variable-rate long-term debt			344,450	289,100
Par amount of long-term debt			955,056	732,103
Net unamortized premium			20,742	7,723
Total long-term debt			975,798	739,826
Capital leases	1 to 4	3.5%	2,951	3,140
Total long-term debt and capital leases			978,749	742,966
Tax-exempt and taxable commercial paper	<1	3.0%	127,415	362,920
Total long-term debt, capital leases, and commercial paper			\$ 1,106,164	\$ 1,105,886

¹ Issued under Master Trust Indenture structure.

² The 2005 B-2 and B-3 bonds are fixed only through put dates of 2009 and 2010, respectively. On the respective put dates the mode of the maturing series can be changed at Vanderbilt's discretion.

The preceding table reflects fixed/variable allocations before the effects of interest rate swap agreements used by Vanderbilt to manage its debt portfolio. Such agreements are covered in more detail in a successive footnote.

Tax-exempt commercial paper and all of the aforementioned bonds (with the exception of the HUD bonds) have been issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (HEFB). As a conduit issuer, the HEFB loans the debt proceeds to Vanderbilt. Pursuant to loan agreements, Vanderbilt's debt service requirements under these loan agreements coincide with required debt service of the actual HEFB bonds.

Included in the foregoing are hospital and clinic (patient care) bonds, with a principal balance outstanding of \$492.4 million as of June 30, 2008, that were issued under a Master Trust Indenture (MTI) structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group; presently, Vanderbilt's hospitals and clinics have no other members participating in its obligated group. Bonds issued under the MTI are payable solely from hospital revenues (as defined in the MTI). All MTI bonds presently outstanding are also supplemented by a Vanderbilt guarantee of debt service.

Selected information for long-term debt, commercial paper, and interest rate swap agreements follows (*in thousands*):

	2008	2007
Interest cost paid	\$ 41,763	\$ 37,194
Interest cost expensed	\$ 37,299	\$ 32,028
Assets held by trustees for subsequent debt service as of June 30	\$ 25,502	\$ 2,944

Principal payments and scheduled sinking fund requirements on the par amount of long-term debt due in subsequent fiscal years ending June 30 are as follows (*in thousands*):

2009	\$ 42,271
2010	19,610
2011	24,365
2012	25,075
2013	30,215
Thereafter	813,520
Total	\$ 955,056

Under certain circumstances, variable-rate bond obligations may be converted to a fixed-rate structure. While these bonds are in a variable-rate mode, they are subject to optional and mandatory tender. Vanderbilt has agreements with remarketing agents to re-market any bonds so tendered. Liquidity for the variable debt portfolio (both commercial paper and variable-rate demand bonds) is covered primarily by portfolio self-liquidity. Additionally, two bank revolving credit facilities, with an available commitment amount totaling \$225 million, as of June 30, are in place and dedicated solely to debt portfolio liquidity. At Vanderbilt's option, the available commitment may be increased to an amount up to \$375 million. There were no borrowings outstanding on the revolving credit agreements as of June 30, 2008 or 2007.

Trust indentures for certain bond issues contain covenants and restrictions involving the issuance of additional debt, maintenance of a specified debt service coverage ratio, and the maintenance of liquidity facilities.

During April 2008, Vanderbilt issued the Series 2008A and B bonds in the aggregate amount of \$256.1 million in order to retire tax-exempt commercial paper that was previously issued to finance the construction, expansion, and renovation of various facilities and related equipment. The 2008A and B series are revenue refunding fixed-rate premium bonds issued in the amounts of \$136.1 million and \$120.0 million, respectively, with final maturities for both of October 2018.

In fiscal 2008, Vanderbilt issued \$36.1 million of commercial paper under its \$600 million tax-exempt commercial paper program to refund two fixed-rate bond issues. In May 2008, Vanderbilt utilized the proceeds of tax-exempt commercial paper in the amount of \$16.6 million to refund the Series 1998A bonds. The 1998A refunding transaction resulted in an accounting loss of \$0.3 million, which is included as a non-operating item for fiscal 2008 in the consolidated statement of activities. On June 30, 2008, tax-exempt commercial paper was issued in the amount of \$19.5 million to refund the Series 1997A bonds on July 1, 2008. The proceeds obtained on June 30, 2008, were held with the 1997A bond trustee pending completion of the refunding on July 1, 2008. The refunding commercial paper notes and the Series 1997A debt are both included on the consolidated statements of financial position.

