

**NEW ISSUES - BOOK-ENTRY ONLY**

Ratings: See "RATINGS" herein

*In the opinion of Bond Counsel, based on existing law and assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is excludable from the gross income of the owners of the Bonds for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under the existing laws of the State of Tennessee, the Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law. See "TAX MATTERS" herein.*



**\$151,455,000**  
**The Health and Educational Facilities Board**  
**of The Metropolitan Government of Nashville and Davidson County, Tennessee**  
**Revenue Refunding Bonds**  
**(THE VANDERBILT UNIVERSITY)**

**\$106,230,000**  
**Series 2012D**

**\$45,225,000**  
**Series 2012E**

**Dated: Date of Delivery****Due: October 1, as shown below**

**Interest:** Interest on the Bonds will be payable on each April 1 and October 1, beginning April 1, 2013, and calculated on the basis of a 360-day year of twelve 30-day months.

**Denominations:** The Bonds are issuable in denominations of \$5,000 and any integral multiple of \$5,000.

**Purpose:** The Bonds are being issued to refund tax-exempt obligations previously issued for the benefit of The Vanderbilt University.

**Source of Payment:** Proceeds of the Bonds of each series will be loaned by the Board to Vanderbilt pursuant to a separate Loan Agreement, under which Vanderbilt will agree to make payments at times and in amounts sufficient to pay principal of and interest on the Bonds of that series when due. The Board will assign its rights to such payments to the Trustee under a separate Trust Indenture securing the Bonds of that series. Vanderbilt's obligations under the Loan Agreements will be general and unsecured.

**The Bonds will be limited obligations of the Board payable solely from the sources described in this Official Statement and will not constitute or create any debt, liability, or obligation or a pledge of the faith and credit of the State of Tennessee or any political subdivision or agency of the State of Tennessee. Neither the faith and credit nor the taxing power of the State of Tennessee or any political subdivision or agency thereof will be pledged to the payment of Bonds. The Board has no taxing power.**

**MATURITY SCHEDULE****\$68,610,000 Series 2012D Serial Bonds****\$45,225,000 Series 2012E Serial Bonds**

<u>Due</u> <u>October 1,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate(%)</u>	<u>Yield(%)</u>	<u>CUSIP No.†</u>	<u>Due</u> <u>October 1,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate(%)</u>	<u>Yield(%)</u>	<u>CUSIP No.†</u>
2020	\$3,920,000	4.00	1.34	592041UG0	2013	\$5,735,000	3.00	0.18	592041UW5
2021	4,080,000	4.00	1.57	592041UH8	2014	5,940,000	4.00	0.35	592041UX3
2022	4,265,000	5.00	1.75	592041UJ4	2015	6,180,000	4.00	0.52	592041UY1
2023	4,485,000	5.00	1.89 C	592041UK1	2016	6,470,000	5.00	0.67	592041UZ8
2024	4,715,000	5.00	1.97 C	592041UL9	2017	6,765,000	4.00	0.82	592041VA2
2025	4,955,000	5.00	2.02 C	592041UM7	2018	6,970,000	2.00	0.94	592041VB0
2026	5,210,000	5.00	2.11 C	592041UN5	2019	3,165,000	3.00	1.13	592041VC8
2027	5,480,000	5.00	2.16 C	592041UP0	2019	4,000,000	4.00	1.13	592041VD6
2028	5,760,000	5.00	2.22 C	592041UQ8					
2029	6,025,000	4.00	2.58 C	592041UR6					
2030	6,300,000	5.00	2.32 C	592041US4					
2031	6,590,000	4.00	2.70 C	592041UV7					
2032	6,825,000	3.00	3.04	592041UT2					

**\$37,620,000 3.25% Series 2012D Term Bonds due October 1, 2037; Priced to Yield 3.30%; CUSIP No. 592041UU9†**

C = Priced to result in the stated yield to the October 1, 2022 optional par redemption date.

*The Bonds are offered when, as, and if all the Bonds are simultaneously issued and accepted by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to opinions as to legality by McGuireWoods LLP, New York, New York, as bond counsel to the Board. Certain legal matters are subject to the approval of Vanderbilt's Senior Deputy General Counsel and Balch & Bingham LLP, Birmingham, Alabama, as counsel to Vanderbilt; Adams and Reese LLP, Nashville, Tennessee, as counsel to the Board; and Fulbright & Jaworski L.L.P., Houston, Texas, as counsel to the Underwriters. The Bonds are expected to be available for credit in book-entry form through the facilities of The Depository Trust Company on or about November 29, 2012.*

**J.P. MORGAN****WELLS FARGO SECURITIES**

*The date of this Official Statement is November 14, 2012.*

† CUSIP is a registered trademark of the American Bankers Association. See inside this cover page.

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## USE OF THIS OFFICIAL STATEMENT

This Official Statement has been prepared in connection with the sale of securities referred to herein and may not be used, in whole or in part, for any other purpose. The information in this Official Statement is provided as of the date of this Official Statement, except as otherwise expressly noted herein. The information and expressions of opinion set forth herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Board, Vanderbilt or any other person since the date of the information set forth herein. This Official Statement does not constitute a contract among or between the Board, Vanderbilt or the Underwriters and any purchaser of the Bonds.

The information contained herein under “The Board” has been furnished by the Board. All other information set forth in this Official Statement has been obtained from Vanderbilt and other sources that are deemed to be reliable. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. All quotations from and summaries and explanations of provisions of laws and documents in this Official Statement do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized by the Board or Vanderbilt to give any information or to make any representation other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by them. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Bonds have not been registered under the Securities Act of 1933, as amended, or any state securities laws, and neither the Securities and Exchange Commission nor any state regulatory agency will pass upon the accuracy, completeness or adequacy of this Official Statement. The Indentures have not been qualified under the Trust Indenture Act of 1939, as amended.

Certain statements contained in this Official Statement reflect forecasts and constitute forward-looking statements rather than historical facts. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All such forward looking statements are expressly qualified by the cautionary statements set forth in this Official Statement. The achievement of results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including general financial and operating conditions, legal and regulatory matters and other matters affecting higher education and health care.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS. SUCH TRANSACTIONS MAY INCLUDE PURCHASES OF THE BONDS FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE BONDS. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

For a discussion of certain considerations that may be relevant to an investment in the Bonds, see “INVESTMENT CONSIDERATIONS” herein.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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## OFFICIAL STATEMENT

relating to

**\$151,455,000**

**The Health and Educational Facilities Board  
of The Metropolitan Government of Nashville and Davidson County, Tennessee  
Revenue Refunding Bonds  
(THE VANDERBILT UNIVERSITY)**

**\$106,230,000  
Series 2012D**

**\$45,225,000  
Series 2012E**

## INTRODUCTION

This Official Statement is being delivered in connection with the issuance by The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “*Board*”) of its Revenue Refunding Bonds (The Vanderbilt University) Series 2012D (the “*Series 2012D Bonds*”) and Series 2012E (the “*Series 2012E Bonds*” and, together with the Series 2012D Bonds, the “*Bonds*”).

**Purpose.** The Bonds are being issued to refund certain outstanding tax-exempt revenue bonds and commercial paper previously issued by the Board for the benefit of The Vanderbilt University, a Tennessee not-for-profit corporation (“*Vanderbilt*”). See “PLAN OF FINANCE” herein.

**Source of Payment.** The Bonds of each series will be issued pursuant to a separate Trust Indenture, dated November 1, 2012 (each an “*Indenture*”), between the Board and U.S. Bank National Association, as trustee (the “*Trustee*”). The Bonds of each series will be limited obligations of the Board payable solely out of the Trust Estate established under the Indenture under which they are issued. Proceeds of the Bonds of each series will be loaned by the Board to Vanderbilt pursuant to a separate Loan Agreement, dated November 1, 2012 (each a “*Loan Agreement*”), between them. Pursuant to each Loan Agreement, Vanderbilt will agree to make payments at times and in amounts sufficient to pay the principal of and interest on the Bonds of the related series. As evidence of its loan payment obligations under each Loan Agreement, Vanderbilt will deliver a separate promissory note (each a “*Note*”) to the Board. The Board will assign substantially all of its rights under each Loan Agreement and each Note to the Trustee pursuant to the Indenture securing the Bonds of the related series. Vanderbilt’s obligations under each Loan Agreement and each Note will be unconditional, unsecured, general obligations. See “SOURCE OF PAYMENT AND SECURITY” herein.

**The Bonds will be limited obligations of the Board payable solely from the sources described herein and will not constitute or create any debt, liability, or obligation or a pledge of the faith and credit of the State of Tennessee or any political subdivision or agency of the State of Tennessee. Neither the faith and credit nor the taxing power of the State of Tennessee or any political subdivision or agency thereof will be pledged to the payment of Bonds. The Board has no taxing power.**

**Vanderbilt University.** Vanderbilt is a privately endowed, coeducational, nonprofit, nonsectarian institution of higher learning located in Nashville, Tennessee. Vanderbilt’s facilities include its academic medical center, also located in Nashville, Tennessee. See “THE VANDERBILT UNIVERSITY” herein and Appendices A and B hereto.

Following are brief descriptions of the Bonds, the plan of finance to be accomplished by the Bonds, the Board, and certain investment considerations. Descriptions of Vanderbilt and its properties and operations are attached as Appendix A. Financial statements of Vanderbilt for its fiscal years ended June 30, 2012 and 2011, are attached as Appendix B. Brief summaries of certain provisions of the Indentures and the Loan Agreements are attached as Appendix C, which also includes definitions of capitalized terms not otherwise defined herein. A form of Continuing Disclosure Agreement is attached as Appendix E. The descriptions of the Bonds and other documents included herein do not comprise a contract between or among the Board, Vanderbilt, and the bondholders. Their contractual rights are established only by the definitive agreements, copies of which are available as described herein. See “MISCELLANEOUS” herein.

## THE BOARD

**General.** The Board, the issuer of the Bonds, is a Tennessee public, not-for-profit corporation and instrumentality of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “*Metropolitan Government*”) organized in 1974 pursuant to Chapter 101, Part 3, Title 48 of the Tennessee Code Annotated, as it may from time to time be amended, or any successor statute (the “*Enabling Law*”). The purpose of the Enabling Law, as stated therein, is to provide a measure of assistance and an alternative method to enable hospital institutions and institutions of higher education to develop and maintain appropriate health and educational facilities by authorizing the incorporation of public corporations to finance, acquire, own, lease and dispose of (but not to operate) properties with a view to promoting the health and higher education of the people of the State of Tennessee.

Although the Board is a public instrumentality of the Metropolitan Government, the Metropolitan Government is not liable in any way for payment of the Bonds or for the performance by the Board of its obligations under the Bond Documents.

**Organization and Membership.** The Enabling Law provides that the Board shall be governed by a board of not less than seven directors who are elected by the Metropolitan County Council of the Metropolitan Government. Directors hold office for staggered terms and receive no compensation except reimbursement for actual expenses incurred in the performance of their duties.

**Certain Powers of the Board.** The Enabling Law empowers the Board, among other things, (i) to acquire, improve, maintain, extend and furnish one or more projects, which are defined as structures, machinery, equipment or other property suitable for use by hospital institutions or institutions of higher education in connection with their operations or proposed operations, (ii) to loan to a hospital institution or an institution for higher education the proceeds from the sale of its bonds to finance any or all of such projects upon such terms as the Board shall deem advisable, (iii) to borrow money and issue its bonds, including refunding bonds, for the purposes of carrying out any of its powers, and (iv) to pledge the revenues and receipts therefrom, as security for the payment of the principal of and interest on any bonds so issued and any agreements made in connection therewith.

**Indebtedness of the Board.** The Board has previously issued and may in the future issue bonds to finance facilities that may compete with Vanderbilt. Each series of bonds issued by the Board is payable only from revenues provided by the institution for which such series was issued, and general funds of the Board are not available for the payment of such bonds.

**Limited Liability of the Board for Payment of the Bonds.** The Bonds of each series will be limited obligations of the Board payable solely out of the Trust Estate established under the Indenture under which such Bonds are issued, which will include rights to and receipts of payments to be made by Vanderbilt pursuant to the related Loan Agreement and Note.

The Bonds will not constitute general, or full faith and credit, obligations of the Board. The Board will not assign or pledge any of its assets, properties or rights to the payment of the Bonds other than the property constituting the Trust Estate.

**Bonds Not Liability of State or Metropolitan Government.** The Bonds will not constitute or create any debt, liability, or obligation of the State of Tennessee or any political subdivision or agency thereof (which includes the Metropolitan Government) or a pledge of the faith and credit of the State of Tennessee or any political subdivision or agency thereof, but will be limited obligations of the Board payable solely from the sources described in this Official Statement. Neither the faith and credit nor the taxing power of the State of Tennessee or any political subdivision or any agency thereof will be pledged to the payment of the Bonds.

**Limited Role of Board in Financing.** Neither the Board nor its directors, officers, agents and employees control or participate in any way in the management of the operations of Vanderbilt. The role of the Board in the financing is limited to issuance of the Bonds and payment of the Bonds solely from the limited sources specified in the respective Indentures.

**Limitations on Liability of Directors, Officers, Agents and Employees of Board.** The directors, officers, agents and employees of the Board are not personally liable for payment of any costs, losses, damages or liabilities

caused or incurred by the Board or the Trustee in connection with the Bonds or the Bond Documents, or for the payment of any sum or the performance of any obligation of the Board under the Bonds or the Bond Documents.

## THE VANDERBILT UNIVERSITY

The Vanderbilt University, the beneficiary of the financing provided by the Bonds, is a privately endowed, coeducational, non-profit, nonsectarian institution of higher learning located in Nashville, Tennessee. For additional information about Vanderbilt, see Appendix A, which contains information about the organization, properties, and operation of Vanderbilt, and Appendix B, which contains audited financial statements of Vanderbilt for its fiscal years ended June 30, 2012 and 2011. See “FINANCIAL STATEMENTS” herein. Vanderbilt will enter into a Continuing Disclosure Agreement with respect to the Bonds, under which it will undertake to provide certain limited information regarding Vanderbilt and its business and affairs after the Bonds are issued. See “CONTINUING DISCLOSURE” herein and Appendix E.

## PLAN OF FINANCE

### General

The proceeds of the Series 2012D Bonds will be used, together with funds of Vanderbilt, to redeem the Board’s outstanding series of revenue bonds issued for the benefit of Vanderbilt specified in the table below (the “*Refunded Bonds*”). The proceeds of the Series 2012E Bonds will be used to retire, at their maturity on November 30, 2012, a portion of the outstanding commercial paper (the “*Commercial Paper*”) issued by the Board for the benefit of Vanderbilt.

### The Refunded Bonds

The redemption price of the Refunded Bonds is to be paid on the date specified below. Proceeds of the Bonds, together with funds of Vanderbilt, will be set aside on the date of delivery of the Bonds in trust with U.S. Bank National Association, as trustee for the owners of the Refunded Bonds (the “*Refunded Bonds Trustee*”), in an amount sufficient, without investment, to pay the redemption price of the Refunded Bonds and accrued interest, if any, thereon to but not including the redemption date. Upon deposit of such funds, the Refunded Bonds will be deemed to be no longer outstanding under or entitled to the security of the trust indentures under which they were issued, and the loan payment obligations of Vanderbilt in connection with the Refunded Bonds will be released and discharged.

## REFUNDED BONDS

<u>Series</u>	<u>Stated Maturity</u>	<u>Principal Amount Outstanding</u>	<u>Redemption Price (%)</u> <sup>(1)</sup>	<u>Redemption Date</u>	<u>CUSIP No.</u> <sup>+</sup>
2000A	October 1, 2030	\$51,600,000	100	December 3, 2012	592041JS7
2005A-1	October 1, 2044	68,000,000	100	November 29, 2012	592041NW3

(1) Plus accrued interest.

<sup>+</sup> Copyright 2007, American Bankers Association. See inside front cover page.

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## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds for the plan of financing to be funded by the Bonds, excluding accrued interest on the Refunded Bonds and the Commercial Paper:

	<b>Series 2012D</b>	<b>Series 2012E</b>	<b>Total</b>
<b>Sources of Funds:</b>			
Principal amount.....	\$106,230,000	\$45,225,000	\$151,455,000
Net original issue premium/discount .....	13,371,332	4,776,690	18,148,022
Vanderbilt funds .....	<u>860,790</u>	<u>272,051</u>	<u>1,132,841</u>
Total sources.....	<u>120,462,122</u>	<u>50,273,741</u>	<u>170,735,863</u>
<b>Uses of Funds:</b>			
Deposit to pay Refunded Bonds or Commercial Paper.....	\$119,600,000	\$50,000,000	\$169,600,000
Deposit to Debt Service Fund.....	1,332	1,690	3,022
Costs of issuance <sup>(1)</sup> .....	<u>860,790</u>	<u>272,051</u>	<u>1,132,841</u>
Total uses.....	<u>120,462,122</u>	<u>50,273,741</u>	<u>170,735,863</u>

(1) Includes, but is not limited to, underwriting, legal, and accounting fees, initial fees of the Trustee, publication costs, and printing expense.

## THE BONDS

*Following is a summary of certain provisions of the Bonds. Reference is made to the definitive Bonds and the Indentures for complete descriptions of the terms of the Bonds. The summary below is qualified by such reference. See also Appendix C.*

### General

The Bonds of each series will mature on October 1 of the years and in the principal amounts, and will bear interest at the rates per annum, specified on the cover page. Interest on the Bonds will be payable on each April 1 and October 1, beginning April 1, 2013. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds of each series will be issuable in fully registered form only, without coupons, in denominations of \$5,000 and any integral multiple of \$5,000.

The principal of and premium, if any, on the Bonds are payable to the registered owners thereof, and interest due on Bonds on each interest payment date will, except as described below, be paid to the person who is the registered owner thereof at the end of the relevant record date. Such payments will be made to Cede & Co., as nominee for The Depository Trust Company (“DTC”), while it acts as securities depository for the Bonds. See “–Book-Entry Only System” below.

The Bonds may be amended, in some cases without the consent of the owners thereof, as described under “Summary of Certain Provisions of the Series 2012D Indenture and Series 2012D Loan Agreement – Amendments of the Bond Documents” and “Summary of Certain Provisions of the Series 2012E Indenture and Series 2012E Loan Agreement – Amendments of the Bond Documents” in Appendix C.

### Redemption Prior to Maturity

***Optional Redemption of Series 2012D Bonds Upon Direction of Vanderbilt.*** The Series 2012D Bonds due on or after October 1, 2023 are subject to redemption, at the option of Vanderbilt, in whole or in part on any Business Day on or after October 1, 2022, at a redemption price equal to 100% of the principal amount of Series 2012D Bonds to be redeemed plus accrued interest, if any, to the date of redemption.

***Series 2012E Bonds Are Not Subject To Optional Redemption.*** The Series 2012E Bonds are not subject to redemption at the option of the Issuer or Vanderbilt except as described in the following paragraph.



***Extraordinary Optional Redemption of Bonds Upon Damage, Destruction or Condemnation of Operating Assets.*** The Bonds of each series may be redeemed in whole or in part on any Business Day, at the option of Vanderbilt, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, if, and to the extent that, the net proceeds of any insurance or condemnation award resulting from damage, destruction or condemnation of operating assets of Vanderbilt exceed the cost of any repairs or replacements to its operating assets that Vanderbilt elects to make with such proceeds.

***Mandatory Sinking Fund Redemption of Series 2012D Bonds.*** The Series 2012D Bonds due October 1, 2037 are subject to mandatory redemption by lot, commencing on October 1, 2033, and continuing on each October 1 thereafter, in the respective aggregate principal amounts set forth in the following table, at a redemption price equal to 100% of the principal amount of the Series 2012D Bonds to be redeemed, plus accrued interest, to the date of redemption.

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2033	\$7,045,000	2036	\$7,765,000
2034	7,275,000	2037*	8,020,000
2035	7,515,000		

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\* Maturity

In any Bond Year, in the event that (i) a portion of the Series 2012D Bonds are redeemed pursuant to “–Optional Redemption of Series 2012D Bonds Upon Direction of Vanderbilt” above or (ii) Term Bonds are purchased and canceled in excess of the principal amount established for such Bond Year, the Amortization Requirements for the Term Bonds in succeeding Bond Year(s) shall be reduced in such order as an Authorized Representative of the University shall elect prior to such redemption or, if no such election is made, in the inverse order thereof. The Trustee shall (in such manner as it in its sole discretion shall choose) adjust the amount of each such reduction in Amortization Requirements, so that each such required Amortization Requirement will be in Authorized Denominations.

***Purchase in Lieu of Redemption.*** The Indenture relating to the Series 2012D Bonds provides that Vanderbilt may elect to purchase Series 2012D Bonds that have been called for optional redemption in lieu of redeeming and retiring such Bonds on the redemption date, if stated in the notice of redemption to Bondholders.

***Selection of Bonds for Redemption.*** If less than all Outstanding Bonds of either series are to be redeemed at Vanderbilt’s option, Vanderbilt may select the maturity or maturities of the Bonds of such series and rate of interest of such maturities to be redeemed. If less than all Bonds of the same series, maturity and rate of interest are to be redeemed, the particular Bonds of such series, maturity and rate of interest to be redeemed will be selected by the Trustee from the Outstanding Bonds of such series, maturity and rate of interest then eligible for redemption by lot or by such other method as the Trustee deems fair and appropriate, which may provide for the selection for redemption of portions (in Authorized Denominations) of the principal of Bonds of such series, maturity and rate of interest.

***Notice of Redemption.*** Notice of redemption must be given to affected Bondholders not less than 20 days prior to the redemption date. While the affected Bonds are registered in the name of Cede & Co., only it will receive such notice from the Trustee. See “–Book-Entry Only System” below. A notice of redemption may state that the redemption of Bonds is contingent upon specified conditions, such as receipt of a specified source of funds or the occurrence of specified events. If the conditions for such redemption are not met, the Trustee will not be required to redeem the Bonds (or portions thereof) identified in such notice, and any such Bonds surrendered on the specified redemption date will be returned to the holders of such Bonds.