Under Vanderbilt's \$75 million taxable commercial paper program, \$2.7 million of taxable notes were issued during fiscal 2008. As of June 30, 2008, the taxable commercial paper balance outstanding was \$1.2 million.

10. Interest Rate Swap Agreements

To manage the fixed/variable mix for its debt portfolio, including hedging exposure to increasing interest expense from variable-rate debt, Vanderbilt utilizes interest rate swap agreements.

The fair value of interest rate swap agreements is the estimated amount that Vanderbilt would pay or receive to terminate these contracts as of the report date. The estimated cumulative (loss) gain on the fair value of these swap agreements was (\$26.2) million and \$60.9 million as of June 30, 2008 and 2007, respectively, and is included in accounts payable and accrued liabilities in 2008 and prepaid expenses in 2007. Changes in the fair value for these contracts, which for fiscal 2008 and 2007 amounted to an unrealized loss of (\$87.1) million and an unrealized gain of \$37.3 million, respectively, are recorded as other non-operating items in the consolidated statements of activities.

Periodic net cash settlement (payments) receipts for all agreements aggregated (\$0.7) million and \$1.9 million for fiscal 2008 and 2007, respectively, and were reflected as adjustments to operating expense in the consolidated statements of activities.

On May 1, 2008, Vanderbilt negotiated higher fixed rates on \$195 million of existing fixed-payer swap agreements in exchange for a deferment of swap payments until December 2008. Additionally, the start date on \$300.0 million of existing forward starting fixed-payer swaps was extended from May 1, 2008, to November 1, 2008, in exchange for higher future fixed rates.

As of June 30, 2008, Vanderbilt's adjusted debt portfolio, after taking into account the aforementioned derivatives and except for forward starting swaps, was approximately 67% fixed and 33% variable. The notional amounts of interest rate swap agreements as of June 30 were as follows (*in thousands*):

Description	Rate Paid	Rate Received	Maturity	Forward Start Dates	2008	2007
% of LIBOR fixed-payer swaps	Avg Fixed Rate of 3.55%	68 to 70% of one-month LIBOR	22 to 35 years with gradual amortization*, corresponding to principal retirements for the Series 2000A and B bonds and the Series 2005A bonds	2008 notional balance includes \$895 million of swaps where payment start dates range from October to December 2008	\$ 1,213,800	\$ 816,400
SIFMA fixed-payer swaps	Avg Fixed Rate of 3.95%	SIFMA	29 years	N/A	\$ 100,000	\$ 100,000
SIFMA fixed-receiver swaps	SIFMA	3.204	\$100 million matures September 2008 and \$216.5 million matures corresponding to scheduled re-marketings of Series 2005B bonds, with final maturity in April 2010	N/A	\$ 316,515	\$ 477,750
Basis swaps	Avg of 82.2% of one-month LIBOR	SIFMA	26 to 27 years	N/A	\$ 500,000	\$ 500,000
Reverse basis swaps	60% of one-month LIBOR + 0.804%	SIFMA	27 years	N/A	\$ 150,000	\$ 150,000

*Commencing in October 2012, the counterparty has an option to cancel 50% of the outstanding notional amount without a termination payment, which would result in a remaining fixed payment commitment of 4.175%.

11. Net Assets

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

UNRESTRICTED NET ASSETS are internally designated into the following groups:

DESIGNATED FOR OPERATIONS represents the cumulative budgeted operating activity of Vanderbilt and routine equipment replacement reserves.

DESIGNATED GIFTS AND GRANTS are composed of departmental gift and grant funds.

DESIGNATED FOR STUDENT LOANS represents Vanderbilt funds set aside to serve as revolving loan funds for students.

DESIGNATED FOR PLANT FACILITIES represents the net investment in property, plant, and equipment, as well as funds designated for future acquisitions of plant facilities and retirement of debt.

BOARD-DESIGNATED ENDOWMENTS are amounts set aside by the Board of Trust, intended to generate income in perpetuity to support operating needs. Such amounts include substantially all cumulative realized appreciation on the applicable investments.