***Payment on Redemption Date.*** If notice of redemption is given and any conditions to such redemption are met, the Bonds to be redeemed will become due and payable on the redemption date at the applicable redemption price, and from and after such date (unless Vanderbilt defaults in the payment of the redemption price), such Bonds will cease to bear interest.

## **Book-Entry Only System**

*The information in this section concerning DTC and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Board, Vanderbilt, or the Trustee.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the Bonds of each series and maturity bearing the same rate of interest, in the aggregate principal amount of the Bonds of such series and maturity bearing the same rate of interest, and will be deposited with DTC.

***DTC and Its Participants.*** DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's rating AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

***Beneficial Ownership and Transfers of the Bonds.*** Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

***Notices and Other Communication With Bondholders.*** Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial

Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

**Redemption of the Bonds.** Redemption notices shall be sent to DTC. If less than all of the Bonds of the same series and maturity bearing the same rate of interest are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

**Consents.** Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Payments on the Bonds.** Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Board, or Vanderbilt, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

**Discontinuance of Book-Entry System.** DTC may discontinue providing its services as depository with respect to the Bonds of either series at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates for such series are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers of the Bonds of either series through DTC (or a successor securities depository). In that event, Bond certificates for such series will be printed and delivered to beneficial owners or their nominees in exchange for certificates surrendered by DTC, if DTC agrees to transfer such Bonds.

## **SOURCE OF PAYMENT AND SECURITY**

### **Source of Payment**

The Bonds of each series will be limited obligations of the Board payable solely from and to the extent of the Trust Estate established under the Indenture under which such Bonds are issued, which will include rights to and receipts of payments to be made by Vanderbilt pursuant to the related Loan Agreement and Note. The obligations of Vanderbilt under each Loan Agreement and Note will be unconditional, unsecured, general obligations of Vanderbilt.

### **Security**

The Bonds of each series are secured by the Trust Estate established under the related Indenture, which includes (a) the rights of the Board under the related Loan Agreement and Note (except for certain rights to indemnity and expenses) and (b) money and investments from time to time on deposit in the Debt Service Fund to which loan payments are deposited or any other fund or account established under such Indenture.

Each Indenture establishes a Debt Service Fund and Refunding Account (collectively, the "*Indenture Funds*") to be held by the Trustee.

***Debt Service Funds.*** Each Debt Service Fund is established to hold funds provided by Vanderbilt for the payment of Debt Service on Bonds of the related series. Deposits to each Debt Service Fund are required by the related Loan Agreement to be made by Vanderbilt on the Business Day prior to the applicable Bond Payment Date for the Bonds of the related series in an amount sufficient to pay Debt Service on the Bonds of such series due on such Bond Payment Date.

***Refunding Accounts.*** Each Refunding Account is established to transfer proceeds of the Bonds of the related series on the issue date to the Refunded Bonds Trustee to defease and refund the Refunded Bonds or the paying agent for the Commercial Paper to pay the Commercial Paper at maturity, as applicable.

Pending disbursement for the purposes permitted by the applicable Indenture, money in the Indenture Funds may be invested at the direction of Vanderbilt as provided by the applicable Indenture. See Appendix C.

Neither Indenture creates a lien or other security interest on property of Vanderbilt other than the lien on funds deposited in the Indenture Funds held under the respective Indenture.

### **Unconditional, Unsecured, General Obligations of Vanderbilt**

The Loan Agreements and the Notes constitute unconditional, unsecured, general obligations of Vanderbilt to provide funds for payment of Debt Service on the Bonds. For a summary of certain provisions of the Loan Agreements and the Notes, see Appendix C.

Neither Vanderbilt's obligations under the Loan Agreements and the Notes nor any other outstanding debt obligation of Vanderbilt is secured by a mortgage on Vanderbilt's facilities or a pledge or assignment of or other security interest in any other assets or revenues of Vanderbilt.

Certain of Vanderbilt's debt related to its Hospitals and Clinics (described in Appendix A) is secured by outstanding promissory notes issued under a Master Trust Indenture. The Master Trust Indenture provides no security and very limited covenants for the benefit of the holders of such debt. The Master Trust Indenture was designed primarily as a tool to facilitate the possible reorganization of Vanderbilt's Hospitals and Clinics from an operating division to a separate corporate entity controlled by, or under common control with, Vanderbilt. This possibility is no longer under consideration by Vanderbilt, and Vanderbilt plans to issue no more debt under the Master Trust Indenture. Accordingly, the Notes securing the Bonds will not be issued under or entitled to any benefit under the Master Trust Indenture. See "FINANCIAL INFORMATION—Source of Payment of Outstanding Debt" in Appendix A.

### **Defaults and Remedies**

Each Indenture provides that failure to pay Debt Service on the Bonds of the related series and certain other events are Indenture Defaults under that Indenture. If an Indenture Default exists under an Indenture, the Trustee may, and upon the written request of the Holders of at least 25% in aggregate principal amount of the outstanding Bonds of the related series the Trustee must, declare the principal of all the Bonds of such series and the interest accrued thereon to be due and payable immediately. The Trustee may also exercise any other legal or equitable remedies available for the payment of debt instruments such as the Bonds. Each Indenture contains provisions for the direction of remedies by the holders of specified percentages of the aggregate principal amount of Outstanding Bonds of the related series.

Each Loan Agreement provides that failure of Vanderbilt to make Loan Payments at times and in amounts sufficient to pay Debt Service on the Bonds of the related series and certain other events are Loan Defaults under that Loan Agreement. If a Loan Default exists under a Loan Agreement, the Trustee may, on behalf of the Board, (1) declare the Loan Payments thereunder due and payable immediately in an amount not to exceed the principal amount of all the outstanding Bonds of the related series plus the interest, if any, accrued thereon to the date of such declaration, but only if the Bonds of such series are then declared to be immediately due and payable under the applicable provisions of the related Indenture; (2) if the Bonds of such series have been so accelerated, declare the principal of the related Note to be due and payable immediately, in which case it will be immediately due and payable; and (3) exercise any other legal or equitable remedies available for the payment of debt instruments such as the Loan Agreements and the Notes.

For a description of the specific remedies and the rights of the Trustee and the Bondholders under the respective Indentures upon the occurrence of an Indenture Default thereunder or under the respective Loan Agreements upon the occurrence of a Loan Default thereunder, see the summaries of terms and provisions of the Indentures and the Loan Agreements in Appendix C.

## **INVESTMENT CONSIDERATIONS**

A number of factors, including but not limited to those set forth below, may affect the value of the Bonds as well as timely payment of the principal of and interest on the Bonds. Since the Bonds of each series are payable from loan payments to be made by Vanderbilt, the value and payment of the Bonds will be completely dependent on the financial condition and results of operations of Vanderbilt.

### **Endowment Performance and Distributions**

Investment income on Vanderbilt's endowment and similar funds is a significant source of revenue for Vanderbilt. In addition, Vanderbilt's ability to pay its demand and short-term debt is dependent on its ability to preserve sufficient liquid investments as part of its endowment. Vanderbilt's future financial health depends, in part, on its ability to earn a rate of return on its endowment sufficient to support current operations while preserving the real purchasing power of such distributions over time. Vanderbilt utilizes various derivative products and other investment tools, the value of which may be affected by interest rate fluctuations and other economic developments. Vanderbilt has maintained its historical rate of distributions to support current operations during periods of both positive and negative returns on investments. While Vanderbilt believes its investments are being managed prudently and has adopted policies designed to ensure sound management, there is no assurance that future developments in the securities markets will not have an adverse effect on the market value of its investments and its investment income.

### **Revenue from Students**

Vanderbilt has historically derived substantial income from tuition, fees, and other charges to students. While Vanderbilt has consistently demonstrated a high level of student demand for its programs at current fee levels, there is no assurance it will be able to do so in the future. Fees at Vanderbilt are higher than those at state-supported colleges and many other private schools. Demand for attendance may be subject to a number of factors beyond the control of Vanderbilt, such as general economic and demographic conditions and public and private funding of financial aid. In addition, federal initiatives have recently been proposed to condition federal support for institutions of higher education on their ability to manage tuition and other student costs. Any such initiative, if implemented, could adversely affect Vanderbilt's tuition or research revenue.

### **Grants and Other Research Funding**

As a major national research institution, Vanderbilt in recent years has obtained substantial governmental and private grants and research contracts. The competition for such funding is vigorous, and the availability of such funding may be adversely affected by reductions or discontinuance of both governmental programs and programs sponsored by private businesses and non-profit foundations. Such funding also may be reduced by economic downturns or tax law or other factors adversely affecting private research funding or charitable donations for such purposes. Due to substantial recurring federal budget deficits, many proposals have been made to reduce federal government expenditures substantially. Most governmental research funding has been obtained from the federal government. There can be no assurance that proposed efforts to reduce federal government expenditures will not substantially adversely affect the amount of federal research funding obtained by Vanderbilt in future years.

### **Fundraising**

Vanderbilt has consistently demonstrated an ability to raise funds from a variety of benefactors for its operations, capital development programs, and endowment. Future fundraising, however, may be adversely affected by a number of factors, including current adverse economic conditions, income tax rates, and tax law changes affecting the deductibility of charitable contributions.

## Financial Assistance

Vanderbilt has historically provided substantial financial assistance in the form of scholarships, grants and loans. Financial assistance is a significant factor in the decision of many students to attend a particular college or university. Vanderbilt's ability to maintain current and projected levels of financial assistance is directly affected by both fundraising and federal financial aid programs. Reductions in these sources of funds could reduce the number of qualified applications and the number of students actually enrolling.

## Health Care Operations

Approximately two-thirds of Vanderbilt's operating revenue in recent fiscal years has been derived from services to patients provided by its Medical Center, including its Hospitals and Clinics and practicing faculty who are part of the Vanderbilt Medical Group. While Vanderbilt's health care operations have produced positive operating results in each of the last five fiscal years, future changes in the health care market and regulations could adversely affect future financial results of operations.

**Health Care Reform.** Congress enacted the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "*Reform Acts*") in 2010. The Reform Acts mandate substantial changes in how and to whom government and private health insurance is provided and how much providers of health care services to government insured patients are paid. Implementation of the Reform Acts is phased in over several years and requires adoption of new federal and state regulations, budgets, and policies, the effect of which cannot be predicted. Due to the law's gradual implementation and complexity, the incomplete nature of implementing regulations and forthcoming interpretive guidance, possible future amendment, and its inability to foresee how individuals and businesses will respond to the choices afforded them by the law, Vanderbilt is unable to predict the full impact of the Reform Acts on its health care operations at this time.

The financial and other results of operations incorporated or referred to herein were realized prior to full implementation of the Reform Acts. No assurance can be given that they are indicative of results of operations that Vanderbilt will be able to achieve after full implementation of the Reform Acts.

**Possible Increase in Insured Patients.** The Reform Acts attempt to substantially expand health insurance coverage, generally beginning in 2014, by (1) substantially increasing the federally and state-funded Medicaid insurance program in states that agree to participate in the increase, and authorizing states to establish federally subsidized non-Medicaid health plans for residents not eligible for Medicaid; (2) requiring that most adults secure private health insurance, if not eligible for the Medicaid or other federally-funded insurance programs or covered by employer-provided insurance, and providing graduated subsidies to assist in purchasing insurance; (3) requiring most employers with more than 50 employees to provide health insurance to employees or pay a federal fee; and (4) mandating private health insurance benefits and expansion of coverage for dependents, and preventing private health insurers from limiting annual benefits, denying coverage due to pre-existing conditions (effective immediately for children), or rescinding coverage, among other provisions. These provisions, if and when implemented as included in the Reform Acts, are expected to decrease the uninsured population in the service areas of Vanderbilt's Hospitals and Clinics and decrease its expenses for charity care, but to an extent that cannot be accurately predicted. The State of Tennessee has not yet determined whether to participate in and thus enable expansion of the Medicaid Insurance program in the State.

**Possible Reductions in Federal Program Revenue.** The Reform Acts also attempt to pay providers less for health care services provided under federally-funded health insurance programs. First, the Reform Acts reduce increases in Medicare "market baskets" used to determine compensation rates (as described below) by amounts estimated to total \$150 billion over 10 years (an average annual rate equal to approximately 3.3% of total Medicare reimbursement); reduce Medicare disproportionate share funding by \$4 billion over 10 years (an average annual rate equal to approximately 3.5% of reimbursement); deny payment for services after certain readmissions; further decrease diagnosis related group payments generally and adjust payments to incentivize the delivery of quality care (and the achievement of positive outcomes for patients); and require that Medicare's contingent fee third-party audit program be extended to Medicaid payments. Second, the Reform Acts establish a Center for Medicare and Medicaid Innovation to develop new payment models that are expected to further reduce payments for services to Medicare-insured patients; establish accountable care organizations under the Medicare Shared Savings Program, through which health systems and physicians may share incentive payments for reducing health care costs;

implement a Medicare bundled payment pilot program for the same purpose; increasingly link payments to patient outcomes; and establish an Independent Payment Advisory Board to propose further reductions in Medicare payments (which become effective unless overridden by Congress). Vanderbilt expects these provisions to reduce or limit future increases in certain payments that its Hospitals and Clinics and its Medical Group receive for providing services to government-insured patients to an extent that cannot yet be determined.

***Possible Effects on Third-Party Payers.*** The Reform Acts attempt to increase competition among private health insurers by providing for transparent state insurance exchanges. The Reform Acts also prevent private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. These provisions could adversely affect the ability of private insurers to pay Vanderbilt for services provided to insured patients.

***Possible Repeal of Health Care Reform.*** The Reform Acts reduce payments for services to federally-insured patients because Congress expected that providers will realize savings in charity care expenses, since they are expected to provide care to fewer uninsured patients as a result of mandated increases in insurance coverage. However, members of Congress have proposed various repeals and/or amendments to Reform Acts provisions as well as restrictions on appropriations to implement the Reforms Acts. There is no assurance that the Reform Acts will be fully implemented or, if implemented, will not be ultimately rescinded. In addition, healthcare insurance premium assistance will not be available for undocumented patients, so the Reform Acts are not expected to reduce the number of uninsured, undocumented patients served by Vanderbilt. Accordingly, even if the Reform Acts' provisions are fully implemented, there can be no assurance that Vanderbilt will realize sufficient savings in charity care expenses to offset reductions in payments for services to Medicare-insured patients.

***Dependence on Governmental Patient Service Revenue.*** Vanderbilt receives more than 40% of its patient service revenues from Medicare, Medicaid, TennCare, and other third party government health care programs. The governmental payment programs depend on funding by federal and state governments. The increasing cost of health care services and the strain on operating budgets of governmental entities have imposed significant limitations on reimbursement for services provided to beneficiaries of these programs. These challenges are expected to continue in the future. Receipt of revenues from these programs also subjects Vanderbilt to extensive regulation and the risks of enforcement. Governmental payment programs have increasingly imposed limitations on the payment for services. These limitations often require hospitals to provide certain services below cost. Many of the private programs reimburse based on a percentage of payment from governmental programs for similar services. Thus, reductions or limitations in reimbursement under governmental programs can also result in reductions of limitations under private programs.

In 1994, the State of Tennessee applied for and was granted a waiver by the federal government and began providing services to Medicaid eligible and uninsurable or uninsured persons through TennCare, a managed care plan administered through third party insurers, rather than the traditional Medicaid program. Like traditional Medicaid programs, TennCare is funded with a combination of federal and State of Tennessee funds. The program generally does not pay to providers amounts adequate to cover the cost of care provided. Vanderbilt is one of the largest providers of health care services to TennCare enrollees and consequently incurs substantial losses. Approximately 18% of Vanderbilt's gross patient revenue for the fiscal year ended June 30, 2012, was derived from patients covered by TennCare and Medicaid programs. This percentage is expected to increase if Tennessee participates in the Medicaid coverage expansion available under the Reform Acts.

***Competition.*** Vanderbilt faces competition for health care services not only from other area and regional hospitals, but also from other forms of health care providers, including health maintenance organizations, preferred provider organizations, specialty hospitals, home health agencies, surgical centers, rehabilitation and therapy centers, physician group practices and other alternative delivery systems and non-hospital providers of medical services. Increasing costs of health care services are likely to stimulate additional forms of competition. Many new forms of health care providers may not be subject to the restrictions imposed on Vanderbilt by its participation in governmental health care programs and by the status of its Hospitals and Clinics as teaching hospitals, as part of Vanderbilt and as part of a tax-exempt organization. The application of federal and state antitrust laws to health care is still evolving, and enforcement and other developments in this area could adversely affect Vanderbilt's competitive position.

## **Government Regulations**

Vanderbilt's operations are affected by a variety of federal, state, and local environmental, health, and safety regulations related to, among other things, hazardous materials, wastes and contaminants. Such regulations particularly affect research and health care operations. In addition, the operation of hospitals is extensively regulated by the federal and state governments. These regulations affect virtually every aspect of hospital operations, including (1) imposing procedures that increase costs (including complicated billing and other record keeping procedures), (2) requiring the providing of services free or below cost, (3) limiting the ability to make decisions based on economic best interests, and (4) restricting the ability to pursue advantageous business opportunities with physicians and other health care providers. Significant restrictions include (1) the Physicians Self-Referral ("*Stark*") and "Anti-Kickback" laws, which severely restrict financial relationships with and referrals by private physicians, (2) the Emergency Medical Treatment and Active Labor Act, imposing operating requirements on emergency rooms, and (3) the federal Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*"). Violations of any such regulations may interrupt operations, increase costs, or result in financial penalties and other enforcement burdens.

## **Dependence on Exempt Purpose Use of Bond-Financed Property**

If Vanderbilt should lose its status as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, or if it uses or permits the use of more than a de minimus amount of the property to be refinanced by the Bonds of either series in a non-exempt or private business, the exemption from gross income of interest on the Bonds of both series for federal income tax purposes could be lost retroactively to the date of issue.

## **Other Factors**

Various other factors could affect the future financial strength of Vanderbilt or the value of the Bonds, such as fluctuations in interest rates and changes in tax laws affecting Vanderbilt's ability to borrow on a tax-exempt basis. A significant portion of Vanderbilt's budget relates to fixed expenses, including salaries of tenured faculty, which cannot be easily reduced or eliminated to reflect changing economic conditions.

## **TAX MATTERS**

### **Opinion of Bond Counsel—Federal Income Tax Status of Interest**

McGuireWoods LLP, as Bond Counsel to the Board, will render opinions when the Bonds are delivered to the effect that, under current law, interest on the Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the "*Code*")), interest on the Bonds must be included in computing adjusted current earnings. See Appendix D for the anticipated form of Bond Counsel's opinion. See "—Certain Collateral Tax Consequence" below for a description of possible adverse federal income tax consequences of owning Bonds.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

Bond Counsel's opinion speaks as of its date, is based on the Code and other current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the Board or Vanderbilt or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "*IRS*"). The Board and Vanderbilt have covenanted, however, to comply with the requirements of the Code.



## **Reliance and Assumptions; Effect of Certain Changes**

In delivering its opinion regarding the Bonds, Bond Counsel is relying upon (i) certifications of representatives of the Board, Vanderbilt and other parties as to facts material to the opinion, which Bond Counsel has not independently verified, and (ii) the opinion of the Office of the General Counsel of Vanderbilt that Vanderbilt is an organization described in Section 501(c)(3) of the Code and is not a “private foundation” as defined in Section 509(a) of the Code, and to the best of such counsel’s knowledge, Vanderbilt has not failed to file any required report with the IRS or engaged in conduct inconsistent with its status as an exempt organization.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the Board and Vanderbilt. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that Vanderbilt maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Indentures, the Loan Agreements, and the Tax Certificate and Agreement relating to the Bonds, dated as of the date of issuance of the Bonds (the “*Tax Agreement*”), between the Board and Vanderbilt, contain substantially identical covenants for the benefit of the owners of the Bonds of the respective series (the “*Covenants*”) under which the Board and Vanderbilt have agreed to comply with such requirements. Failure by the Board or Vanderbilt to comply with their respective Covenants under either Indenture or Loan Agreement or the Tax Agreement could cause interest on the Bonds of both series to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Board with its respective Covenants does not require the Board to make any financial contribution for which it does not receive funds from Vanderbilt.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Indentures, the Loan Agreements, and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

## **Original Issue Discount**

The excess, if any, of the amount payable at maturity of any maturity of the Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such maturity is sold constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Bonds for federal income tax purposes. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that a holder’s adjustable basis for purposes of determining a holder’s gain or loss on disposition of the Bonds with original issue discount (the “*OID Bonds*”) will be increased by such amount. In addition, original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. Consequently, owners of any OID Bond should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although the owner of such OID Bond has not received cash attributable to such original issue discount in such year.

Owners of OID Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to

such OID Bonds, other tax consequences of owning OID Bonds and other state and local tax consequences of holding such OID Bonds.

### **Original Issue Premium**

The excess, if any, of the tax basis of any maturity of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for the sale to customers in the ordinary course of business) over the amount payable at maturity is “bond premium.” Bond premium is amortized over the term of the Bonds for federal income tax purposes (or in the case of a Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such obligation). Owners of such Bonds are required to decrease their adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. The amortizable bond premium on such Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Bonds.

Owners of the Bonds with bond premium should consult their personal tax advisors with respect to all matters relating to such premium.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the “branch profits tax,” individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

### **Effects of Future Enforcement, Regulatory and Legislative Actions**

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the Bonds, the IRS will, under its current procedures, treat the Board as the taxpayer. As such, the beneficial owners of the Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including, but not limited to, the selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various State legislatures. Such legislation may effect changes in federal or State income tax rates and the application of federal or State income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on tax-exempt obligations from gross income for federal or State income tax purposes.

The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or State tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the Bonds, regulatory interpretation of the Code or actions by a court involving either the Bonds or other tax-exempt obligations will not have an adverse effect on (1) the federal or State tax status of the Bonds, (2) the marketability or market price of the Bonds or (3) the economic value of the tax-exempt status of the interest on the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or State tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

### **Opinion of Bond Counsel—Tennessee Income Tax Consequences**

In the opinion of Bond Counsel, under existing law, the Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law.

Bond Counsel will express no opinion regarding (i) other Tennessee tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than Tennessee. Prospective purchasers of the Bonds should consult their own tax advisors regarding state and local tax issues not covered by Bond Counsel's opinion, including the tax status of interest on the Bonds in a particular state or local jurisdiction other than Tennessee.

### **RATINGS**

The following long-term ratings have been assigned to the Bonds by the following rating agencies:

Moody's Investors Service, Inc.	Aa2
Standard & Poor's Ratings Services	AA
Fitch Ratings	AA+

An explanation of the significance of these ratings may be obtained from the rating agencies furnishing such ratings. Such ratings reflect only the respective views of each rating agency and are not a recommendation to buy, sell or hold the Bonds.

Vanderbilt furnished such rating agencies with certain information and materials relating to the Bonds that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. None of the Board, Vanderbilt, the Financial Advisor or the Underwriters has undertaken any responsibility to bring to the attention of the registered owners of the Bonds any proposed revision or withdrawal of the ratings of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price or marketability of the Bonds.

### **CONTINUING DISCLOSURE**

#### **General**

Vanderbilt will agree to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") under a continuing disclosure agreement with the Trustee. The proposed form of agreement is attached as Appendix E. The information, data, and notices will be available through the MSRB internet website at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

Vanderbilt will agree to update information and to provide notices of events only as described in Appendix E. It has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, conditions, or prospects or agreed to update any information that is provided, except as described above. Vanderbilt makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date.

Vanderbilt may amend its continuing disclosure agreement on the conditions described in Appendix E without the consent of the Board or the Trustee.

Failure by Vanderbilt to comply with its continuing disclosure agreement will not constitute an Indenture Default under either Indenture or a Loan Default under either Loan Agreement. If Vanderbilt breaches its agreement, the sole remedy available to owners of the Bonds will be an action seeking mandamus or specific performance to cause Vanderbilt to comply with its obligations under the agreement.

## **Compliance with Prior Undertakings**

Vanderbilt has not breached any prior continuing disclosure undertaking made by it in accordance with Rule 15c2-12 in the last five years, except for failure to provide timely notice of bond rating downgrades that resulted from widely reported downgrades of a bond insurer.

## **FINANCIAL STATEMENTS**

The consolidated financial statements of Vanderbilt as of and for the Fiscal Years ended June 30, 2012 and 2011, attached as Appendix B, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B. PricewaterhouseCoopers LLP has not audited or performed other procedures with respect to the summary financial information included in Appendix A. PricewaterhouseCoopers LLP has not been engaged to perform, and has not performed since the date of its audit report, any procedures on the financial statements included in Appendix B or relating to this Official Statement. The financial statements speak only as of June 30, 2012 and 2011, and for the years then ended.

## **UNDERWRITING**

J.P. Morgan Securities LLC and Wells Fargo Bank, National Association (the “*Underwriters*”) have agreed to purchase the Bonds from the Board at a purchase price equal to the aggregate initial offering price of the Bonds. The agreement provides that the Underwriters must purchase all of the Bonds if any are purchased and is subject to certain conditions. Vanderbilt has agreed to compensate the Underwriters for their purchase of the Bonds in an amount equal to \$649,007.80 and to indemnify the Board and the Underwriters against certain liabilities, including certain liabilities arising under federal and state securities laws in connection with the offering and sale of the Bonds.

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page. The initial offering price may be changed from time to time by the Underwriters.

J.P. Morgan Securities LLC, one of the Underwriters, has entered into a negotiated dealer agreement with each of UBS Financial Services Inc. and Charles Schwab & Co., Inc. for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each such dealer agreement, each of UBS Financial Services Inc. and Charles Schwab & Co. will purchase Bonds from J.P. Morgan Securities LLC at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association, one of the Underwriters, has entered into an agreement with Wells Fargo Advisors, LLC for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the agreement, Wells Fargo Bank, National Association will share a portion of its underwriting or remarketing agent

compensation, as applicable, with respect to the Bonds with Wells Fargo Advisors, LLC. Wells Fargo Bank, National Association and Wells Fargo Advisors, LLC are both subsidiaries of Wells Fargo & Company.

The Underwriters provide other unrelated services and are parties to other unrelated agreements and transactions with Vanderbilt, from which they derive income.

#### **LEGAL COUNSEL**

McGuireWoods LLP, New York, New York, is serving as bond counsel to the Board and will deliver its opinions with respect to the Bonds in substantially the forms set forth in Appendix D. Certain legal matters will be passed upon by Vanderbilt's Senior Deputy General Counsel and Balch & Bingham LLP, Birmingham, Alabama, counsel to Vanderbilt; by Adams and Reese LLP, Nashville, Tennessee, counsel to the Board; and by Fulbright & Jaworski L.L.P., Houston, Texas, counsel to the Underwriters.

#### **FINANCIAL ADVISOR**

Ponder & Co. is serving as financial advisor to Vanderbilt in connection with the issuance of the Bonds.

#### **RELATIONSHIP OF PARTIES**

McGuireWoods LLP, bond counsel to the Board, and Balch & Bingham LLP, counsel to Vanderbilt, represent the Underwriters in unrelated matters.

#### **ABSENCE OF MATERIAL LITIGATION**

There is no litigation pending or, to the knowledge of the Board or Vanderbilt, threatened seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued or which in any manner questions the right of the Board or Vanderbilt to engage in the transactions relating to the issuance, sale and delivery of the Bonds. See "MISCELLANEOUS – Litigation" in Appendix A.

#### **MISCELLANEOUS**

The references herein to the Bonds, the Indentures, the Loan Agreements, the Notes and the Tax Agreement are brief descriptions of certain provisions thereof. Such descriptions do not purport to be complete, and reference is made to such documents for full and complete statements therein. Agreements of the Board and Vanderbilt with the owners of the Bonds are fully set forth in the Bonds, the Indentures, the Loan Agreements, the Notes and the Tax Agreement, and neither any advertisements of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements made in this Official Statement involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the executed Bond Documents will be on file at the corporate trust office of U.S. Bank National Association in Nashville, Tennessee.

The Board has furnished only the information contained herein under the heading "THE BOARD" that relates to the Board and has not reviewed and takes no responsibility for any other information contained in this Official Statement. U.S. Bank National Association has not reviewed and takes no responsibility for any information contained in this Official Statement. Vanderbilt has reviewed the information contained herein that relates to Vanderbilt and has approved all such information for use in this Official Statement.

The distribution of this Official Statement has been duly authorized by the Board and approved by Vanderbilt.

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## **APPENDIX A**

**The Vanderbilt University**

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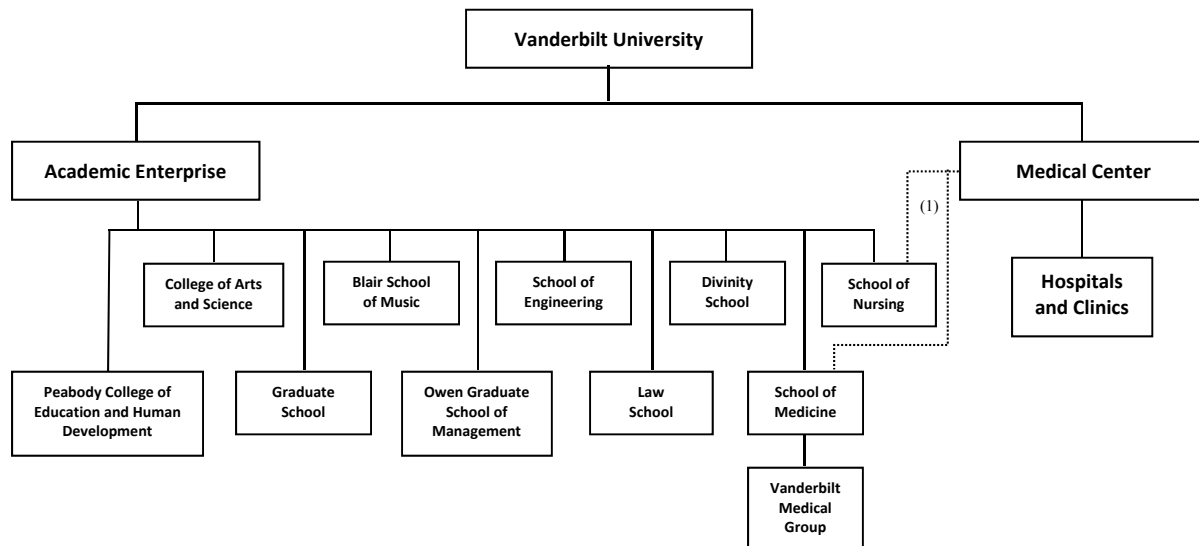
## INTRODUCTION

The Vanderbilt University (the “*University*” or “*Vanderbilt*”) is a privately endowed, coeducational, not-for-profit, nonsectarian institution of higher learning located in Nashville, Tennessee. Founded in 1873, Vanderbilt was 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. Vanderbilt is named for the shipping and railway magnate, Commodore Cornelius Vanderbilt, who gave one million dollars to build and endow the university.

This Appendix A provides information regarding the general operations of Vanderbilt and its unincorporated operating division known as The Vanderbilt University Hospitals and Clinics (the “*Hospitals and Clinics*”). Attached as Appendix B to this Offering Statement are audited consolidated financial statements for Vanderbilt for the fiscal years ended June 30, 2012 and 2011.

### Overview

Vanderbilt is located on an approximately 330-acre campus and provides educational services to approximately 6,800 undergraduate students and 5,900 graduate and professional students in its various undergraduate, graduate, and professional divisions. Below is an organizational chart for Vanderbilt.



- (1) Vanderbilt's School of Medicine and School of Nursing are components of the academic enterprise, which includes teaching and research. Medical and nursing faculty and students also provide patient care services through the Vanderbilt University Medical Center and its Hospitals and Clinics.

*Academic Units.* Vanderbilt's academic enterprise consists of 10 schools and colleges offering undergraduate, professional, and graduate degrees. All Doctor of Philosophy (Ph.D.) degrees, which are offered in more than 40 separate graduate programs, are conferred by the Graduate School. More than 93% of Vanderbilt's students are considered full-time students. The following table sets forth the fall 2012 student enrollment headcount distribution amongst Vanderbilt's 10 schools and colleges.

	<b>Undergraduate Students</b>	<b>Graduate and Professional Students</b>	<b>Total Students</b>
College of Arts and Science	4,225	- <sup>(1)</sup>	4,225
Blair School of Music	190	-	190
School of Engineering	1,281	20	1,301
Peabody College of Education and Human Development	1,078	619	1,697
Graduate School	-	2,306	2,306
Divinity School	-	232	232
Law School	-	636	636
Owen Graduate School of Management	-	577	577
School of Medicine	-	663	663
School of Nursing	-	896	896
Students in unclassified studies	22	-	22
Less: Students in multiple schools	-	(35)	(35)
Total enrollment headcount	<u>6,796</u>	<u>5,914</u>	<u>12,710</u>

<sup>(1)</sup> Master's degrees in the College of Arts and Science disciplines are administered through the Graduate School.

*Facilities.* The principal physical facilities located on the campus include 63 residential halls (including 26 fraternity and sorority buildings owned by Vanderbilt), 20 student services buildings, 39 academic buildings, a bookstore, nine libraries, 32 buildings for administration and support services, several athletic buildings, including a 40,550-capacity stadium, and the facilities of the Vanderbilt University Medical Center, which includes the Hospitals and Clinics and Vanderbilt's School of Medicine and School of Nursing. In total, Vanderbilt University Medical Center occupies approximately 10.2 million square feet of the approximately 18.2 million square feet of floor space (including garages) contained in Vanderbilt's 244 buildings.

*Hospitals and Clinics.* The Hospitals and Clinics provide a wide range of patient services, with an emphasis on highly specialized services, and are a principal referral center for physicians and patients throughout the southeastern United States. The Hospitals and Clinics, located primarily on Vanderbilt's campus, serve as the principal teaching facilities of Vanderbilt's School of Medicine and School of Nursing and, in that role, support various research and educational programs.

There are three main hospitals at Vanderbilt with a total of 985 beds licensed and approved for operations. Vanderbilt University Hospital (the "*Adult Hospital*") consists of 626 beds in a three-towered, nine-story structure and portions of the Medical Center East and Medical Center North buildings. The Adult Hospital delivers routine, inpatient and outpatient care and highly specialized medical treatment and surgical procedures. The Adult Hospital is also home to the region's only Level I Trauma Center, a comprehensive burn center, a transplant center, and the Vanderbilt Heart and Vascular Institute. Most pediatric services, including neonatal intensive care, pediatric emergency, and other highly specialized surgical and medical services, are provided by the Monroe Carell Jr. Children's Hospital at Vanderbilt (the "*Children's Hospital*"), which has 271 beds and is housed primarily in an approximately 658,000-square-foot separate facility that opened in February 2004. The Vanderbilt Psychiatric Hospital (the "*Psychiatric Hospital*") is a separate 88-bed facility.

## **Strategic Initiatives**

*Student Education.* Demand for the Vanderbilt educational experience continues to increase. Vanderbilt's administration believes that this is in part due to its strategy to build an increasingly strong intellectual and social community, including through programs like the Martha Rivers Ingram Commons at Vanderbilt, where select faculty live among students and participate in student-driven programming. Vanderbilt's strategic enrollment plans have yielded better quality and ethnic, income, and geographic diversity among its students. The middle 50 percent range of SAT scores for incoming freshmen increased to 1400-1560 in fall 2012 from 1330-1500 in fall 2008, and during that same time the percentage of minority freshmen rose to 30% for the fall 2012 incoming class. Student quality and diversity have also improved in Vanderbilt graduate and professional school admissions, where demand continues to be very strong. For Ph.D. candidates beginning their studies in fall 2012, 8,150 applicants applied and 913 were offered admission (11% selectivity rate). Vanderbilt's School of Medicine garnered more than 6,000 applicants for 104 student slots for the fall of 2012.

Vanderbilt admits students based on talents and ability without regard for the ability to pay. Vanderbilt remains committed to fully meeting the demonstrated need of its undergraduates. As the result of many initiatives, Vanderbilt's undergraduate freshman retention rate for the current academic year was 96%, and its latest undergraduate six-year graduation rate is 92%.

Vanderbilt continues to implement its long-term residential college system strategic plan, College Halls at Vanderbilt. The Martha Rivers Ingram Commons at Vanderbilt, the first phase of College Halls, opened in 2008 and brings together all first-year students, who live in 10 houses, each guided by a faculty head of house, a member of the university faculty and mentor who lives among the students.

Vanderbilt began construction on the next phase of residential colleges, College Halls at Kissam, in May 2012. College Halls at Kissam will consist of two colleges that will each house about 330 students—a mixture of sophomores, juniors, and seniors—and faculty directors in residence. The six existing Kissam Quadrangle residence hall buildings, located near Kirkland Hall, have been demolished to make way for the two colleges, which will be connected by a shared facility providing gathering space, dining options, a classroom, offices, and meeting rooms. This \$115 million project is expected to be complete in fall 2014. Funding for the project will be provided entirely through philanthropy and internal, non-endowed resources.

*Research.* Vanderbilt continues to increase the size, breadth, and impact of its research enterprise. A significant funding source for Vanderbilt's research is the federal government, particularly the Department of Health and Human Services' National Institutes of Health ("NIH"). Vanderbilt provided approximately \$350 million of research services to the NIH in fiscal 2012.

Over the last five years, federal and corporate support for research at Vanderbilt has grown significantly. Further, Vanderbilt internally supports faculty research through initiatives such as the IDEAS (Innovation and Discovery in Engineering And Science) Program, the Research Scholars Grant Program, and the Discovery Grant Program, which enable Vanderbilt researchers to pursue pioneering research and interdisciplinary endeavors. Vanderbilt is committed to supporting researchers who explore solutions to vexing problems and develop life-changing cures and innovations to advance our collective wisdom and potentially transform the world.

*Patient Care.* Vanderbilt continues to invest in patient care services, with a specific focus on surgical, cancer-related, cardiac/vascular, pediatric, neonatal, and intensive/critical care services.

Vanderbilt opened five floors of the Adult Hospital's new Critical Care Tower in November 2009, and a multi-phase buildout is currently underway for this nine-story facility atop the emergency department. Upon its opening, the new Critical Care Tower alleviated capacity constraints with the initial addition of 65 licensed beds. In April 2012, as part of the continued buildout, the seventh floor of the Critical Care Tower was completed and added additional licensed beds. The Critical Care Tower currently includes 12 new state-of-the-art operating rooms, a surgical intensive care unit, a neurological intensive care unit, and a medical intensive care unit. In addition to new acute-care inpatient rooms and operating rooms, the Critical Care Tower is equipped throughout with state-of-the-art technology designed to support the concept of patient and family-centered care. To further alleviate capacity constraints, Vanderbilt is currently building out the 10th floor of the Critical Care Tower with funding from internal resources.

In January 2012, Vanderbilt completed the buildout of space on the 10th floor of the Doctor's Office Tower to create more capacity for pediatric clinical services. During 2012, Vanderbilt completed an expansion of the Children's Hospital to include a 30,000-square-foot addition and added space for pediatric clinics. The expansion—a five-story, \$30 million addition atop the third floor surgery pre-op and recovery areas—allows for 33 additional acute, neonatal intensive care, and medical-surgical beds. This expansion increases capacity to accommodate both inborn premature babies and those who are transferred to Vanderbilt from community hospitals. The added neonatal, acute care, and medical-surgical beds are adjacent to and an extension of pre-existing floors of the Children's Hospital. These projects were funded entirely through philanthropy and internal resources. In addition to these capital projects, investments are planned for programmatic enhancements to focus on the three childhood diseases most prevalent in Middle Tennessee—childhood cancer, childhood heart disease, and prematurity.

The new space in the Critical Care Tower and the expansion of the Children's Hospital, along with other bed configuration changes in the original hospital spaces during fiscal 2012, provided a net increase of 67 licensed beds

(to 985 as of June 2012 from 918 as of June 2011). Subject to normal construction and licensing risks, Vanderbilt expects to have a total of approximately 1,019 beds licensed and approved for operation at the end of fiscal 2013 following the buildout of the 10th floor of the Critical Care Tower, net of other renovations and bed reconfigurations.

## GOVERNANCE AND ADMINISTRATION

### Board of Trust

Vanderbilt's governing Board of Trust consists of members drawn from a cross-section of private, public, and community interests and includes the Chancellor of Vanderbilt, who serves ex officio. Members of the Board of Trust serve without compensation. No current student or member of the faculty or staff of Vanderbilt, other than the Chancellor, may serve on the Board of Trust. There are currently 56 members of the Board of Trust, consisting of 33 regular Trustees and 23 Trustees Emeriti. Trustees Emeriti do not vote.

The Board of Trust has various standing committees composed of Board of Trust members. These include (1) the Executive Committee, which is empowered when the Board of Trust is not in session to transact business of every kind not inconsistent with previous action taken by the Board of Trust; (2) the Investment Committee, which is responsible, subject to any policy and specific instruction of the Board of Trust, for the investment and custody of Vanderbilt's endowment assets; (3) the Budget Committee, which makes recommendations to the Board of Trust concerning budgeting, debt, and financial matters; and (4) the Audit Committee, which reviews financial matters of Vanderbilt. The Board of Trust meets at least three times a year and the Executive Committee meets as needed.

The Medical Center Affairs Committee oversees policy matters relevant to Vanderbilt University Medical Center, such as approving appointments and terminations of appointments to the medical staff of the Hospitals and Clinics and reviewing their quality assurance programs, and advises Vanderbilt with respect to the operation of Vanderbilt University Medical Center, including the Hospitals and Clinics. The Medical Center Affairs Committee is composed of the Chairman of the Board, the Chancellor, at least six additional members of the Board of Trust, and up to four individuals not members of the Board nor employed at Vanderbilt who are chosen for their health care expertise. Matters relating to Vanderbilt University Medical Center that are presented to the Board of Trust are considered first by the Medical Center Affairs Committee.

The members of the Board of Trust and their current or latest professional affiliations are listed below.