ACCUMULATED NET APPRECIATION OF POOLED ENDOWMENT FUNDS represents cumulative net realized and unrealized gains less inception-to-date endowment distributions for both donor-restricted and board-designated endowments.

NET FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS represents the mark-to-market valuation for derivative contracts. Because these agreements are intended to serve as long-term hedges within the debt portfolio, segregation from other designations is maintained.

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

	2008	2007
Designated for operations	\$ 264,788	\$ 272,122
Designated gifts and grants	153,032	140,700
Designated for student loans	32,057	31,446
Designated for plant facilities	819,575	769,346
Board-designated endowments, at historical value	237,952	230,517
Accumulated net appreciation of pooled endowment funds	2,514,627	2,568,156
Net fair value of interest rate swap agreements	(26,151)	60,926
Total unrestricted net assets	\$ 3,995,880	\$ 4,073,213

TEMPORARILY RESTRICTED NET ASSETS as of June 30 were composed of the following (*in thousands*):

	2008	2007
Gifts and pledges	\$ 85,136	\$ 98,487
Donor-restricted endowments, at historical value	14,323	11,777
Interest in trusts held by others	7,693	10,148
Life income and gift annuities	17,738	13,082
Total temporarily restricted net assets	\$ 124,890	\$ 133,494

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

	2008	2007
Student scholarships	\$ 1,308	\$ 1,275
Instruction	4,603	3,879
Capital improvements	10,303	9,021
Subsequent period operations and other	108,676	119,319
Total temporarily restricted net assets	\$ 124,890	\$ 133,494

PERMANENTLY RESTRICTED NET ASSETS as of June 30 were composed of the following (in thousands):

	2008	2007
Donor-restricted endowments, at historical value	\$ 728,537	\$ 677,808
Gifts and pledges	70,542	60,590
Interest in trusts held by others	38,888	38,917
Life income and gift annuities	24,020	33,643
Total permanently restricted net assets	\$ 861,987	\$ 810,958

Based on relative fair values at June 30, 2008, approximately 28% of permanent donor-restricted endowments are restricted for supporting scholarships, 30% for the support of endowed faculty chairs, 27% for departmental support, and 14% for other restricted purposes. Distributions from the remainder are available for general university support.

12. Retirement Plans

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

Vanderbilt's obligations under these plans are fully funded by periodic transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2008 and 2007 were \$45.9 million and \$42.6 million, respectively.

13. Natural Classification of Expenses and Allocations

Operating expenses incurred in the fiscal years ended June 30, 2008 and 2007, were as follows (in thousands):

	2008	2007
Salaries, wages, and benefits	\$ 1,652,809	\$ 1,524,913
Services	146,820	131,005
General expenses and supplies	620,157	580,818
Depreciation and amortization	141,261	130,375
Interest	37,299	32,028
Provision for bad debts	119,672	146,459
Utilities, operating leases, and other	118,679	105,776
Total operating expenses	\$ 2,836,697	\$ 2,651,374

Certain allocations of institutional and other support costs were made to Vanderbilt's primary programs. Based on the functional uses of space on its campus, Vanderbilt allocated depreciation and interest on indebtedness to the various functional expense categories shown below (in thousands):

2008		
	Interest	Depreciation
Instruction	\$ 3,106	\$ 17,935
Research	5,633	22,808
Health care services	18,955	57,838
Academic support	1,180	8,813
Institutional support	978	12,517
Student services	217	928
Public service	103	809
Room, board, and other auxiliary services	7,127	19,613
Total	\$ 37,299	\$ 141,261

2007		
	Interest	Depreciation
Instruction	\$ 2,942	\$ 16,175
Research	5,332	20,032
Health care services	13,765	55,061
Academic support	1,008	8,545
Institutional support	952	12,015
Student services	306	1,676
Public service	168	1,090
Room, board, and other auxiliary services	7,555	15,781
Total	\$ 32,028	\$ 130,375

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

Consistent with its mission, Vanderbilt University Hospitals and Clinics (referred to herein as “the Hospital”) maintains a policy which sets forth the criteria pursuant to which health care services are provided without expectation of payment, or, at a reduced payment rate to patients who are unable to pay for their medical care. These services represent charity care and are not reported as revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides, and these records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services. Charity care assistance is offered on a tiered grid which is based on federal poverty guidelines. In addition to charity care assistance, all uninsured patients are eligible for a State of Tennessee mandated discount from billed charges for medically necessary services. For those patients with a major catastrophic medical event that does not qualify for full charity assistance, additional discounts are given based on the income level of the household using a sliding scale.