#### Officers of the Board:

**Mark F. Dalton** <sup>(1)(2)</sup>, **Chairman**, *Scarsdale, NY*..... Co-Chairman and CEO, Tudor Investment Corp.  
**Jackson W. Moore** <sup>(1)(2)</sup>, **Vice Chairman**, *Memphis, TN*..... Moore Management, LLC  
**Nancy Perot** <sup>(1)</sup>, **Vice Chairman**, *Dallas, TX*..... Active in civic and cultural affairs  
**Joanne F. Hayes** <sup>(1)</sup>, **Secretary**, *Gulf Stream, FL*..... Active in civic and cultural affairs

#### Members of the Board:

**Michael L. Ainslie**, *Palm Beach, FL*..... Chairman, Ainslie Ventures  
**M. Chandler Anthony**, *Dallas, TX*..... Associate Consultant, Bain & Company  
**John D. Arnold** <sup>(1)</sup>, *Houston, TX*..... Owner and President, Centaurus Energy Management, L.P.  
**William W. Bain, Jr.**, *Naples, FL*..... Retired Chairman, Bain, Willard Companies, L.P.  
**Lee M. Bass**, *Fort Worth, TX*..... CEO, LMBI, L.P.  
**Darryl D. Berger**, *New Orleans, LA*..... President, The Berger Company, Inc.  
**Camilla D. Bergeron**, *New York, NY*..... Camilla Dietz Bergeron, Ltd.  
**Dennis C. Bottorff**, *Nashville, TN*..... Managing General Partner, Council Capital  
**Billy Ray Caldwell** <sup>(1)</sup>, *Nashville, TN*..... President, Caldwell Advisors, LLC  
**Claiborne P. Deming** <sup>(1)</sup>, *El Dorado, AR*..... Chairman of the Board, Murphy Oil Corporation  
**Charles H. Esserman** <sup>(1)</sup>, *Orinda, CA*..... CEO, TSG Consumer Partners  
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**Ayotunde O. Ositelu** <sup>(1)</sup>, *Westfield, IN* ..... Field Clinical Engineer, Angel Medical Systems, Inc.  
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**H. Ross Perot, Jr.** <sup>(1)(2)</sup>, *Dallas, TX* ..... Chairman, Hillwood  
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**Eugene B. Shanks, Jr.**, *Greenwich, CT* ..... Corporate Director; former President, Bankers Trust Company  
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**Wyatt H. Smith**, *Birmingham, AL* ..... Teacher, Carver High School  
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The Johns Hopkins University School of Medicine  
**Rebecca W. Wilson**, *Memphis, TN* ..... Active in civic and cultural affairs  
**William M. Wilson** <sup>(1)(2)</sup>, *Nashville, TN* ..... President, Cherokee Equity Corporation  
**Jon Winkelried** <sup>(1)</sup>, *Aledo, TX* ..... CEO, JW Capital Partners, LLC  
**Nicholas S. Zeppos** <sup>(1)</sup>, *Nashville, TN* ..... Chancellor of the University

<sup>(1)</sup> Member, Executive Committee

<sup>(2)</sup> Member, Audit Committee

#### Trustees Emeriti:

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**Lewis M. Branscomb**, *La Jolla, CA* ..... Professor Emeritus, Harvard University  
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**Brownlee O. Currey, Jr.**, *Nashville, TN* ..... President, Currey Investments  
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**John R. Hall**, *Lexington, KY* ..... Chairman and Chief Executive Officer, Retired, Ashland, Inc.  
**L. Hall Hardaway, Jr.**, *Nashville, TN* ..... Chairman and President, Retired, The Hardaway Group, Inc.  
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**Cal Turner**, *Franklin, TN* ..... Chairman, Cal Turner Family Foundation  
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**Thomas B. Walker, Jr.**, *Dallas, TX* ..... Goldman, Sachs & Co.  
**Dudley B. White**, *Nashville, TN* ..... Active in civic and cultural affairs  
**W. Ridley Wills II**, *Nashville, TN* ..... Historian  
**J. Lawrence Wilson**, *Bonita Springs, FL* ..... Chairman and CEO, Retired, Rohm and Haas Co.

#### Administration

The chief executive officer of Vanderbilt is the Chancellor, who is elected by and serves at the pleasure of the Board of Trust. The immediate governance of Vanderbilt is committed to the Chancellor and, through the Chancellor, to assisting officers and the faculty in the schools and colleges. The Chancellor, subject to the approval of the Board of Trust, appoints the principal administrative officers of Vanderbilt and the Deans of the schools and colleges. The current principal administrative officers of Vanderbilt and their years of service are listed in the following table.

<b>Name</b>	<b>Title</b>	<b>Years of Vanderbilt Service</b>
Nicholas S. Zeppos	Chancellor	25
Jeffrey R. Balser	Vice Chancellor for Health Affairs and Dean of the School of Medicine	14
Jerry G. Fife	Vice Chancellor for Administration	13
Beth A. Fortune	Vice Chancellor for Public Affairs	12
Richard C. McCarty	Provost and Vice Chancellor for Academic Affairs	11
Susie S. Stalcup	Vice Chancellor for Development and Alumni Relations	3
Brett C. Sweet	Vice Chancellor for Finance and Chief Financial Officer	3
David Williams II	Vice Chancellor for Athletics and University Affairs; General Counsel; and Secretary of the University	12
Matthew W. Wright	Vice Chancellor for Investments	5

**Nicholas S. Zeppos, Chancellor.** B.A., University of Wisconsin, 1976; J.D., University of Wisconsin, 1979. Mr. Zeppos was named Chancellor of Vanderbilt University on March 1, 2008, becoming only the eighth chancellor in Vanderbilt's 135-year history. From 2002 until his appointment as Chancellor, Mr. Zeppos served as Provost and Vice Chancellor for Academic Affairs, overseeing Vanderbilt's academic and student functions, fundraising, alumni affairs, and strategic planning. Prior to 2002, Mr. Zeppos served as Vanderbilt's Vice Chancellor for Institutional Planning and Advancement, Associate Provost for Academic Affairs, and Associate Dean for Research and Faculty Development at the Vanderbilt Law School. Mr. Zeppos joined the Law School faculty in 1987 after service as an attorney in the U.S. Department of Justice and with Wilmer, Cutler & Pickering in Washington, D.C.

**Jeffrey R. Balser, Vice Chancellor for Health Affairs and Dean of the School of Medicine.** B.S., Tulane University, 1984; M.D./Ph.D., Vanderbilt University, 1990. In 2008, Dr. Balser became the eleventh dean of Vanderbilt's School of Medicine since its founding in 1875, and in 2009 he was named Vice Chancellor for Health Affairs. Dr. Balser assumed a faculty appointment at Vanderbilt beginning in 1998 and served as the James Tayloe Gwathmey Professor and Chair of Anesthesiology and as the Associate Dean for Physician Scientists. After receiving his M.D./Ph.D. from Vanderbilt in 1990, Dr. Balser undertook residency training in anesthesiology and fellowship training in critical care medicine at The Johns Hopkins University. He joined the faculty at Johns Hopkins in 1995, where he initiated a basic research program aimed at the molecular pharmacology of cardiac arrhythmias.

**Jerry G. Fife, Vice Chancellor for Administration.** B.S., Purdue University, 1975. Mr. Fife was appointed Vice Chancellor for Administration in 2009 after previously serving as Assistant Vice Chancellor for Research Finance, Assistant Vice Chancellor for Information Technology Services, and interim Associate Vice Chancellor for Human Resources. Prior to joining Vanderbilt in 1998, Mr. Fife was Director of the Office of Contracts and Grants for the University of North Carolina at Chapel Hill and the Director of Sponsored Programs Administration at Mississippi State University.

**Beth A. Fortune, Vice Chancellor for Public Affairs.** B.A., Anderson University, 1985; M.A., The American University, 1990. Ms. Fortune was named Vice Chancellor for Public Affairs in 2008. From 2000 to 2008, Ms. Fortune served as Associate Vice Chancellor for Public Affairs. Prior to coming to Vanderbilt, Ms. Fortune was press secretary to the previous Governor of Tennessee for more than six years.

**Richard C. McCarty, Provost and Vice Chancellor for Academic Affairs.** B.S., M.S., Old Dominion University, 1970, 1972; Ph.D., The Johns Hopkins University School of Hygiene and Public Health, 1976. Dr. McCarty was appointed to the position of Provost and Vice Chancellor for Academic Affairs in 2008 after serving as the Dean of the College of Arts and Science since 2001. Prior to joining Vanderbilt he was the Executive Director for Science at the American Psychological Association in Washington, D.C. from 1998 to 2001. Prior to that time, Dr. McCarty served as the Chair of the Department of Psychology at the University of Virginia from 1990 to 1998 while also serving as a visiting scientist at the National Institute of Neurological Disorders and Stroke.

**Susie S. Stalcup, Vice Chancellor for Development and Alumni Relations.** B.A., University of Oklahoma, 1976. Before joining Vanderbilt as Vice Chancellor for Development and Alumni Relations in December 2008, Ms. Stalcup served as Vice President for Development at Columbia University Medical Center (CUMC), where she led all aspects of CUMC's \$1 billion seven-year campaign. Prior to joining CUMC in 2002, Ms. Stalcup led a successful campaign at Baylor College of Medicine and served as Senior Director of Planned Giving at Rice

University. Before entering higher education advancement, Ms. Stalcup worked for more than 15 years in finance and estate planning, first at Merrill Lynch Pierce Fenner & Smith in Oklahoma City and New York City and later as senior vice president for trusts and bank investments at First Financial Bank Holdings in Abilene, Texas.

**Brett C. Sweet, Vice Chancellor for Finance and Chief Financial Officer.** B.S., U.S. Naval Academy, 1993; M.B.A., Harvard University, 2000. Mr. Sweet joined Vanderbilt as Vice Chancellor for Finance and Chief Financial Officer in 2009. Prior to joining Vanderbilt, Mr. Sweet served as Dean of Administration and Finance at Harvard University's Faculty of Arts and Sciences and Executive Vice President of Finance and Administration and Chief Financial Officer at Baylor College of Medicine. Before entering university and academic medical center leadership positions, Mr. Sweet was a principal with The Boston Consulting Group, spent five years as a nuclear submarine officer in the U.S. Navy, and served as a special projects officer with the National Security Agency.

**David Williams II, Vice Chancellor for Athletics and University Affairs; General Counsel; and Secretary of the University.** B.S., M.A., Northern Michigan University, 1969, 1970; M.B.A., University of Detroit, 1979; J.D., University of Detroit, 1982; LL.M. (Taxation), New York University, 1984. Mr. Williams has served as Vice Chancellor, General Counsel, and Secretary since his arrival at Vanderbilt in 2000. He served as Vice President for Student and Urban/Community Affairs at Ohio State University from 1993 to 2000. Mr. Williams also served as Vice Provost at Ohio State University from 1992 to 1993. From 1984 to 1985, he was a Supervising Tax Specialist with Coopers & Lybrand International. Mr. Williams was on the faculty of the Ohio State School of Law from 1986 to 2000. He is a Tenured Professor of Law on the faculty of Vanderbilt's School of Law. In July 2012, Mr. Williams was named to the new Athletics Director post. However, he will remain in his current role until a new General Counsel is named.

**Matthew W. Wright, Vice Chancellor for Investments.** B.A., Seton Hall University, 1989; M.B.A., University of Rochester, 1991. Mr. Wright served as Director of Investments at Emory University from 2001 to 2007, when he assumed his current position at Vanderbilt. Prior to joining Emory University, Mr. Wright worked for Gartmore Global Partners, Xerox Corporation Trust Investments, and Bank of America Capital Management's Quantitative Strategies Group, where he held positions responsible for investment analysis, portfolio management, and equity trading. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and Chicago Quantitative Alliance.

## ACADEMIC ENTERPRISE

### Faculty and Staff

As of November 2011, Vanderbilt's administrative, teaching, and research faculty (including members of the schools of medicine and nursing) was composed of 3,551 full-time faculty members consisting of 799 professors, 628 associate professors, 1,451 assistant professors, 524 instructors, 136 lecturers, and 13 faculty with other academic titles. Faculty data, including administrative, teaching, and research faculty, is listed below.

	Fall 2011 <sup>(1)</sup>	Fall 2010	Fall 2009	Fall 2008
Number of FTE faculty	3,696	3,580	3,450	3,258
Number of FTE tenured faculty	910	886	909	895

<sup>(1)</sup> As of the date hereof, faculty FTE data for fall 2012 was not yet available.

In addition to faculty, Vanderbilt employs approximately 20,119 full-time and 768 part-time employees in a regular status, including staff in the Hospitals and Clinics. In addition, Vanderbilt employs more than 1,000 temporary and term staff in varying capacities. Approximately 700 of Vanderbilt's staff in a regular status are service and maintenance employees who are represented by Local No. 386 of the Laborers' International Union of North America, AFL-CIO (the "Union"). Vanderbilt and the Union operate under a negotiated collective bargaining agreement that expires on November 15, 2012. Negotiations for a new agreement commenced in September 2012 with a new agreement expected to be completed by November 15, 2012. Vanderbilt is functioning under an Affirmative Action Plan and is an Equal Opportunity Employer.

## Student Enrollment

In line with Vanderbilt's admissions policy, enrollments have remained relatively stable during the past several years in Vanderbilt's 10 schools and colleges. All schools and colleges continue to be selective in their acceptances, as applicants outnumber the places available for each school and college.

Vanderbilt draws its student population from the entire United States and from about 100 foreign countries. More than 60% of the undergraduate students are from outside the southern region of the United States and 87% are from outside the State of Tennessee. The percentage of freshmen retained as sophomores has averaged 96% over the last five academic years. The following table provides additional enrollment data for undergraduate freshmen.

	<b>Fall 2012</b>	<b>Fall 2011</b>	<b>Fall 2010</b>	<b>Fall 2009</b>	<b>Fall 2008</b>
<i>Undergraduate Freshmen</i>					
Number of applications received	28,348	24,837	21,811	19,353	16,944
Percentage accepted (selectivity)	14%	16%	18%	20%	25%
Percentage enrolled (yield)	40%	39%	41%	41%	37%

The following table provides enrollment data for Vanderbilt.

	<b>Fall 2012</b>	<b>Fall 2011</b>	<b>Fall 2010</b>	<b>Fall 2009</b>	<b>Fall 2008</b>
<i>Enrollment Distribution</i>					
Undergraduate headcount	6,796	6,817	6,879	6,794	6,637
Graduate and professional headcount	5,914	6,019	5,835	5,712	5,455
Total enrollment headcount	12,710	12,836	12,714	12,506	12,092
Undergraduate FTE	6,753	6,770	6,847	6,757	6,602
Graduate and professional FTE	5,418	5,459	5,309	5,207	4,975
Total enrollment FTE	12,171	12,229	12,156	11,964	11,577

## Tuition and Fees

Tuition rates for Vanderbilt's undergraduate colleges have increased each of the last five academic years. Tuition rates for professional and advanced degree programs differ among Vanderbilt's schools and colleges. Undergraduate tuition rates and fees for each of the last five academic years were as follows:

	<b>2012-2013</b>	<b>2011-2012</b>	<b>2010-2011</b>	<b>2009-2010</b>	<b>2008-2009</b>
Undergraduate tuition	\$ 41,088	\$ 40,320	\$ 38,952	\$ 37,632	\$ 36,100
Undergraduate activity and recreation fees	\$ 1,030	\$ 1,012	\$ 978	\$ 946	\$ 904

Average undergraduate room and board charges for each of the last five academic years were as follows:

	<b>2012-2013</b>	<b>2011-2012</b>	<b>2010-2011</b>	<b>2009-2010</b>	<b>2008-2009</b>
Average room and board for undergraduates (includes 100% meals)	\$ 13,818	\$ 13,560	\$ 13,058	\$ 12,650	\$ 12,028

## Student Financial Aid

Vanderbilt provides financial aid to eligible students based upon documented financial need and/or merit to help cover their cost of attendance, including tuition, education fees, room, board, books and course materials, plus travel and acceptable miscellaneous expenses. This financial assistance is funded from/through institutional resources, gifts, endowment income, and various externally sponsored/funded (federal, state, third party, etc.) aid programs. Beginning in the fall of 2009, need-based student financial aid packages awarded to eligible incoming and returning undergraduate students have not included any need-based loans. The amount of need-based loans that students would have been offered prior to the fall of 2009 to meet their full demonstrated financial need is now replaced each year with Vanderbilt-funded and/or other sources of grant (gift) assistance while continuing to meet their full demonstrated need.



Components of financial aid during each of the last five fiscal years were as follows:

	<i>Fiscal Year Ended June 30,</i>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(in thousands)</i>				
<i>Financial Aid</i>					
Institutional scholarships	\$ 165,215	\$ 166,460	\$ 152,073	\$ 124,913	\$ 115,276
Endowed scholarships	44,270	34,465	31,699	36,101	30,104
External financial aid	18,625	19,836	19,837	19,116	19,301
Total financial aid	<u>\$ 228,110</u>	<u>\$ 220,761</u>	<u>\$ 203,609</u>	<u>\$ 180,130</u>	<u>\$ 164,681</u>

Vanderbilt also continues to offer and participate in various other student financial aid programs, including the Federal Work-Study Program, the Federal Perkins Loan Program (previously named the National Direct Student Loan Program), the Federal Nursing Loan Program, the Federal Direct Student Loan Program, and the Federal Direct PLUS Programs. (The PLUS acronym refers to a program that initially was available only as a Parent Loan for Undergraduate Students, but subsequently was expanded to also allow graduate and professional students to borrow on their own behalf). Loans for education-related expenses are also available to eligible students through other public and private lending entities and programs, and a limited amount of loan funds is also available to eligible students through programs funded and administered by Vanderbilt.

### **Research Activities and Programs**

Sponsored research and project awards, which include multiple-year grants and contracts from government sources, foundations, associations, and corporations, totaled \$572 million in fiscal 2012 and \$587 million in fiscal 2011. Government grants and contracts revenue, including facilities and administrative (F&A) costs recovery, predominantly for research activities remained stable from fiscal 2011 to fiscal 2012. Federal funding from the NIH, the Department of Defense, NASA, and other federal agencies supported 86% and 87% of sponsored research revenue at Vanderbilt in fiscal 2012 and fiscal 2011, respectively.

Vanderbilt's research expenditures totaled \$559 million in fiscal 2012 and \$563 million in fiscal 2011, including research-related F&A costs recovery and research funded by Vanderbilt (including cost sharing), but excluding allocations of institutional and other support costs.

Vanderbilt's management believes that research programs have a direct positive impact on the reputation and operation of the Hospitals and Clinics. The Hospitals and Clinics attract patients, in part, because of medical research activities, which are primarily funded by highly competitive peer review mechanisms administered by the NIH and by private disease-focused foundations. Examples of comprehensive programs include those conducted at the AIDS Center, the Center for Human Genetics Research, the Vanderbilt Diabetes Center, the Digestive Disease Research Center, and the Diabetes Research and Training Center, the longest operating program of its kind in the United States. Interdisciplinary clinical research programs include those conducted at the General Clinical Research Center, the Pediatric Clinical Research Office, the Vanderbilt Brain Institute, the Vanderbilt-Ingram Cancer Center, the Vanderbilt Kennedy Center for Research on Human Development, the Vanderbilt Institute of Imaging Science, and the Women's Reproductive Health Research Center. These and many other patient- and disease-focused treatment programs, together with efforts to improve clinical care through research, distinguish the Hospitals and Clinics from competitors that are not part of a comprehensive academic medical center.

### **VANDERBILT UNIVERSITY MEDICAL CENTER**

Vanderbilt University Medical Center is one of the nation's leading academic medical centers. As the larger of two comprehensive research, teaching, and patient care health systems in the State of Tennessee, Vanderbilt University Medical Center serves many patients from outside the greater Nashville metropolitan area. Its components include the Hospitals and Clinics (including the Adult Hospital, Children's Hospital, and Psychiatric Hospital), the School of Medicine (which includes the Vanderbilt Medical Group), the School of Nursing, and various other health care related entities. The Adult Hospital, Children's Hospital, and Psychiatric Hospital are the principal teaching hospitals for Vanderbilt University Medical Center and support many of its research and education programs. Faculty members of the School of Medicine practice through the Vanderbilt Medical Group and are responsible for approximately 80% of patients admitted to Vanderbilt's hospitals. The Hospitals and Clinics are a principal referral center for physicians and patients throughout the region.

In its latest rankings of America's best hospitals, *U.S. News & World Report* ranked 11 of Vanderbilt's adult hospital specialties out of a possible 16 categories. Vanderbilt's specialty programs ranking among the top 35 in their respective fields include cancer; cardiology and heart surgery; diabetes and endocrinology; ear, nose, and throat; gastroenterology; gynecology; nephrology; neurology and neurosurgery; orthopedics; pulmonology; and urology. Vanderbilt also ranks among the nation's leaders in children's health care, with six pediatric programs ranked among the top 30 in the country. In March 2012, *U.S. News & World Report* ranked Vanderbilt's School of Medicine as the 14th best research-oriented medical school in the country.

## Patient Care Facilities and Services

The Hospitals and Clinics are comprised of many facilities serving multiple purposes related to patient care, medical research, and educational missions. Vanderbilt has a total of 985 beds licensed and approved for operation and currently utilizes 70 operating rooms primarily located in the Adult Hospital and the Children's Hospital.

<i>Licensed-Bed Category Type</i>	<u><b>Available Beds</b></u>
Adult Medical Surgical	562
Adult Obstetric	50
Adult Clinical Research Center	14
Pediatric Medical/Surgical	129
Pediatric Neonatal Intensive Care	100
Pediatric Intensive Care	42
Psychiatric Care	88
Total Beds Licensed and Approved for Operation <sup>(1)</sup>	<u>985</u>

- <sup>(1)</sup> Subject to normal construction and licensing risks, Vanderbilt expects to have a total of approximately 1,019 beds licensed and approved for operation at the end of fiscal 2013 following the buildout of the 10th floor of the Critical Care Tower, net of other renovations and bed reconfigurations.

The Hospitals and Clinics provide comprehensive inpatient and outpatient medical, surgical, pediatric, obstetric, and psychiatric services. Although the Hospitals and Clinics maintain primary and secondary care programs, they are principally regional referral tertiary and quaternary care institutions, and educational and research centers that serve as the principal teaching facilities of Vanderbilt's medical and nursing schools, as well as training centers for 894 graduate physicians, residents, and clinical fellows. Currently, the Hospitals and Clinics operate about 110 primary and specialty outpatient clinics, commensurate inpatient service programs representing virtually all major specialties, and two emergency departments in separate buildings for adult and pediatric patients.

Among the services provided by the Hospitals and Clinics are those provided by numerous intensive care units for adult, pediatric, and neonatal patients; an organ bank and transplantation center for heart, lung, liver, kidney, pancreas, and bone marrow; a level one trauma center; hemodialysis; a regional burn center; and a substance abuse center. Other services include genetic counseling; magnetic resonance imaging; positron emission tomography; renal and biliary lithotripsy; and air and ground ambulance services.

## Vanderbilt Medical Group and Clinical Faculty

All full-time faculty members of the School of Medicine who wish to practice medicine at the Hospitals and Clinics are required to participate in the Vanderbilt Medical Group ("VMG"). VMG is an operating subdivision within the School of Medicine, and faculty members carry out the practice of medicine as employees of Vanderbilt. Under this arrangement, VMG bills for services rendered by the physicians to both inpatients and outpatients. Professional fees collected serve as one of several revenue sources to compensate physicians. Professional fees are also used by Vanderbilt University Medical Center to cover practice expenses and to support School of Medicine programs. In the view of management, the VMG has gained favorable acceptance among the participating medical staff and accounts to a large extent for the increased activity of full-time faculty in clinical practice, which in turn has had a favorable impact on clinic visits and inpatient admissions to the Hospitals and Clinics.

A prerequisite for appointment as a member of Vanderbilt's medical staff is a full-time or part-time appointment to the faculty of the School of Medicine. As of September 2012, Vanderbilt's medical staff consisted of 1,823 practicing clinical faculty, of whom 1,421 are members of the VMG and regularly admit and attend to patients at the

Hospitals and Clinics. Practicing clinical faculty that are not members of the VMG primarily consist of community physicians, especially in pediatrics, granted privileges to practice in Vanderbilt's facilities. Vanderbilt estimates that approximately 80% of the combined total of patients admitted to its Adult Hospital and Children's Hospital during fiscal 2012 were admitted by full-time faculty members. The following table sets forth the number of Vanderbilt's medical staff by specialty as of September 2012.

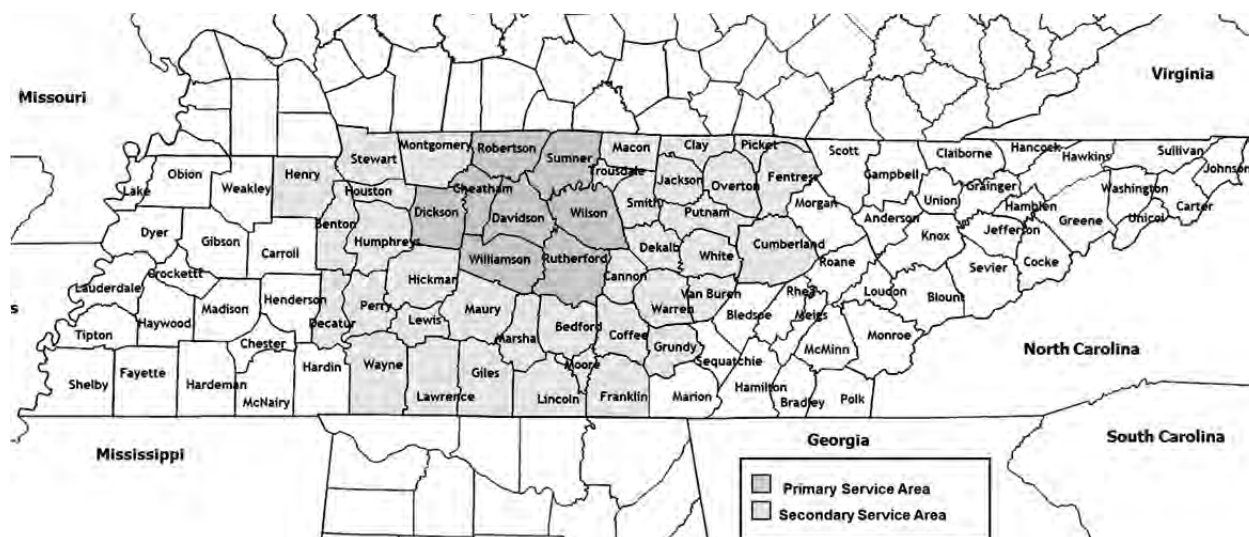
	<b><u>Number of Physicians</u></b>
<i>Practicing Clinical Faculty</i>	
Anesthesiology	119
Emergency Medicine	46
Physical Medicine	6
Medicine	484
Neurology	62
Obstetrics/Gynecology	78
Ophthalmology	42
Orthopedics	61
Otolaryngology	36
Pathology	48
Pediatrics	492
Psychiatry	62
Radiation Oncology	10
Radiology	92
Surgical Science	185
Total Practicing Clinical Faculty	<u>1,823</u>

The average age of the clinical faculty is approximately 47 years. All of the clinical faculty were "board certified" or eligible for board certification as of June 2012. All of the specialties and subspecialties currently recognized by the various national specialty boards are represented on the clinical faculty.

### Hospitals and Clinics Service Area

The primary service area of the Hospitals and Clinics encompasses eight counties surrounding Nashville, Tennessee. The secondary service area includes the remainder of the Middle Tennessee Health Service Area (an additional 36 counties). The tertiary service area includes western Kentucky, northern Alabama, and the remaining portions of Tennessee. The Hospitals and Clinics also provide services to residents of many other states who wish to utilize some of their programs. The Hospitals and Clinics face competition from other service area hospitals and from other forms of health care delivery.

The following map depicts the primary and secondary service areas of the Hospitals and Clinics:



Population growth in the service areas will depend on birth and mortality rates and the rates of inward and outward migration, which in turn could be affected by changes in economic conditions and other factors that cannot be predicted, so actual population growth could vary from projections, and the variance could be substantial. Populations (recent and projected) of the primary and secondary service areas are as follows:

	2012 Population	2017 Projected Population	Compounded Annual Growth Rate 2012-2017
Primary Service Area (8 Counties)	1,559,872	1,670,774	1.4%
Secondary Service Area (36 Counties)	1,045,827	1,088,688	0.8%
Total Primary and Secondary Service Areas	2,605,699	2,759,462	1.2%

Source: Nielson Claritas, Inc., 2012.

## Patient Origins

The geographic origins of Vanderbilt inpatient discharges by fiscal year were as follows:

	<i>Fiscal Year Ended June 30,</i>				
	2012	2011	2010	2009	2008
<i>Geographic Origin of Inpatient Discharges</i>					
Primary Service Area (8 counties)	53.1%	53.4%	53.9%	54.1%	55.4%
Secondary Service Area (36 counties)	23.5	22.4	23.5	22.8	22.5
Rest of Tennessee	9.3	10.0	8.8	9.3	7.9
Kentucky (primarily western)	8.6	9.6	9.6	9.7	9.8
Alabama (primarily northern)	1.3	1.5	1.4	1.2	1.1
Other states	4.2	3.1	2.8	2.9	3.3
	100.0%	100.0%	100.0%	100.0%	100.0%

## Hospitals and Clinics Service Area Market Share

Vanderbilt University Medical Center has increased its brand identity and market share through investment in facilities, growth of faculty, research initiatives, and targeted marketing. Because of the comprehensive services provided at Vanderbilt and the long distances many patients travel to receive specialized care, Vanderbilt University Medical Center's competitors for highly specialized services include both tertiary care, local hospitals (Baptist Hospital, Centennial Medical Center, and Saint Thomas Hospital), and regional academic medical centers located in states adjacent to Tennessee (such as Emory University Hospital in Atlanta, Georgia, and the University of Alabama-Birmingham Hospital). The table below identifies the hospitals that provide the most significant competition to Vanderbilt for inpatient services in its primary and secondary service area and their relative share of total admissions to hospitals in the service area for each hospital's respective fiscal period.

	<i>Fiscal Periods Ending</i>		
	2010 <sup>(1)</sup>	2009	2008
<i>Market Share</i>			
Vanderbilt	16.2%	16.1%	16.2%
Baptist Hospital	8.1	7.7	7.9
Centennial Medical Center	7.9	8.3	8.2
Saint Thomas Hospital	7.6	7.5	7.2
Local tertiary care competitors <sup>(2)</sup>	23.6	23.5	23.3
All other <sup>(3)</sup>	60.2	60.4	60.5
	100.0%	100.0%	100.0%

<sup>(1)</sup> As of the date hereof, market share data for fiscal periods ending in 2011 and 2012 were not yet available. The Tennessee Department of Health is expected to publish this data near the end of the calendar year following each fiscal year-end date.

<sup>(2)</sup> "Local tertiary care competitors" represents the three competitor hospitals with the largest market shares.

<sup>(3)</sup> "All other" represents outlying hospitals that serve Vanderbilt's primary and secondary service area, each with generally less market share than Vanderbilt and the local tertiary care competitors listed above.

Source: Tennessee Department of Health, Office of Policy, Planning and Assessment, Division of Health Statistics, Annual Hospital Summary Report(s), Report 2A.

## Medical Utilization

The following table shows various utilization statistics of the Hospitals and Clinics for the last five fiscal years.

	<i>Fiscal Year Ended June 30,</i>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Licensed beds <sup>(1)</sup>	985	916	916	836	836
Hospital inpatient days <sup>(2)</sup>	285,270	282,547	272,731	265,733	267,947
Hospital discharges <sup>(2)</sup>	53,818	52,453	51,874	51,575	51,831
Average length of stay in days <sup>(2)</sup>	5.3	5.4	5.3	5.2	5.2
Average occupancy level (licensed beds) <sup>(2)</sup>	83.6%	84.5%	83.6%	87.1%	87.6%
Surgical operations <sup>(3)</sup>	50,998	47,896	45,492	39,880	39,957
Ambulatory (clinic outpatient) visits	1,725,901	1,586,395	1,450,196	1,266,255	1,178,841
Emergency visits	114,051	109,987	108,398	102,631	102,998

(1) Excludes nursery bassinets.

(2) Includes nursery and psychiatric hospital; does not include the observation patients.

(3) Excludes surgical operations performed by Vanderbilt-employed physicians at separate surgery centers that are partially owned by a Vanderbilt University Medical Center subsidiary.

## Hospitals and Clinics Payor Mix

Payments are made to the Hospitals and Clinics on behalf of most of its patients by a number of third parties, including Blue Cross and other private insurers, the federal government through Medicare, and the federal and state governments through Medicaid. The majority of Medicaid revenues are provided through TennCare, the State of Tennessee managed care plan operating under a waiver from the federal government. The remaining Medicaid revenues are for Medicaid patients who live outside of Tennessee. Blue Cross, one of Vanderbilt's largest payors, represents 22% of total gross patient service revenue for the fiscal year ended June 30, 2012. The revenues attributable to Blue Cross are represented in the managed care category in the following table, which sets forth the sources of gross patient service revenue for the Hospitals and Clinics during each of the last five fiscal years.

	<i>Fiscal Year Ended June 30,</i>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<i>Payor Mix</i>					
Managed care <sup>(1)</sup>	38.7%	38.8%	39.2%	40.4%	40.3%
Medicare <sup>(1)</sup>	26.1	25.2	25.6	24.2	23.8
TennCare/Medicaid	18.2	18.7	17.7	17.7	17.7
Commercial indemnity	8.4	9.0	9.3	9.5	9.7
Uninsured (self-pay) and other <sup>(2)</sup>	8.6	8.3	8.2	8.2	8.5
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) The managed care category includes TRICARE patients, which comprise approximately 2% of the total payor mix, and excludes TennCare patients. Medicare Advantage patients (the Federal managed care program for Medicare eligibles), which comprise about 6% of Vanderbilt's total payor mix, are reported in the Medicare category. In prior disclosures, Medicare Advantage patients were classified in the managed care category.

(2) Other includes various patient service programs provided under contractual arrangements with agencies such as the State of Tennessee departments of health, education, and mental health and developmental disabilities.

## Medical Training Programs

*Schools of Medicine and Nursing.* The Hospitals and Clinics serve as the principal teaching facility for students in Vanderbilt's School of Medicine and School of Nursing. As part of their academic training, third and fourth-year medical students undertake rotating clerkships and clinical assignments, ranging from two to 10 weeks in various inpatient and outpatient departments. Clinical clerkships are offered to visiting students from other medical schools. The Hospitals and Clinics also provide clinical training for students of the School of Nursing.

Academic medical centers historically have received substantial reimbursement for costs of providing graduate medical education to residents, which are primarily funded by TennCare, Medicare, and the federal TRICARE

(CHAMPUS) program. In fiscal 2012, Vanderbilt received through the Hospitals and Clinics approximately \$60 million for medical education from the federal and state government.

*Residency and Fellowship Programs.* The Hospitals and Clinics maintain an extensive program for approximately 894 graduate physicians (residents and fellows), who receive additional training and provide patient care in various medical specialties. These “house officers” rotate through the programs offered at the Hospitals and Clinics and at other health care institutions in the Nashville metropolitan area.

#### **Nursing, Paramedical, and Other Hospitals and Clinics Staff**

As of the beginning of the current fiscal year, the Hospitals and Clinics employed approximately 11,304 full-time employees and 763 part-time employees—including 4,877 nursing personnel, 1,526 technicians, 655 residents, 298 persons in administrative and management positions, 615 professional employees, 1,027 service employees, and 1,976 office, clerical, and support employees. Approximately 1,134 unpaid volunteers render various non-medical services to the Hospitals and Clinics and their patients. No employees of the Hospitals and Clinics are represented by a collective bargaining agreement, although some services are performed by certain unionized maintenance employees of Vanderbilt.

### **FINANCIAL INFORMATION**

#### **Audited Financial Statements**

The financial statements of Vanderbilt for the fiscal years ended June 30, 2012 and 2011, and the related opinion of PricewaterhouseCoopers LLP, independent accountants, as of and for the fiscal year ended June 30, 2012, are attached as Appendix B to this Official Statement. PricewaterhouseCoopers LLP has not been engaged to perform and has not performed, since the date of its opinion, any procedures on the financial statements and has not performed any procedures relating to Appendix A or any other part of this Official Statement.

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## Summary of Assets, Liabilities, and Net Assets

Vanderbilt's total assets, liabilities, and net assets (unrestricted, temporarily restricted, and permanently restricted) as of the end of the following fiscal years, derived from Vanderbilt's audited financial statements, were as follows:

	2012	2011	As of June 30, 2010	2009	2008
	(in thousands)				
ASSETS					
Cash and cash equivalents	\$ 912,419	\$ 1,129,804	\$ 959,157	\$ 752,397	\$ 273,924
Collateral under security lending agreements		-	-	-	-
Accounts receivable, net	518,566	436,687	405,714	344,703	327,502
Contributions receivable, net	82,167	78,756	90,235	80,190	71,816
Prepaid expenses, student loans, notes receivable, and other assets	117,743	118,779	118,679	134,500	139,329
Investments	3,872,014	3,664,182	3,374,127	3,328,506	4,225,719
Investments allocable to noncontrolling interests <sup>(1)</sup>	201,386	199,249	77,695	-	-
Property, plant, and equipment, net	1,727,611	1,754,524	1,807,284	1,801,485	1,706,070
Interests in trusts held by others	39,257	39,362	36,393	33,927	46,581
<b>Total assets</b>	<b>\$ 7,471,163</b>	<b>\$ 7,421,343</b>	<b>\$ 6,869,284</b>	<b>\$ 6,475,708</b>	<b>\$ 6,790,941</b>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 228,422	\$ 236,428	\$ 255,100	\$ 236,723	\$ 213,451
Accrued compensation and withholdings	245,859	225,360	225,049	218,711	201,732
Deferred revenue, actuarial liabilities, and government advances for student loans	280,653	290,617	277,740	259,403	260,686
Commercial paper	264,075	264,862	301,248	148,904	127,415
Long-term debt and capital leases	1,117,029	1,178,531	1,206,134	1,380,317	978,749
Fair value of interest rate exchange agreements, net	315,577	135,026	230,776	154,091	26,151
<b>Total liabilities</b>	<b>\$ 2,451,615</b>	<b>\$ 2,330,824</b>	<b>\$ 2,496,047</b>	<b>\$ 2,398,149</b>	<b>\$ 1,808,184</b>
NET ASSETS					
Unrestricted net assets controlled by Vanderbilt	\$ 2,559,802	\$ 2,603,397	\$ 2,241,335	\$ 2,120,507	\$ 2,670,016
Unrestricted net assets related to noncontrolling interests <sup>(1)</sup>	201,386	199,249	77,695	-	-
Total unrestricted net assets	\$ 2,761,188	\$ 2,802,646	\$ 2,319,030	\$ 2,120,507	\$ 2,670,016
Temporarily restricted net assets	1,191,216	1,262,271	1,108,024	1,068,304	1,450,754
Permanently restricted net assets	1,067,144	1,025,602	946,183	888,748	861,987
<b>Total net assets</b>	<b>\$ 5,019,548</b>	<b>\$ 5,090,519</b>	<b>\$ 4,373,237</b>	<b>\$ 4,077,559</b>	<b>\$ 4,982,757</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,471,163</b>	<b>\$ 7,421,343</b>	<b>\$ 6,869,284</b>	<b>\$ 6,475,708</b>	<b>\$ 6,790,941</b>

<sup>(1)</sup> For entities in which other organizations are minority equity participants to Vanderbilt's controlling interest, the respective assets are reported separately on the consolidated statements of financial position at fair value as investments allocable to minority interests. Beginning June 30, 2010, in accordance with the provisions of Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, the noncontrolling interests are reported within unrestricted net assets on the consolidated statements of financial position. The balance representing other organizations' minority or noncontrolling interests is recorded based on contractual provisions, which represent an estimate of a settlement value. Separately, Vanderbilt's residual controlling interests in limited partnership agreements are reported in investments. See "Endowment – Investment Allocation" herein for a summary of Vanderbilt's endowment investment allocations, which includes limited partnership agreements.

## Summary of Revenues and Expenses

Detailed below is a five-year summary of Vanderbilt's consolidated revenues and expenses. This summary has been derived from Vanderbilt's audited financial statements. Certain reclassifications have been made to prior year amounts to conform to current presentation format. This summary should be read in conjunction with the audited financial statements and related notes included in Appendix B.

	<i>Fiscal Year Ended June 30,</i>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(in thousands)</i>				
<b>OPERATING REVENUES</b>					
Tuition and educational fees, net	\$ 250,137	\$ 243,859	\$ 237,623	\$ 230,018	\$ 217,619
Government grants and contracts	397,555	399,440	360,861	329,156	305,646
Facilities and administrative costs recovery	147,806	145,295	131,558	120,071	115,352
Private gifts, grants, and contracts	80,629	77,058	78,099	87,095	87,403
Endowment distributions	136,883	142,252	146,749	146,638	134,507
Investment income	19,831	14,666	19,341	3,427	17,168
Health care services <sup>(1)</sup>	2,461,830	2,293,962	2,158,741	1,947,179	1,755,338
Room, board, and other auxiliary services, net	109,733	103,769	99,874	93,883	86,309
Other sources	39,068	40,351	32,214	33,130	34,120
Net assets released from restrictions	21,459	19,160	11,116	12,301	13,057
Total operating revenues and other support	<u>\$ 3,664,931</u>	<u>\$ 3,479,812</u>	<u>\$ 3,276,176</u>	<u>\$ 3,002,898</u>	<u>\$ 2,766,519</u>
<b>OPERATING EXPENSES</b>					
Instruction	480,296	464,313	430,172	415,520	390,499
Research	439,395	441,064	401,612	389,947	370,965
Health care services <sup>(1)</sup>	2,184,054	2,047,489	1,938,211	1,760,712	1,611,374
Public service	44,889	39,262	39,489	34,123	27,685
Academic support	148,871	133,076	120,666	125,875	126,044
Student services	35,586	34,919	32,493	29,881	30,581
Institutional support	41,851	46,879	51,497	73,451	48,116
Room, board, and other auxiliary services	132,458	133,879	128,446	123,021	111,858
Total operating expenses	<u>\$ 3,507,400</u>	<u>\$ 3,340,881</u>	<u>\$ 3,142,586</u>	<u>\$ 2,952,530</u>	<u>\$ 2,717,122</u>
<b>Change in unrestricted net assets from operating activity</b>	<b>\$ 157,531</b>	<b>\$ 138,931</b>	<b>\$ 133,590</b>	<b>\$ 50,368</b>	<b>\$ 49,397</b>
<b>NON-OPERATING ACTIVITY</b>					
Non-operating endowment and investment activity, net	(85,710)	310,485	121,513	(795,502)	(54,755)
Change in appreciation of interest rate exchange agreements	(180,551)	72,070	(76,685)	(271,693)	(87,077)
New permanently restricted gifts and pledges	28,580	51,314	37,215	34,111	41,302
Other restricted gift activity and non-operating results	7,042	22,928	2,350	77,518	16,225
Increase in net assets related to noncontrolling interests <sup>(2)</sup>	2,137	121,554	77,695	-	-
<b>Total change in net assets</b>	<b><u>\$ (70,971)</u></b>	<b><u>\$ 717,282</u></b>	<b><u>\$ 295,678</u></b>	<b><u>\$ (905,198)</u></b>	<b><u>\$ (34,908)</u></b>

<sup>(1)</sup> Vanderbilt implemented the provisions of Accounting Standards Update (ASU) 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which specifies that bad debt related to patient service revenue is to be reported as a component of net patient service revenue (contra revenue) for fiscal years beginning after December 15, 2011. Vanderbilt elected to early adopt ASU 2011-07 for fiscal 2012. Accordingly, amounts in health care services revenues and expenses have been reclassified for all prior years shown here to conform to the fiscal 2012 presentation.

<sup>(2)</sup> Vanderbilt implemented the provisions of Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* effective July 1, 2010. As a result, Vanderbilt also reclassified a June 30, 2010 balance of \$77.7 million, which represented other organizations' minority interests in Vanderbilt's investment partnerships, which were previously reported as a liability, to *unrestricted net assets related to noncontrolling interests*. See "--Endowment--Investment Allocation" herein.



Vanderbilt files a continuing disclosure statement (in addition to audited financial statements) for each fiscal year ended June 30, with the Municipal Securities Rulemaking Board (“MSRB”), which is accessible to investors through the MSRB’s Electronic Municipal Market Access (“EMMA”) System at [www.emma.msrb.org](http://www.emma.msrb.org) but is not incorporated in this Appendix A. The continuing disclosure statements, which are filed within six months of each fiscal year-end, have included data not included in this Official Statement, including a statement of financial results of operations for Vanderbilt’s Hospitals and Clinics. The total operating revenue and expenses of the Hospitals and Clinics included in that statement of operations differ from the net of health care services revenue and expenses included in the above table, primarily because health care services revenue and expenses include activities of the Vanderbilt Medical Group, which is a component of the School of Medicine. Effective beginning with the disclosures for the fiscal year ended June 30, 2012, Vanderbilt is no longer required to submit such statement of financial results of the Hospitals and Clinics.