The cost of charity care provided by the Hospital was \$58.6 million and \$45.3 million in 2008 and 2007, respectively. Of the total uncompensated care provided by the Hospital (comprised of charity care not reported as revenue and expense reported as provision for bad debts), 67% and 53% of the total in 2008 and 2007, respectively, was charity care. Charity care patients represented 4% and 3% of all total patients treated at the Hospital in 2008 and 2007, respectively. Other than Medicare and Medicaid disproportionate share payments, the Hospital does not receive any other external payments to offset the general cost of charity care. Rather, funding for these services comes from hospital income from operations.

In addition to the charity care services described above, the Hospital provides a number of other services to benefit the economically challenged for which little or no payment is received. TennCare/Medicaid and state indigent programs do not cover the full cost of providing care to beneficiaries of those programs. As a result, in addition to direct charity care costs, the Hospital provides services related to TennCare/Medicaid and state indigent programs substantially below the cost of rendering such services.

The Hospital provides public health education and training for new health professionals and provides, without charge, services to the community at large, together with support groups for many patients with special needs. The estimated total costs of charity care, community benefits, and other unrecovered costs at June 30 were as follows (*in thousands, unaudited*):

	2008	2007
Unreimbursed cost of charity care	\$ 58,600	\$ 45,300
Unreimbursed cost of TennCare	46,000	44,500
Resident and Allied Health education	36,300	35,300
Unreimbursed cost of Medicare	32,500	14,800
Unreimbursed cost of CHAMPUS	6,200	3,400
Subsidized health services	1,500	1,300
Other community health programs	1,300	1,100
Clinical research support	600	700
Behavioral health hospital services	—	2,500
Total cost of charity care, community benefits, and other unrecovered costs	\$ 183,000	\$ 148,900

15. Student Financial Aid

Vanderbilt provides financial aid to students based upon need and merit. This financial assistance is funded by institutional resources, gifts, endowment income, and externally sponsored aid.

In fiscal 2008 and 2007, financial aid for tuition and educational fees of \$145.2 million and \$136.5 million was applied to gross tuition and educational fees of \$362.8 million and \$335.5 million, respectively. In fiscal 2008 and 2007, financial aid for room and board of \$19.5 million and \$17.1 million was applied to gross room and board of \$54.2 million and \$46.2 million, respectively.

Loans to students from Vanderbilt funds are carried at cost, which, based on secondary market information, approximates the fair value of educational loans with similar interest rates and payment terms. Loans to qualified students are funded principally with government advances to Vanderbilt under the Perkins, Nursing, and Health Professions Student Loan Programs. Loans receivable from students under governmental loan programs, also carried at cost, can only be assigned to the federal government or its designees. Loan balances are net of allowances for estimated uncollectible accounts of \$4.0 million and \$3.9 million as of June 30, 2008 and 2007, respectively.

16. Related Parties

Vanderbilt contracts with certain related parties for the purchase of goods, performance of construction activities, and provision of other services. Significant purchases of goods and services from related parties typically are subject to competitive pricing analyses. During fiscal 2008 and 2007, Vanderbilt had related party transactions approximating \$25.2 million and \$35.3 million, respectively.

17. Lease Obligations

Vanderbilt leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms ranging up to 15 years. Total operating lease expense for fiscal 2008 and 2007 was \$52.7 million and \$50.5 million, respectively.

Future committed minimum rentals on non-cancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2008, are as follows (*in thousands*):

2009	\$ 24,352
2010	21,705
2011	16,694
2012	13,573
2013	10,126
Thereafter	48,401
Total future minimum rentals	\$ 134,851

In July 2007, Vanderbilt committed, subject to landlord performance contingencies which have since been met, to lease over 50% of the space in the approximately 850,000-square-foot 100 Oaks shopping center located within five miles of the main campus.