## **Management’s Discussion and Analysis of Financial Performance**

*Consolidated University Financial Performance.* Fiscal 2012 operating results were the best to date for Vanderbilt despite the increasingly challenging external economic environment. Through careful stewardship of financial resources, prudent prioritization, positive endowment returns, measured spending, and positive operating results, Vanderbilt continued to enhance its financial health to support its mission.

During fiscal 2012, Vanderbilt generated an increase in unrestricted net assets from operating activity of \$158 million, which enhanced its liquidity positions. Vanderbilt’s fiscal 2012 change in unrestricted net assets from operating activity increased due in part to an 8.8% increase in outpatient (ambulatory) visits and a 12.3% increase in outpatient surgical operations as compared to the prior fiscal year. During fiscal 2012, Vanderbilt University Medical Center recognized about \$38 million of favorable adjustments to income as the result of a reduction in actuarially-determined medical malpractice expenses and settlements from government agencies related to prior period activity. Vanderbilt’s medical center continues to deliver superior financial results and remains widely recognized as one of the finest academic health centers in the nation.

In addition to Vanderbilt’s sound financial performance, its investments in student scholarships, faculty, and facilities have continued to enhance strategic metrics. The number of undergraduate applications received for the fall of 2012 grew 14.1% to a total of 28,348 with a selectivity rate at a Vanderbilt record level of 14.2%.

*Hospitals and Clinics Financial Performance.* The Hospitals and Clinics net patient service revenue for the fiscal year ended June 30, 2012, was 7.8% more than the prior year. The increase was primarily attributable to increases in patient volumes and payor contract rates. As shown in the table under “Vanderbilt University Medical Center—Medical Utilization,” patient volume statistics increased in fiscal 2012. Continued utilization of the Critical Care Tower, along with completion of the seventh floor buildout, the Children’s Hospital expansion, and the Doctor’s Office Tower 10th floor buildout, contributed to increases in patient days, discharges, and surgical operations. Increases in clinic visits compared to the prior year were primarily attributed to the growth and expansion of outreach practices outside of Davidson County and the anticipated volume growth of Vanderbilt Health at One Hundred Oaks, a Davidson County off-campus location for multi-specialty clinics opened in the spring of 2008. Emergency room visits increased by 3.7% compared to the prior year, with the growth primarily occurring in the adult emergency department. The increase in surgical operations was primarily in outpatient operations, with most of the growth occurring in otolaryngology, orthopedics, pulmonary, and urology areas.

Operating expenses, exclusive of interest, depreciation and amortization, increased by 7.5% compared to the previous year. The increase was primarily in medical services, and due to costs associated with increases in patient days, visits, and the associated ancillary services.

## **Endowment**

The endowment represents only those related net assets that are under the control of Vanderbilt. Endowment-related assets include donor-restricted endowments and institutional endowments (quasi-endowments). Gift annuities, interests in trusts held by others, contributions pending donor designation, and permanently restricted contributions receivable are not considered components of the endowment. Of the \$3,360 million market value of the endowment as of June 30, 2012, \$963 million were permanently restricted true endowment funds at historical value, \$27 million were temporarily restricted donor-restricted funds at historical value, \$135 million were reinvested distributions of

donor-restricted funds at historical value, \$209 million were institutional endowments at historical value, and \$2,026 million represented accumulated net appreciation of those pooled funds.

The overarching objective of Vanderbilt's endowment is to preserve and enhance the real (inflation-adjusted) purchasing power of the fund in perpetuity net of distributions, although, due largely to the deterioration of world financial markets in recent years, Vanderbilt has been unable to attain this objective for the five fiscal years ended June 30, 2012. Assets are invested to provide a relatively predictable and stable stream of earnings to meet spending needs and attain long-term return objectives without the assumption of undue risks. Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves Vanderbilt's operations budget for the ensuing fiscal year. For each of the last five fiscal years, endowment distributions per the spending formula were computed at 4.5% of the average of the previous three calendar year-end market values.

*Endowment Market Value.* The market value of Vanderbilt's endowment as of the end of each of the last five fiscal years was as follows:

	<b>2012</b>	<b>2011</b>	<b>As of June 30, 2010</b>	<b>2009</b>	<b>2008</b>
	<i>(in thousands)</i>				
Endowment market value	\$ 3,360,036	\$ 3,375,153	\$ 3,007,607	\$ 2,833,614	\$ 3,495,439

*Investment Allocation.* The targeted and actual asset allocation percentages of Vanderbilt's endowment portfolio as of June 30, 2012, were as follows:

	<b>Target</b>	<b>Actual</b>
Global equities	35%	31%
Absolute return strategies <sup>(1)</sup>	25	20
Private equity <sup>(2)</sup>	15	28
Inflation hedges <sup>(3)</sup>	15	15
Fixed income	10	5
Cash and other	0	1
	<u>100%</u>	<u>100%</u>

<sup>(1)</sup> Absolute return investments are designed to generate a consistent rate of return irrespective of the direction of the market.

<sup>(2)</sup> Due to a combination of unrealized equity losses in 2008-2009 and appreciation in the university's non-marketable investments over the last few years, some non-marketable asset classes are above targeted allocation bands. As and if non-marketable asset classes realize gains through liquidity events and investor distributions, the asset classes would move toward the targeted allocations.

<sup>(3)</sup> Inflation hedges include real estate and natural resources.

To mitigate exposure to capital call requirements, in fiscal 2010 Vanderbilt contributed certain private equity and real estate investments to two controlled master partnerships under which a third-party minority limited partner became responsible for most capital calls of the contributed investment partnerships and, in turn, became entitled to a disproportionate share of gains from such underlying investment partnerships. For a description of total liquid assets available to Vanderbilt, which includes amounts in the endowment, see "Financial Information—Liquidity" below.

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*Returns and Distributions.* Investment returns and distributions of Vanderbilt's endowment assets for each of the last five fiscal years were as follows:

	<i>Fiscal Year Ended June 30,</i>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(in thousands)</i>				
Total endowment investment return <sup>(1) (2)</sup>	\$ 52,852	\$ 407,081	\$ 243,768	\$ (571,421)	\$ 82,513
Endowment distributed per spending formula <sup>(1)</sup>	(147,895)	(152,258)	(149,570)	(147,280)	(133,227)
Endowment distributed for strategic initiatives	-	-	(3,503)	(5,437)	(7,023)
Annual return net of distributions	<u>\$ (95,043)</u>	<u>\$ 254,823</u>	<u>\$ 90,695</u>	<u>\$ (724,138)</u>	<u>\$ (57,737)</u>
Endowment rate of return	1.3%	13.6%	8.9%	-16.3%	2.1%
Total endowment distributed <sup>(3)</sup>	4.4%	4.8%	5.3%	4.8%	4.0%

(1) The total endowment investment return and endowment distributed per spending formula shown here for fiscal years 2008 to 2011 are revised from prior disclosures in order to reflect a change in methodology consistent with the annual audited financial statements and the adoption of new FASB guidance effective with fiscal 2009 reporting.

(2) The total endowment investment return amounts shown here for fiscal years 2008 to 2011 are revised from prior disclosures because Vanderbilt has elected to disclose its internal funding allocations related to unrelated business income taxes separately from endowment investment returns beginning in fiscal 2012. These internal allocations totaled \$3 million or less in each fiscal year shown here.

(3) The endowment distribution percentages are calculated based on the distributed amounts shown above divided by the average endowment market value during each respective fiscal year. Since 1998, the endowment distributions per the spending formula have been based on 4.5% of the average of the previous three calendar year-end market values.

Although Vanderbilt's endowment portfolio remains diversified by asset class and strategy, it is not immune to risks such as interest rate, equity market, and credit risks within both its marketable and non-marketable components.

Since June 30, 2012, Vanderbilt has not made significant changes to its endowment portfolio asset allocations and the university has experienced returns consistent with benchmark returns, which were positive during the three-month period ended September 30, 2012, for the majority of the marketable asset categories.

Vanderbilt receives capital calls with respect to investments of its endowment and funds those calls from endowment assets. The university's management expects to continue to be able to fund all such calls from the endowment and does not anticipate the need to use other funds for such purposes.

## **Fundraising**

Vanderbilt successfully concluded its Shape the Future campaign, the largest fundraising campaign in Vanderbilt's history, in June 2011 with gifts and commitments of \$1.94 billion, exceeding the \$1.75 billion goal by nearly \$200 million. In addition, Vanderbilt received \$173 million of new, documented bequest intentions during the campaign period. Following the campaign, in fiscal 2012, Vanderbilt reported \$85 million of new private gifts and pledges for operating, plant, and endowment purposes.

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## Property, Plant, and Equipment

The book value, net of accumulated depreciation, of Vanderbilt's land and improvements, buildings, furniture, and equipment as of the end of each of the last five fiscal years were as follows:

	2012	2011	As of June 30, 2010	2009	2008
	(in thousands)				
<i>Property, Plant, and Equipment</i>					
Land and improvements	\$ 130,526	\$ 127,845	\$ 123,228	\$ 115,389	\$ 106,920
Buildings and leasehold improvements	2,451,030	2,383,701	2,283,108	2,094,654	1,998,975
Furniture and equipment <sup>(1)</sup>	1,028,982	977,289	941,137	872,670	817,725
Construction in progress	55,264	38,161	86,948	189,529	109,158
Subtotal	\$ 3,665,802	\$ 3,526,996	\$ 3,434,421	\$ 3,272,242	\$ 3,032,778
Less: Accumulated depreciation	1,938,191	1,772,472	1,627,137	1,470,757	1,326,708
Total property, plant, and equipment, net <sup>(2)</sup>	<u>\$ 1,727,611</u>	<u>\$ 1,754,524</u>	<u>\$ 1,807,284</u>	<u>\$ 1,801,485</u>	<u>\$ 1,706,070</u>

<sup>(1)</sup> Includes fixed equipment. In Vanderbilt's most recent audited financial statements, fixed equipment is included in buildings and improvements.

<sup>(2)</sup> Purchases for the library collection are expensed at the time of purchase and are not capitalized. As of June 30, 2012, the estimated replacement cost for library collections, including processing costs, totaled about \$293 million.

## Pro Forma Outstanding Debt

After giving effect to the issuance of the Series 2012D and Series 2012E bonds and the application of their proceeds, Vanderbilt will have the following debt outstanding:

	Principal Balance	Subject to Repurchase Requirements	Final Maturity
	(in thousands)		
<i>Commercial Paper</i>			
Tax-exempt commercial paper <sup>(1)</sup>	\$ 99,205	Yes – at maturity, 270 days or less	Not applicable
Taxable commercial paper <sup>(1)</sup>	<u>114,819</u>	Yes – at maturity, 270 days or less	Not applicable
Subtotal	<u>214,024</u>		
<i>Long-Term Debt with Repurchase Requirements</i>			
Series 2012A bonds	67,000	Yes – mandatory tender on October 1, 2015	2038
Series 2012B bonds	<u>67,000</u>	Yes – mandatory tender on October 1, 2017	2038
Subtotal	<u>134,000</u>		
<i>Long-Term Fixed-Rate Debt</i>			
Series 2012D bonds	106,230	No	2037
Series 2012E bonds	45,225	No	2019
Series 2012C bonds	25,875	No	2017
Series 2009A taxable notes	250,000	No	2019
Series 2009A&B bonds	330,000	No	2039
Series 2008A&B bonds	213,260	No	2018
Miscellaneous <sup>(2)</sup>	<u>1,599</u>	No	2014
Subtotal	<u>972,189</u>		
Total Debt	<u>\$ 1,320,213</u>		

<sup>(1)</sup> This is the principal balance expected when the plan of financing is completed. The authorized aggregate principal amount of tax-exempt and taxable commercial paper is \$675.0 million.

<sup>(2)</sup> Includes various notes and capitalized leases.

## **Debt Repurchase and Amortization Requirements**

*Commercial Paper.* Vanderbilt has tax-exempt and taxable commercial paper programs with an authorized aggregate principal amount of \$675 million. Vanderbilt uses tax-exempt commercial paper as a means to quickly access the capital markets in order to finance certain projects that have been qualified and approved for tax-exempt financing. It uses taxable commercial paper to finance working capital and cash management needs and to finance other capital projects. Commercial paper may later be retired with the proceeds of long-term debt (tax-exempt or taxable, as applicable). Conversely, commercial paper is, at times, issued to refund outstanding long-term debt. The maturity of each commercial paper note may not exceed 270 days from the date of issuance. In the normal course of managing its debt portfolio, Vanderbilt expects to issue new commercial paper notes (or “remarket” the maturing commercial paper) until Vanderbilt elects to refund the commercial paper with long-term debt. If the commercial paper cannot be remarketed or refunded, Vanderbilt expects to retire the maturing commercial paper using one of the sources Vanderbilt relies upon to meet its repurchase obligations. See “Financial Information—Liquidity” below.

*Long-Term Debt with Repurchase Requirements.* There are two types of long-term debt with repurchase requirements. The Series 2000A Bonds and Series 2005A-1 Bonds must be repurchased by Vanderbilt upon seven days’ demand by the holder. These bonds will be refunded with proceeds following the issuance of the Series 2012D and Series 2012E Bonds. The Series 2012A and Series 2012B bonds have a repurchase requirement on the dates specified. As with commercial paper, in the normal course of managing its debt portfolio Vanderbilt would seek to remarket these bonds on the repurchase date through a remarketing agent engaged to use its best efforts to remarket. If the bonds are not remarketed, Vanderbilt must repurchase or retire the debt using one of the sources Vanderbilt relies upon to meet its repurchase obligations. See “Financial Information—Liquidity” below.

*Long-Term Fixed-Rate Debt.* Some of Vanderbilt’s long-term fixed-rate debt matures in amounts larger than Vanderbilt expects to retire in the year of maturity. Vanderbilt currently intends to seek to refund portions of the maturing principal of this debt on or before the maturity date. If this long-term debt is not refunded, Vanderbilt must retire this debt on the scheduled maturity dates using one of the sources Vanderbilt relies upon to meet its repurchase obligations. See “Financial Information—Liquidity” below.

## **Source of Payment of Outstanding Debt**

Payment of all debt described above is an unconditional, full faith and credit obligation of Vanderbilt. None of Vanderbilt’s outstanding debt is secured by a mortgage on Vanderbilt’s facilities or a pledge, assignment, or other security interest in any of Vanderbilt’s revenues or property.

Vanderbilt’s payment obligation for bonds issued before 2010 to provide financing for the Hospitals and Clinics was evidenced by a note issued under Vanderbilt’s Master Trust Indenture and payable from revenue of the Hospitals and Clinics. The Master Trust Indenture provides no security and very limited covenants for such notes (principally a requirement that coverage of debt service by the Hospitals and Clinics’ EBITDA must equal or exceed 1.1x). The Master Trust Indenture was designed primarily as a tool to facilitate the possible reorganization of the Hospitals and Clinics from an operating division to a separate corporate entity controlled by, or under common control with, Vanderbilt. This possibility is no longer under consideration by Vanderbilt, and Vanderbilt plans to issue no more notes under the Master Trust Indenture. Following issuance of the Series 2012D and Series 2012E bonds, the only debt remaining outstanding under the Master Trust Indenture will be the Series 2008B and Series 2009B bonds.

None of the notes securing the Series 2012D or Series 2012E bonds, including those issued to refund debt allocable to the Hospitals and Clinics, will be issued under the Master Trust Indenture. All will be direct, unsecured, general obligations of Vanderbilt.

## Estimated Annual Debt Service Requirements for Long-Term Debt

The following table contains estimated annual debt service requirements (net of interest rate swap receipts and payments) in future fiscal years on all long-term debt of Vanderbilt that will be outstanding after issuance of the Series 2012D and Series 2012E bonds and application of their proceeds, determined on the assumptions noted in the table. This table does not include debt service on commercial paper or capital leases.

Following issuance of the Series 2012D and Series 2012E Bonds and application of their proceeds, Vanderbilt's pro forma annual debt service requirements on long-term debt are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Series 2012D Principal</b>	<b>Series 2012E Principal</b>	<b>Other Long-Term Debt Principal Fixed Rate</b>	<b>Subject to Repurchase<sup>(2)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Total Debt Service<sup>(2)</sup></b>
2013	-	-	\$31,490,000 <sup>(1)</sup>	\$1,700,000 <sup>(1)</sup>	\$48,325,694	\$81,515,694
2014	-	\$5,735,000	32,730,000	-	50,891,075	89,356,075
2015	-	5,940,000	34,300,000	-	49,071,600	89,311,600
2016	-	6,180,000	48,065,000	-	46,806,023	101,051,023
2017	-	6,470,000	38,405,000	-	44,360,427	89,235,427
2018	-	6,765,000	40,305,000	-	42,129,888	89,199,888
2019	-	6,970,000	335,330,000	-	38,804,650	381,104,650
2020	-	7,165,000	10,000,000	-	23,119,098	40,284,098
2021	\$3,920,000	-	-	5,010,000	22,554,803	31,484,803
2022	4,080,000	-	-	5,140,000	22,249,141	31,469,141
2023	4,265,000	-	-	5,280,000	21,903,920	31,448,920
2024	4,485,000	-	-	5,310,000	21,532,402	31,327,402
2025	4,715,000	-	-	5,480,000	21,127,395	31,322,395
2026	4,955,000	-	-	5,530,000	20,726,327	31,211,327
2027	5,210,000	-	-	3,000,000	20,356,832	28,566,832
2028	5,480,000	-	-	3,030,000	20,004,277	28,514,277
2029	5,760,000	-	-	3,010,000	19,622,272	28,392,272
2030	6,025,000	-	40,000,000	-	18,232,800	64,257,800
2031	6,300,000	-	-	5,180,000	16,751,342	28,231,342
2032	6,590,000	-	-	9,730,000	16,220,075	32,540,075
2033	6,825,000	-	-	10,010,000	15,680,068	32,515,068
2034	7,045,000	-	-	10,290,000	15,161,351	32,496,351
2035	7,275,000	-	60,000,000	-	13,220,469	80,495,469
2036	7,515,000	-	-	13,910,000	11,099,738	32,524,738
2037	7,765,000	-	-	14,260,000	10,422,690	32,447,690
2038	8,020,000	-	-	14,690,000	9,731,827	32,441,827
2039	-	-	-	15,140,000	9,151,815	24,291,815
2040	-	-	180,000,000	-	4,500,000	184,500,000
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
<b>Total</b>	<b>\$106,230,000</b>	<b>\$45,225,000</b>	<b>\$850,625,000</b>	<b>\$135,700,000</b>	<b>\$673,757,996</b>	<b>\$1,811,537,996</b>

(1) Reflects principal due October 1, 2012 that has already been paid.

(2) Assumes that the Series 2012A and 2012B bonds are remarketed to maturity on periodic put dates and that the interest rates on those bonds average 3% per annum in each year, and the Series 2012D and 2012E Bonds are sold at rates that result in currently estimated market yields. Vanderbilt could be required to purchase the Series 2012A and 2012B bonds before maturity and actual interest expenses on those bonds could differ, so actual debt service requirements could differ from those shown, and the difference could be substantial. In addition, this table does not reflect payments and receipts under interest rate swap transactions. See "Financial Information—Interest Rate Exchange Agreements" below.

Note: Totals may not foot due to rounding.

## Interest Rate Exchange Agreements

Vanderbilt has entered into various interest rate exchange agreements with respect to its debt portfolio in order to manage its interest rate risk and cost. The amortization of notional amounts under existing interest rate exchange agreements does not necessarily correspond with actual maturities of Vanderbilt's debt. The assumed interest on Vanderbilt's long-term debt in the preceding table takes into account the effect of existing interest rate exchange agreements. The notes to the audited financial statements attached as Appendix B provide additional information related to interest rate exchange agreements.

As of June 30, 2012, Vanderbilt had \$722 million of aggregate fixed-payer interest rate exchange agreements outstanding, which include amounts amortizing through 2044. In October 2012, Vanderbilt novated \$200 million of fixed-payer interest rate exchange agreements to Wells Fargo Bank, N.A. in order to diversify counterparty risk and reduce the university's aggregate collateral posting requirements. Following the novation and scheduled amortizations in October 2012, Vanderbilt had \$718 million of aggregate fixed-payer interest rate exchange agreements outstanding for which the university receives 68.3% of one-month LIBOR and pays a weighted average fixed rate of 3.8%.

To mitigate potential interest rate increases associated with its variable-rate debt, Vanderbilt has also entered into basis interest rate exchange agreements. Under these agreements, Vanderbilt is to receive a weighted average ratio of 81.5% of one-month LIBOR and make variable-rate payments tied to the SIFMA Municipal Swap Index on notional amounts totaling \$500 million through July 2035.

As of June 30, 2012, the mark-to-market valuation of Vanderbilt's interest rate exchange agreement portfolio was approximately \$-316 million, and Vanderbilt had pledged \$236 million in collateral to secure the other parties' exposure.

Currently, the aggregate notional amounts of Vanderbilt's outstanding interest rate exchange agreements by counterparty are as follows:

	<b>Fixed-Payer Exchanges</b>	<b>Basis Rate Exchanges</b>
	<i>(in thousands)</i>	
Bank of America, N.A.	\$ 40,000	\$ 50,000
Citigroup Financial Products, Inc.	103,200	-
Goldman Sachs Mitsui Marine Derivative Products, LP	335,000	200,000
JPMorgan Chase Bank, N.A.	40,000	100,000
Merrill Lynch Capital Services, Inc.	-	150,000
Wells Fargo Bank, N.A.	<u>200,000</u>	<u>-</u>
Total interest rate exchange agreements	\$718,200	\$500,000

## Liquidity

In the normal course of managing its debt portfolio, Vanderbilt relies upon various sources of liquidity to meet its repurchase or retirement obligations for debt that is not remarketed or refunded as expected. These sources include the taxable commercial paper program, lines of credit from commercial banks, and Vanderbilt's own funds.