Plans are to redevelop this space primarily for medical, wellness, and office uses. The term of financial commitments under this operating lease commenced in the latter portion of fiscal 2008 with an initial lease term of 12 years. In addition to having the option to renew the lease five times for additional 10-year periods, Vanderbilt will have the right of first offer to lease additional space as it becomes available. Furthermore, Vanderbilt will have additional rights to subsequently purchase the entire property during the next five years. Minimum rental payments aggregating \$51.6 million related to this space are included in the future minimum rentals above.

In conjunction with its normal business practices related to the leasing of equipment, in February 2005 and March 2004, Vanderbilt established financing mechanisms using tax-exempt bonds issued by the HEFB. As of June 30, 2008, the aggregate amount of bonds outstanding under this financing mechanism is \$15.6 million, and related payments made by Vanderbilt are reported as operating lease expense and included in the future minimum rentals above.

18. Commitments and Contingencies

(A) CONSTRUCTION. At June 30, 2008, approximately \$138 million was committed for projects under construction and equipment purchases, to be financed primarily from anticipated debt proceeds.

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

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

(C) MEDICAL MALPRACTICE LIABILITY INSURANCE.

Vanderbilt is self-insured for the first level of medical malpractice claims. The current self-insured retention is \$5.5 million per occurrence, not to exceed an annual aggregate of \$41.0 million. For this self-insured retention, a trust fund has been established. The funding of the trust is based upon studies performed by an actuarial firm. Excess malpractice and professional liability coverage has been obtained from commercial insurance carriers on a claims-made basis for claims above the retained self-insurance risk levels.

(D) EMPLOYEE HEALTH AND WORKERS COMPENSATION

INSURANCE. In addition to the initial tier of self-insured exposure for medical malpractice liability as previously noted, Vanderbilt also is self-insured for employee health insurance and workers compensation coverage. Actuarial liabilities are recorded based upon studies performed by actuarial firms.

(E) FEDERAL AND STATE CONTRACTS AND OTHER REQUIRE-

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

(F) HEALTH CARE SERVICES REVENUE. Revenue from health care services includes amounts paid under reimbursement agreements with certain third-party payers and is subject to examination and retroactive adjustments. Any differences between estimated year-end settlements and actual final settlements are reported in the year final settlements are known. Substantially all final settlements have been determined through the year ended June 30, 2005.

Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the federal government has authority to complete fraud and abuse investigations. HIPAA has established substantial fines and penalties for offenders. Management continues to refine policies, procedures, and organizational structures to enforce and monitor compliance with HIPAA, as well as other government statutes and regulations.

(G) PARTNERSHIP INVESTMENT COMMITMENTS. There were \$807.7 million of commitments to venture capital, real estate, and distressed security investments as of June 30, 2008. These funds may be drawn down over the next several years upon request by the general partners. Management expects to finance these commitments with available cash and expected proceeds from the sale of securities.

(H) MCKENDREE VILLAGE, INC. DEBT GUARANTY. In July 1998, Vanderbilt and McKendree Village, Inc., a not-for-profit retirement community, entered into a joint venture agreement. As of June 30, 2008, the balance of the guaranteed debt was \$17.1 million. No liability has been recorded under this guarantee.



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Vanderbilt University Hospitals and Clinics Results of Operations

Years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
OPERATING REVENUES		
Net patient service revenue	\$ 1,400,794	\$ 1,310,946
Investment income on assets limited as to use under bond indenture agreements	—	1
Other revenue	9,397	14,295
Total operating revenues	<u>1,410,191</u>	<u>1,325,242</u>
OPERATING EXPENSES		
Medical services	970,295	887,143
General services	51,970	53,945
Administrative and fiscal services	189,034	167,517
Depreciation and amortization	53,801	48,838
Interest	13,096	13,132
Provision for bad debts	80,676	111,989
Total operating expenses	<u>1,358,872</u>	<u>1,282,564</u>
Income from operations	51,319	42,678
OTHER INCOME		
Unrestricted endowment income and bequests	946	851
Investment income	43	5,941
Total other income	989	6,792
Excess of revenues over expenses	\$ 52,308	\$ 49,470

VANDERBILT UNIVERSITY

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as of July 2008

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