Vanderbilt currently has dedicated hybrid lines of credit with two banks in the aggregate amount of \$200 million available to repurchase debt in the event of a failed remarketing. None of the existing lines of credit may be accessed by bondholders or noteholders or their respective indenture trustees. In addition, Vanderbilt is not obligated to maintain any line of credit, and if it elects to maintain a line of credit, the amount available to Vanderbilt may be increased or decreased by Vanderbilt from time to time in its discretion. Vanderbilt has never borrowed under its hybrid lines of credit to support repurchases of debt.

Vanderbilt currently has general use lines of credit with two banks in the aggregate amount of \$300 million. These lines of credit, which may be drawn upon for general operating purposes, expire in June 2013 and October 2014. No amounts were drawn on any of Vanderbilt's lines of credit as of June 30, 2012.

Vanderbilt maintains a portion of its cash resources and endowment funds in short-term, marketable investments that may be liquidated if required to provide funds for its debt repurchase obligations or for retirement of debt. Although Vanderbilt's investment practices are a factor in Vanderbilt's short-term credit rating, Vanderbilt has no contractual obligation to maintain any specific amount of its investment portfolio in short-term investments.

As of June 30, 2012, Vanderbilt had \$385 million of outstanding debt subject to support from its debt portfolio self-liquidity program (commercial paper and long-term debt with repurchase requirements on seven days' notice), in addition to \$67 million of Series 2012A and 2012B Bonds which must be repurchased in fiscal 2016 and 2018, respectively. After issuance of the Series 2012D and Series 2012E bonds and application of their proceeds, the maximum amount of Vanderbilt debt that could become due for purchase or payment on the same day would be reduced to \$348 million including the Series 2012A and Series 2012B bonds and \$214 million excluding them. As of June 30, 2012, Vanderbilt estimates that it had \$1,686 million of assets providing liquidity within 30 days, including \$792 million of liquid assets available on a same-day basis. Vanderbilt's liquid assets fluctuate throughout the year primarily due to operating cycles and asset allocation decisions. In the twelve months prior to June 30, 2012, Vanderbilt's estimated same-day liquid assets fluctuated between \$750 million and \$1.1 billion and its total monthly liquidity fluctuated between \$1.5 billion and \$1.8 billion.

## **MISCELLANEOUS**

### **Retirement Plan**

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

Vanderbilt's obligations under these plans are fully funded by monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2012 and 2011 were \$60 million and \$56 million, respectively.

### **Insurance**

Vanderbilt carries general liability insurance and insurance policies and maintains self-insurance reserves for property damage and loss in amounts that Vanderbilt believes to be appropriate. All buildings and their contents are covered by blanket property damage insurance, which includes coverage for business interruption. This includes coverage of loss of anticipated revenues by reason of the total or partial suspension or interruption of the operation of any facilities of Vanderbilt caused by damage to or destruction of such facilities.

Since 1983, Vanderbilt University Medical Center has self-insured a portion of its professional liability risks. The funding of the trust for the self-insurance obligation is based on studies performed by an actuarial firm. Vanderbilt University Medical Center also purchases excess professional liability coverage above the self-insured retention from various insurance carriers. All regular faculty members, residents, fellows, nurses, medical students, and nursing students are covered by the same program.

### **Litigation**

Vanderbilt is subject to various lawsuits in the normal course of its operations. A number of claims or lawsuits have been brought and are currently pending against Vanderbilt involving alleged malpractice by employees of the Hospitals and Clinics and full-time faculty members who practice medicine. Any liability for these claims would be charged to the Vanderbilt University Medical Center's trust fund (in which the Hospitals and Clinics participate), but only up to the amount of its self-insured retention established pursuant to its decision to self-insure a portion of its professional liability risks. In the opinion of Vanderbilt, coverage under the existing self-insurance and excess liability policies is adequate to protect against any reasonably anticipated liability of Vanderbilt; however, if a final judgment were entered in any such action in an amount in excess of its insurance coverage, Vanderbilt would be liable for the excess.



Management of Vanderbilt has identified approximately 268 actual or potential malpractice claims against Vanderbilt University Medical Center, 52 of which were in litigation as of June 30, 2012. Vanderbilt is not aware of any malpractice claims or other litigation pending or threatened wherein any unfavorable decision would have a material adverse effect on the financial condition of Vanderbilt or on Vanderbilt's ability to pay its debt obligations.

Vanderbilt University Medical Center is currently undergoing a civil investigation by the U.S. Department of Justice and the Office of Inspector General for the Department of Health and Human Services related to billing and government reimbursement for certain professional health care services. Vanderbilt is cooperating with the investigation and is not aware at this time of any issues wherein any unfavorable finding related to such review that would have a material adverse effect on Vanderbilt's ability to pay its debt obligations.

### **Accreditation**

Vanderbilt is accredited by the Southern Association of Colleges and Schools, which is the major accrediting body for colleges and schools in the area encompassing the Southeastern United States, Texas, and Oklahoma. Each professional school also holds accreditation from the applicable professional association.

Vanderbilt is a member of the Association of American Universities. The Hospitals and Clinics are licensed by the Tennessee State Department of Public Health. The accrediting bodies and the highlighted memberships of Vanderbilt's colleges, schools, and facilities include the following:

- Association of Graduate Schools
- Tennessee Council of Graduate Schools
- Southern Council of Graduate Schools
- International Association of Universities
- American Council of Learned Societies
- National Commission on Accrediting
- American Council on Education
- Council for Accreditation for Counseling and Related Educational Programs
- American Association of Colleges or Teacher Education
- National Council for Accreditation of Teacher Education
- Association of Clinical Pastoral Education
- American Psychological Association
- National Association of Schools of Music
- Association of Theological Schools in the United States and Canada
- American Bar Association
- The Association of American Law Schools
- American Assembly of Collegiate Schools of Business
- Accreditation Board for Engineering and Technology
- American Institute of Chemical Engineers
- Tennessee Independent Colleges Fund
- Liaison Committee on Medical Education
- The Joint Commission
- Medicare and Medicaid
- National League for Nursing

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## **APPENDIX B**

**Financial Statements of The Vanderbilt University  
at June 30, 2012 and 2011, and for the Years Then Ended**

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## Report of Independent Auditors

Board of Trust  
Vanderbilt University:

In our opinion, the accompanying consolidated statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Vanderbilt University at June 30, 2012 and June 30, 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Vanderbilt University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, Vanderbilt adopted ASU 2011-07, "Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" effective July 1, 2011.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

October 19, 2012

# Vanderbilt University

## Consolidated Statements of Financial Position

As of June 30, 2012 and 2011 (in thousands)

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 912,419	\$ 1,129,804
Accounts receivable, net	518,566	436,687
Prepaid expenses and other assets	82,167	78,756
Contributions receivable, net	72,334	78,572
Student loans and other notes receivable, net	45,409	40,207
Investments	3,872,014	3,664,182
Investments allocable to noncontrolling interests	201,386	199,249
Property, plant, and equipment, net	1,727,611	1,754,524
Interests in trusts held by others	39,257	39,362
<b>Total assets</b>	<b>\$ 7,471,163</b>	<b>\$ 7,421,343</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 228,422	\$ 236,428
Accrued compensation and withholdings	245,859	225,360
Deferred revenue	118,826	125,458
Actuarial liability for self-insurance	105,543	111,348
Actuarial liability for split-interest agreements	34,171	32,775
Government advances for student loans	22,113	21,036
Commercial paper	264,075	264,862
Long-term debt and capital leases	1,117,029	1,178,531
Fair value of interest rate exchange agreements, net	315,577	135,026
<b>Total liabilities</b>	<b>2,451,615</b>	<b>2,330,824</b>
<b>NET ASSETS</b>		
Unrestricted net assets controlled by Vanderbilt	2,559,802	2,603,397
Unrestricted net assets related to noncontrolling interests	201,386	199,249
Total unrestricted net assets	2,761,188	2,802,646
Temporarily restricted net assets	1,191,216	1,262,271
Permanently restricted net assets	1,067,144	1,025,602
<b>Total net assets</b>	<b>5,019,548</b>	<b>5,090,519</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,471,163</b>	<b>\$ 7,421,343</b>

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

# Vanderbilt University

## Consolidated Statement of Activities

Year Ended June 30, 2012 (in thousands)

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Tuition and educational fees, net	\$ 250,137	\$ -	\$ -	\$ 250,137
Grants and contracts:				
Government sponsors	397,555	-	-	397,555
Private sponsors	54,768	-	-	54,768
Facilities and administrative costs recovery	147,806	-	-	147,806
Total grants and contracts	600,129	-	-	600,129
Contributions	25,861	28,430	28,580	82,871
Endowment distributions	136,883	8,565	2,447	147,895
Investment income (loss)	19,831	276	(969)	19,138
Health care services	2,461,830	-	-	2,461,830
Room, board, and other auxiliary services, net	109,733	-	-	109,733
Other sources	39,068	-	-	39,068
Net assets released from restrictions	21,459	(21,459)	-	-
<b>Total revenues and other support</b>	<b>3,664,931</b>	<b>15,812</b>	<b>30,058</b>	<b>3,710,801</b>
<b>EXPENSES</b>				
Instruction	480,296	-	-	480,296
Research	439,395	-	-	439,395
Health care services	2,184,054	-	-	2,184,054
Public service	44,889	-	-	44,889
Academic support	148,871	-	-	148,871
Student services	35,586	-	-	35,586
Institutional support	41,851	-	-	41,851
Room, board, and other auxiliary services	132,458	-	-	132,458
<b>Total expenses</b>	<b>3,507,400</b>	<b>-</b>	<b>-</b>	<b>3,507,400</b>
<b>Change in unrestricted net assets from operating activity</b>	<b>157,531</b>			
<b>OTHER CHANGES IN NET ASSETS</b>				
Change in appreciation of endowment, net of distributions	(31,447)	(62,982)	-	(94,429)
Change in appreciation of self-insurance assets	876	-	-	876
Change in appreciation of other investments	(2,476)	-	-	(2,476)
Change in appreciation of interest rate exchange agreements	(180,551)	-	-	(180,551)
Contributions for plant	1,813	-	-	1,813
Net assets released from restrictions for plant	24,210	(24,210)	-	-
Donor designation changes	(11,809)	325	11,484	-
Other	(1,742)	-	-	(1,742)
<b>Total other changes in net assets</b>	<b>(201,126)</b>	<b>(86,867)</b>	<b>11,484</b>	<b>(276,509)</b>
<b>(Decrease) increase in net assets controlled by Vanderbilt</b>	<b>(43,595)</b>	<b>(71,055)</b>	<b>41,542</b>	<b>(73,108)</b>
<b>Increase in net assets related to noncontrolling interests</b>	<b>2,137</b>	<b>-</b>	<b>-</b>	<b>2,137</b>
<b>Total (decrease) increase in net assets</b>	<b>\$ (41,458)</b>	<b>\$ (71,055)</b>	<b>\$ 41,542</b>	<b>\$ (70,971)</b>
<b>Net assets, June 30, 2011</b>	<b>\$ 2,802,646</b>	<b>\$ 1,262,271</b>	<b>\$ 1,025,602</b>	<b>\$ 5,090,519</b>
<b>Net assets, June 30, 2012</b>	<b>\$ 2,761,188</b>	<b>\$ 1,191,216</b>	<b>\$ 1,067,144</b>	<b>\$ 5,019,548</b>

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

# Vanderbilt University

## Consolidated Statement of Activities

Year Ended June 30, 2011 (in thousands)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Tuition and educational fees, net	\$ 243,859	\$ -	\$ -	\$ 243,859
Grants and contracts:				
Government sponsors	399,440	-	-	399,440
Private sponsors	53,494	-	-	53,494
Facilities and administrative costs recovery	145,295	-	-	145,295
Total grants and contracts	598,229	-	-	598,229
Contributions	23,564	22,621	51,314	97,499
Endowment distributions	142,252	7,450	2,556	152,258
Investment income	14,666	13,583	6,062	34,311
Health care services	2,293,962	-	-	2,293,962
Room, board, and other auxiliary services, net	103,769	-	-	103,769
Other sources	40,351	-	-	40,351
Net assets released from restrictions	19,160	(19,160)	-	-
<b>Total revenues and other support</b>	<b>3,479,812</b>	<b>24,494</b>	<b>59,932</b>	<b>3,564,238</b>
<b>EXPENSES</b>				
Instruction	464,313	-	-	464,313
Research	441,064	-	-	441,064
Health care services	2,047,489	-	-	2,047,489
Public service	39,262	-	-	39,262
Academic support	133,076	-	-	133,076
Student services	34,919	-	-	34,919
Institutional support	46,879	-	-	46,879
Room, board, and other auxiliary services	133,879	-	-	133,879
<b>Total expenses</b>	<b>3,340,881</b>	<b>-</b>	<b>-</b>	<b>3,340,881</b>
<b>Change in unrestricted net assets from operating activity</b>	<b>138,931</b>			
<b>OTHER CHANGES IN NET ASSETS</b>				
Change in appreciation of endowment, net of distributions	102,258	153,510	-	255,768
Change in appreciation of self-insurance assets	11,299	-	-	11,299
Change in appreciation of other investments	13,767	-	-	13,767
Change in appreciation of interest rate exchange agreements	72,070	-	-	72,070
Contributions for plant	3,430	560	-	3,990
Net assets released from restrictions for plant	16,689	(16,689)	-	-
Donor designation changes	(11,859)	(7,628)	19,487	-
Other	15,477	-	-	15,477
<b>Total other changes in net assets</b>	<b>223,131</b>	<b>129,753</b>	<b>19,487</b>	<b>372,371</b>
<b>Increase in net assets controlled by Vanderbilt</b>	<b>362,062</b>	<b>154,247</b>	<b>79,419</b>	<b>595,728</b>
<b>Increase in net assets related to noncontrolling interests</b>	<b>121,554</b>	<b>-</b>	<b>-</b>	<b>121,554</b>
<b>Total increase in net assets</b>	<b>\$ 483,616</b>	<b>\$ 154,247</b>	<b>\$ 79,419</b>	<b>\$ 717,282</b>
<b>Net assets, June 30, 2010</b>	<b>\$ 2,319,030</b>	<b>\$ 1,108,024</b>	<b>\$ 946,183</b>	<b>\$ 4,373,237</b>
<b>Net assets, June 30, 2011</b>	<b>\$ 2,802,646</b>	<b>\$ 1,262,271</b>	<b>\$ 1,025,602</b>	<b>\$ 5,090,519</b>

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



# Vanderbilt University

## Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011 (in thousands)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>(Decrease) increase in total net assets</b>	<b>\$ (70,971)</b>	<b>\$ 717,282</b>
<b>Adjustments to reconcile change in total net assets to net cash provided by operating activities:</b>		
Increase in net assets related to noncontrolling interests	(2,137)	(121,554)
Net realized gains on investments	(56,783)	(56,526)
Net decrease (increase) in unrealized appreciation on investments	39,985	(305,940)
Contributions for plant and endowment	(59,069)	(78,032)
Contributions of securities other than for plant and endowment	(10,095)	(11,062)
Depreciation and amortization	172,718	173,195
Amortization and reclassification of bond discounts and premiums	1,430	(2,355)
Payments to terminate interest rate exchange agreements	-	23,680
Net decrease (increase) in fair value of interest rate exchange agreements	180,551	(97,289)
Net decrease in fair value of option to execute interest rate exchange agreement	-	1,539
<b>(Increase) decrease in:</b>		
Accounts receivable, net of accrued investment income	(81,640)	(32,280)
Prepaid expenses and other assets	(3,411)	11,479
Contributions receivable	6,238	(1,533)
Interests in trusts held by others	105	(2,969)
<b>Increase (decrease) in:</b>		
Accounts payable and accrued liabilities, net of nonoperating items	(14,126)	(15,531)
Accrued compensation and withholdings	20,499	311
Deferred revenue	(6,632)	808
Actuarial liability for self-insurance	(5,805)	8,590
Actuarial liability for split-interest agreements	1,396	1,311
<b>Net cash provided by operating activities</b>	<b>112,253</b>	<b>213,124</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(2,412,099)	(2,416,030)
Proceeds from sales of investments	2,231,160	2,499,503
Purchases of investments allocable to noncontrolling interests	(38,707)	(50,780)
Proceeds from sales of investments allocable to noncontrolling interests	40,815	47,179
(Increase) decrease in accrued investment income	(239)	1,307
Acquisitions of property, plant, and equipment	(143,089)	(124,411)
Proceeds from disposals of property, plant, and equipment	3,404	835
Student loans and other notes receivable disbursed	(10,090)	(3,091)
Principal collected on student loans and other notes receivable	4,888	4,524
<b>Net cash used in investing activities</b>	<b>(323,957)</b>	<b>(40,964)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions for plant and endowment	59,069	78,032
Increase in government advances for student loans	1,077	2,168
Proceeds from debt issuances	180,231	474,946
Payments to retire or defease debt	(243,950)	(536,580)
Payments to terminate interest rate exchange agreements	-	(23,680)
Proceeds from noncontrolling interests in investment partnerships	38,707	50,780
Payments to noncontrolling interests in investment partnerships	(40,815)	(47,179)
<b>Net cash used in financing activities</b>	<b>(5,681)</b>	<b>(1,513)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (217,385)</b>	<b>\$ 170,647</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>\$ 1,129,804</b>	<b>\$ 959,157</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 912,419</b>	<b>\$ 1,129,804</b>

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

# Vanderbilt University

## Notes to the Consolidated Financial Statements

### 1. Organization

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The Vanderbilt University (Vanderbilt) is a private, coeducational, not-for-profit, nonsectarian institution located in Nashville, Tennessee. Founded in 1873, Vanderbilt owns and operates educational, research, and health care facilities as part of its mission to be a leading center for informed and creative teaching, scholarly research, and public service. Vanderbilt provides educational services to approximately 6,800 undergraduate and 6,000 graduate and professional students enrolled in its 10 schools and colleges.

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

over which Vanderbilt has control. The patient care enterprise includes Vanderbilt University Hospitals and Clinics; Vanderbilt Medical Group, a physician practice program; and Vanderbilt Health Services, Inc., which includes wholly owned and joint ventured businesses primarily comprised of radiation oncology centers, imaging services, outpatient surgery centers, a home health care agency, and a home infusion and respiratory service.

All significant intercompany accounts and transactions have been eliminated in consolidation.

### 2. Summary of Significant Accounting Policies

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#### Basis of Presentation

The consolidated financial statements of Vanderbilt have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles. Based on the existence or absence of donor-imposed restrictions, Vanderbilt classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

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

**Temporarily restricted net assets** are limited as to use by donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of Vanderbilt. These net assets may include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not yet been appropriated by the Board of Trust for distribution.

**Permanently restricted net assets** are amounts required by donors to be held in perpetuity. These net assets may include unconditional pledges, donor-restricted endowments (at historical value), split-interest agreements, and interests in trusts held by others. Generally, the donors of these assets permit Vanderbilt to use a portion of the income earned on related investments for specific purposes.

Expirations of temporary restrictions on net assets, i.e., the passage of time along with the concomitant annual Board of Trust approval of the endowment spending rate, and/or fulfilling donor-imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

#### Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosure* (ASC 820) defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierar-

chy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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

#### Cash and Cash Equivalents

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

#### Prepaid Expenses and Other Assets

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

#### Investments

Investments are reported at fair value using the three-level hierarchy established under ASC 820. Fair values for certain alternative investments, mainly investments in limited partnerships where a ready market for the investments does not exist, are based primarily on estimates reported by fund managers. The estimated values are reviewed and evaluated by Vanderbilt.

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

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

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 are reported as a component of investments.

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

#### **Investments Allocable to Noncontrolling Interests and Net Assets Related to Noncontrolling Interests**

For entities in which other organizations are minority equity participants to Vanderbilt's controlling interest, the respective assets are reported separately on the consolidated statements of financial position at fair value as investments allocable to noncontrolling interests.

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

#### **Split-Interest Agreements and Interests in Trusts Held by Others**

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

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

#### **Property, Plant, and Equipment**

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

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

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

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

#### **Debt Portfolio Financial Instruments**

Long-term debt and capital leases are reported at carrying value. The carrying value of Vanderbilt's debt is the par amount adjusted for the net unamortized amount of bond premiums and discounts. Vanderbilt employs derivatives, primarily interest rate exchange agreements, to help manage interest rate risks associated with variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as a nonoperating item in the consolidated statements of activities. In addition to the credit risk of the counterparty owing a balance, the fair value of interest rate exchange agreements is based on the present value sum of future net cash settlements that reflect market yields as of the measurement date. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt.

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

#### **Revenue Recognition**

Vanderbilt's revenue recognition policies are:

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

***Grants and contracts, government sponsors***—Revenues from government sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements.

***Grants and contracts, private sponsors***—Revenues from private sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements.

***Facilities and administrative (F&A) costs recovery***—F&A costs recovery is recognized as revenue and represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Vanderbilt's federal F&A costs recovery rate for on-campus research was 56.0% in fiscal 2012 and 55.0% in fiscal

2011. Vanderbilt's federal F&A costs recovery rate for off-campus research was 28.5% in both fiscal 2012 and 2011.

**Health care services**—Health care services revenue is reported at established rates, net of contractual adjustments, charity assistance services, and provision for bad debt. 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 for Medicare are adjusted as final settlements are determined by Vanderbilt's Medicare Administrative Contractor (MAC).

Vanderbilt implemented the provisions of Accounting Standards Update (ASU) 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07) which specifies that bad debt related to patient service revenue is to be reported as a component of net patient service revenue (contra revenue) for fiscal years beginning after December 15, 2011. Vanderbilt elected to early adopt ASU 2011-07 for fiscal 2012. Accordingly, certain amounts in fiscal 2011 have been reclassified to conform to the fiscal 2012 presentation.

### Contributions

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to Vanderbilt in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Allowance is made for uncollectible contributions receivable based upon Vanderbilt'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 after any donor stipulations are met. Contributions for plant facilities are released from restrictions and recognized as a nonoperating 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 nonoperating gains or losses on contributions receivable in the consolidated statements of activities.

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

### Operating Results

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

Endowment distributions reported as operating revenue consist of endowment return (regardless of when such income arose) distributed to support current operational needs. Vanderbilt's Board of

Trust approves the amount to be distributed from the endowment pool on an annual basis, determined by applying a spending rate to an average of the previous three calendar year-end market values. The primary objective of the endowment distribution methodology is to reduce the impact of capital market fluctuations on operational programs.

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

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

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

### Income Taxes

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

### Use of Estimates

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

### Subsequent Events

Vanderbilt evaluated events subsequent to June 30, 2012, and through the date on which the consolidated financial statements were issued, October 19, 2012. No material subsequent events were identified for recognition or disclosure.

### Redesignations

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

### Reclassifications

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

### 3. Accounts Receivable

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

	2012	2011
Patient care	\$ 529,501	\$ 448,013
Students, grants, and other	103,861	102,876
Accrued investment income	2,010	1,771
Accounts receivable, gross	635,372	552,660
Less: Allowance for bad debts	116,806	115,973
<b>Accounts receivable, net</b>	<b>\$ 518,566</b>	<b>\$ 436,687</b>
<i>Days receivable</i>	<i>51.0</i>	<i>43.1</i>

Gross patient care receivables represented 83.3% and 81.1% of total gross receivables as of June 30, 2012 and 2011, respectively. The largest portion of patient care receivables relates to Vanderbilt University Hospitals and Clinics (the Hospital) and in turn the largest component of the Hospital's receivables was from third party payors.

The Hospital provides services to patients in advance of receiving payment and generally does not require collateral or other security for those services. However, the Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits paya-

ble under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, TennCare, Blue Cross, health maintenance organizations, and commercial insurance policies).

As of June 30, the Hospital had receivables, net of related contractual allowances, including estimated amounts for cost reports and other settlements with government payors, from the following third party payors (*in thousands*):

	2012	2011
Medicare	\$ 49,435	\$ 31,375
TennCare/Medicaid	62,274	50,925
Blue Cross	104,168	91,840
Various commercial carriers	171,738	147,275
<b>Total from third party payors</b>	<b>\$ 387,615</b>	<b>\$ 321,415</b>

Patient care bad debt expense, reported as a reduction to health care services revenue on the consolidated statements of activities, totaled \$112.0 million and \$111.0 million as of June 30, 2012 and 2011, respectively.

### 4. Contributions Receivable

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

	2012	2011
Unconditional promises expected to be collected:		
in one year or less	\$ 31,621	\$ 30,052
between one year and five years	50,659	60,509
in more than five years	3,509	2,165
Contributions receivable	85,789	92,726
Less: Unamortized discount	1,798	2,308
Less: Allowance for uncollectible promises	11,657	11,846
<b>Contributions receivable, net</b>	<b>\$ 72,334</b>	<b>\$ 78,572</b>

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2012 and June 30, 2011, generally were discounted at rates ranging from 0.5% to 2.0%.

The methodology for calculating an allowance for uncollectible promises is based upon Vanderbilt's analysis of write-offs as a percentage of gross pledges receivable along with assessing the age and activity of outstanding pledges.

In addition to pledges reported as contributions receivable, Vanderbilt received bequest intentions of approximately \$246.5 million and \$241.6 million as of June 30, 2012 and 2011, respectively. These intentions to give are not recognized as assets due to their conditional nature.

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

	2012	2011
<b>Contributions receivable, net:</b>		
Temporarily restricted	\$ 32,741	\$ 27,334
Permanently restricted	39,593	51,238
<b>Total</b>	<b>\$ 72,334</b>	<b>\$ 78,572</b>

## 5. Student Loans and Other Notes Receivable

Student loans and other notes receivable, net, as of June 30 along with related allowances for doubtful accounts were as follows (*in thousands*):

	2012		2011	
	Net Receivable	Related Allowance	Net Receivable	Related Allowance
Federal loans	\$ 17,979	\$ 1,780	\$ 17,766	\$ 1,725
Institutional loans	20,240	2,733	15,353	2,732
Faculty mortgages	7,190	-	7,088	-
<b>Student loans and other notes receivable, net</b>	<b>\$ 45,409</b>		<b>\$ 40,207</b>	

Vanderbilt remains committed to “no-loans” for its undergraduate students, meaning that the university is meeting demonstrated financial need solely with grant assistance. For other groups (e.g., graduate students), participation in several federal revolving loan programs, including the Perkins program, has continued. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans.

Funds advanced by the federal government ultimately are refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management’s judgment, could influence the ability of loan recipients to repay amounts due. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

As part of Vanderbilt’s efforts to attract and retain a world-class faculty, Vanderbilt provides home mortgage financing assistance. Notes receivable amounting to \$7.2 million were outstanding at June 30, 2012. These notes are collateralized by deeds of trust on properties concentrated in the surrounding region. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

## 6. Investments

The fair value of investments consists of the following as of June 30 (*in thousands*):

	2012	2011
Derivative contract collateral and short-term securities <sup>1</sup>	\$ 259,835	\$ 95,249
Equity investments		
Developed market equities <sup>2</sup>	138,400	165,067
Emerging market equities <sup>2</sup>	379,499	473,727
Fixed income <sup>1</sup>	451,220	359,580
Absolute return <sup>2</sup>	678,064	751,522
Other hedge funds <sup>2</sup>	360,369	301,037
Private equity <sup>3</sup>	745,136	754,233
Venture capital <sup>3</sup>	433,306	395,798
Real estate <sup>3</sup>	322,856	269,553
Natural resources <sup>3</sup>	274,183	255,343
Equity method securities and trusts <sup>4</sup>	18,082	18,367
Other investments <sup>4</sup>	12,450	23,955
<b>Total fair value</b>	<b>\$ 4,073,400</b>	<b>\$ 3,863,431</b>
<b>Total cost</b>	<b>\$ 3,570,332</b>	<b>\$ 3,318,454</b>

<sup>1</sup> Fair value is based primarily on quoted prices in active markets.

<sup>2</sup> Fair value is based on the net asset value per share of the specific investments as provided by the fund managers.

<sup>3</sup> Fair value is based on the net asset value of Vanderbilt’s ownership interests at the fund level as provided by the fund managers.

<sup>4</sup> Carrying value provides a reasonable estimate of fair value for certain components.

Included in the amounts reported in the table above are investments allocable to noncontrolling interests (i.e., minority limited partners) reported at fair value. During fiscal 2012, the minority limited partners funded capital commitments totaling \$38.7 million. Additionally, Vanderbilt made payments to the minority limited partners of \$40.8 million reflecting a distribution of earnings and returned capital from the underlying private fund assets. For the year ended June 30, 2012, the minority limited partners’ interests in the results of the underlying returns from the private fund assets were \$176.1 million. The balance of unrestricted net assets related to noncontrolling interests, calculated in accordance with the partnership agreements, was \$201.4 million as of June 30, 2012.

Investments, along with cash and cash equivalents, provide liquidity support for Vanderbilt’s operations. Of these combined amounts, based on prevailing market conditions as of June 30, 2012, \$792.4 million was available on a same-day basis and an additional \$893.1 million was available within 30 days.

Excluding derivative instruments that may be held by investment managers as part of their respective investment strategies, Vanderbilt held financial futures derivative contracts with notional values of \$729.2 million and \$575.7 million as of June 30, 2012 and 2011, respectively. The fair market value of such contracts is settled daily between counterparties.

**Short-term securities and derivative contract collateral** are comprised primarily of amounts posted as collateral in accordance with interest rate exchange agreements and unspent bond proceeds with trustees.

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

**Developed market equities** are comprised of investments in U.S. common stocks and other developed countries whose markets have a relatively high level of economic growth and security.

**Emerging market equities** include investments in the emerging global economies as defined by Morgan Stanley Capital International (MSCI) Emerging Markets Index.

**Fixed income** investments are directed towards capital preservation and predictable yield as well as more opportunistic strategies focused on generating return on price appreciation. These investments generally consist of U.S. Treasury debt securities, but may also include other highly liquid debt securities.

## Vanderbilt University

**Absolute return** investments reflect multiple strategies such as event driven, relative value, and equity funds to diversify risks and reduce volatility in the portfolio generally in hedge fund structures.

**Other hedge fund investments** include investments in both long and short primarily credit-oriented securities. Investments may include mortgage backed securities, trade finance, debt and asset-backed securities, repurchase agreements, senior loans, and bank loans.

**Private equity** includes investments that participate primarily in leveraged buyout strategies. Distributions from these investments are received through liquidations of the underlying assets. These investments generally are held in commingled limited partnership funds.

**Venture capital** consists of investments that participate in early-stage, high-potential, high-risk, growth startup companies. These

investments generally are held in commingled limited partnership funds. Distributions from these investments are received through liquidations of the underlying assets.

**Real estate** is comprised of illiquid investments in residential and commercial real estate assets, projects, or land held directly or in commingled limited partnership funds. The nature of the investments in this category is such that distributions generally reflect liquidation of the underlying assets of the funds.

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

**Equity method securities and trusts** are investments in joint ventures accounted for under the equity method of accounting and Vanderbilt's split-interest agreements with donors.

## 7. Endowment

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

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

UPMIFA specifies that unless stated otherwise in a gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, Vanderbilt reports the historical value for such endowments as per-

manently restricted net assets and the net accumulated appreciation as temporarily restricted net assets. In this context, historical value represents the original value of initial contributions restricted as permanent endowments plus the original value of subsequent contributions and, if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

Specific appropriation for expenditure of Vanderbilt's endowment funds occurs each spring when the Board of Trust approves the university's operating budget for the ensuing fiscal year. For fiscal years 2012 and 2011, Vanderbilt's Board of Trust approved endowment distributions based on 4.5% of the average of the previous three calendar year-end market values. Actual realized endowment return earned in excess of distributions is reinvested as part of Vanderbilt's endowment. For years where actual endowment return is less than the distribution, the shortfall is covered by the endowment pool's cumulative returns from prior years.

Board-appropriated endowment distributions may not be fully expended during a particular fiscal year. In some cases, endowment distributions may be approved for reinvestment into the endowment.

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

### 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	\$ -	\$ 26,889	\$ 962,796	\$ 989,685
Accumulated net appreciation of donor-restricted endowments	-	1,040,036	-	1,040,036
Reinvested distributions of donor-restricted endowments				
At historical value	133,836	1,641	-	135,477
Accumulated net appreciation	144,321	1,767	-	146,088
Institutional endowments				
At historical value	208,716	-	-	208,716
Accumulated net appreciation	840,034	-	-	840,034
<b>Endowment net assets as of June 30, 2012</b>	<b>\$ 1,326,907</b>	<b>\$ 1,070,333</b>	<b>\$ 962,796</b>	<b>\$ 3,360,036</b>

# Vanderbilt University

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments at historical value	\$ -	\$ 26,564	\$ 910,750	\$ 937,314
Accumulated net appreciation of donor-restricted endowments	-	1,102,607	-	1,102,607
Reinvested distributions of donor-restricted endowments				
At historical value	129,010	1,727	-	130,737
Accumulated net appreciation	177,185	2,178	-	179,363
Institutional endowments				
At historical value	177,826	-	-	177,826
Accumulated net appreciation	847,306	-	-	847,306
<b>Endowment net assets as of June 30, 2011</b>	<b>\$ 1,331,327</b>	<b>\$ 1,133,076</b>	<b>\$ 910,750</b>	<b>\$ 3,375,153</b>

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

	2012	2011
Net realized appreciation less endowment distributions	\$ 1,644,115	\$ 1,712,298
Net unrealized appreciation	382,043	416,978
<b>Total</b>	<b>\$ 2,026,158</b>	<b>\$ 2,129,276</b>

In striving to meet the overarching objectives for the endowment, over the past 20 years, there has been an 11% annualized standard deviation in Vanderbilt's returns. This level of risk is consistent with that accepted by peer institutions. Currently, the endowment portfolio consists of three primary components, each of which is designed to serve a specific role in establishing the right balance between risk and return. Global public and private equity investments, including venture capital and many hedge funds, are expected to produce favorable returns in environments of accelerated

growth and economic expansion. Absolute return and fixed income investments are expected to generate stable returns and preserve capital during periods of poor equity performance. Real estate and natural resources allocations are designed to provide an inflation hedge.

From time to time, the fair value of assets associated with an endowed fund may fall below the level that a donor or UPMIFA requires in terms of maintenance of perpetual duration endowments. As of June 30, 2012 and 2011, Vanderbilt had deficiencies of this nature of approximately \$11 million and \$7 million, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Vanderbilt believes these declines are modest in relation to the total market value for donor-restricted endowments and that these deficiencies will be relatively short-term in nature. Changes in endowment net assets for the fiscal years ended June 30 were as follows (*in thousands*):

2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2011	\$ 1,331,327	\$ 1,133,076	\$ 910,750	\$ 3,375,153
Endowment investment return:				
Investment income, net of fees	15,725	24,672	-	40,397
Net appreciation (realized and unrealized)	4,848	7,607	-	12,455
Total endowment investment return	20,573	32,279	-	52,852
Gifts and additions to endowment, net	35,722	240	52,046	88,008
Endowment distributions	(57,569)	(90,326)	-	(147,895)
Transfers for internal management costs	(3,385)	(5,311)	-	(8,696)
Other	239	375	-	614
<b>Endowment net assets as of June 30, 2012</b>	<b>\$ 1,326,907</b>	<b>\$ 1,070,333</b>	<b>\$ 962,796</b>	<b>\$ 3,360,036</b>

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2010	\$ 1,195,501	\$ 970,579	\$ 841,527	\$ 3,007,607
Endowment investment return:				
Investment income, net of fees	4,039	6,393	-	10,432
Net appreciation (realized and unrealized)	153,571	243,078	-	396,649
Total endowment investment return	157,610	249,471	-	407,081
Gifts and additions to endowment, net	38,845	8,992	69,223	117,060
Endowment distributions	(58,950)	(93,308)	-	(152,258)
Transfers for internal management costs	(2,045)	(3,237)	-	(5,282)
Other	366	579	-	945
<b>Endowment net assets as of June 30, 2011</b>	<b>\$ 1,331,327</b>	<b>\$ 1,133,076</b>	<b>\$ 910,750</b>	<b>\$ 3,375,153</b>



## 8. Investment Return

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

	2012	2011
<b>OPERATING</b>		
<i>Unrestricted:</i>		
Endowment distributions	\$ 136,883	\$ 142,252
Investment income	19,831	14,666
<b>Total operating return</b>	<b>156,714</b>	<b>156,918</b>
<b>NONOPERATING</b>		
<i>Unrestricted:</i>		
Change in appreciation of institutional endowments, net of distributions	(31,447)	102,258
Change in appreciation of self-insurance assets	876	11,299
Investment (loss) income	(2,476)	13,767
<i>Temporarily restricted:</i>		
Endowment distributions	8,565	7,450
Investment income	276	13,583
Change in appreciation of donor-restricted endowments, net of distributions	(62,982)	153,510
<i>Permanently restricted:</i>		
Endowment distributions	2,447	2,556
Investment (loss) income	(969)	6,062
<b>Total nonoperating return</b>	<b>(85,710)</b>	<b>310,485</b>
<b>Total investment return</b>	<b>\$ 71,004</b>	<b>\$ 467,403</b>

## 9. Property, Plant, and Equipment

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

	2012	2011
Land	\$ 73,859	\$ 71,494
Buildings and improvements	2,657,197	2,587,239
Moveable equipment	879,482	830,102
Construction in progress	55,264	38,161
Property, plant, and equipment	3,665,802	3,526,996
Less: Accumulated depreciation	1,938,191	1,772,472
<b>Property, plant, and equipment, net</b>	<b>\$ 1,727,611</b>	<b>\$ 1,754,524</b>

Purchases for the library collection are not included in the amounts above since they are expensed at the time of purchase. As of June 30, 2012, the estimated replacement cost for library collections, including processing costs to properly identify, catalog, and shelve materials, totaled about \$293 million.

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

	2012	2011
Net interest, dividend, and partnership income	\$ 54,210	\$ 100,614
Net realized gains from original cost	56,783	56,526
Change in unrealized appreciation	(39,989)	310,263
<b>Total investment return</b>	<b>\$ 71,004</b>	<b>\$ 467,403</b>

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

Investment returns are reported net of returns attributed to limited partners on investments allocable to noncontrolling interests. Investment returns are also reported net of internal management costs of \$8.7 million in fiscal 2012 and \$5.3 million in fiscal 2011.

Fees paid directly to external investment managers (i.e., segregated investment account fees) totaled \$9.0 million and \$10.7 million in fiscal 2012 and 2011, respectively.

Capitalized interest of \$0.8 million in fiscal 2011 was added to construction in progress and/or buildings and improvements; no interest was capitalized in fiscal 2012.

Internally developed software costs of \$5.8 million and \$5.4 million were capitalized in fiscal 2012 and 2011, respectively.

Vanderbilt has identified conditional asset retirement obligations, primarily for the costs of asbestos removal and disposal, resulting in liabilities of \$20.0 million and \$19.3 million as of June 30, 2012 and 2011, respectively. These liabilities, which are estimated using an inflation rate of 4.0% and a discount rate of 5.0% based on relevant factors at origination, are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

# 10. Long-Term Debt, Capital Leases, and Commercial Paper

Long-term debt consists of bonds and notes payable with scheduled final maturity dates at least one year after the original issuance date. Outstanding long-term debt, capital leases, and commercial paper

(CP) obligations are reflected in the financial statements at carrying value and, as of June 30, were as follows (*in thousands*):

	Years to Nominal Maturity	Outstanding Fixed Coupon Interest Rates as of June 30, 2012	Fiscal 2012 Effective Interest Rate <sup>2</sup>	Outstanding Principal 2012	2011
<b>FIXED-RATE DEBT</b>					
Series 1998B	17	-	5.0%	\$ -	\$ 29,705
Series 1998C <sup>1</sup>	3	-	5.0%	-	8,850
Series 2001A	4	-	5.0%	-	7,660
Series 2001B <sup>1</sup>	11	-	5.0%	-	42,585
Series 2008A	7	4.50%-5.00%	4.0%	122,600	127,600
Series 2008B <sup>1</sup>	7	4.00%-5.00%	3.9%	105,710	111,400
Series 2009A	28	4.00%-5.50%	4.9%	97,100	97,100
Series 2009B <sup>1</sup>	28	5.00%-5.50%	5.0%	232,900	232,900
Series 2009A Taxable	7	5.25%	5.0%	250,000	250,000
Series 2012C	6	2.00%-5.00%	0.8%	42,315	-
<b>Fixed-rate debt</b>			<b>4.7%</b>	<b>850,625</b>	<b>907,800</b>
<b>VARIABLE-RATE DEBT</b>					
Series 2000A	19		0.2%	53,300	54,900
Series 2000B	19		0.2%	-	54,900
Series 2002A	21		0.2%	-	19,260
Series 2003A <sup>1</sup>	7		0.2%	-	20,900
Series 2005A	33		0.2%	68,000	113,300
Series 2012A	27		0.6%	67,000	-
Series 2012B	27		0.8%	67,000	-
<b>Variable-rate debt</b>			<b>0.2%</b>	<b>255,300</b>	<b>263,260</b>
Par amount of long-term debt			3.7%	1,105,925	1,171,060
Net unamortized premium			-	9,115	3,768
Total long-term debt			3.7%	1,115,040	1,174,828
Capital leases	1 to 3		4.7%	1,989	3,703
<b>Total long-term debt and capital leases</b>			<b>3.7%</b>	<b>1,117,029</b>	<b>1,178,531</b>
Tax-exempt commercial paper	<1		0.3%	149,205	150,000
Taxable commercial paper	<1		0.3%	114,870	114,862
<b>Total commercial paper</b>			<b>0.3%</b>	<b>264,075</b>	<b>264,862</b>
<b>Total long-term debt, capital leases, and commercial paper</b>			<b>3.1%</b>	<b>\$ 1,381,104</b>	<b>\$ 1,443,393</b>

<sup>1</sup> Issued under Master Trust Indenture structure.

<sup>2</sup> Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio effective interest rate was 4.9%.

The preceding table reflects fixed/variable allocations before the effects of interest rate exchange agreements. Such agreements are covered in more detail in a successive note.

Tax-exempt CP and all of the aforementioned bonds (with the exception of the Series 2009A Taxable notes) have been issued by the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (HEFB). As a conduit issuer, the HEFB loans the debt proceeds to Vanderbilt. Pursuant to loan agreements, Vanderbilt's debt service requirements under these loan agreements coincide with required debt service of the actual HEFB bonds.

All debt instruments are general obligations of Vanderbilt. No assets are pledged as collateral for such debt.

Included in the foregoing table are hospital and clinic (patient care) bonds, with a principal balance outstanding of \$338.6 million as of June 30, 2012, that were issued under a Master Trust Indenture (MTI) structure. The MTI provides the flexibility for multiple par-

ties to participate in debt issuances as part of an obligated group; presently, Vanderbilt's hospitals and clinics have no other members participating in the obligated group. Bonds issued under the MTI are payable from hospital revenues. All outstanding MTI bonds are also supplemented by a Vanderbilt guarantee of debt service.

Trust indentures for certain bond issues contain covenants and restrictions involving the issuance of additional debt, maintenance of a specified debt service coverage ratio, and the maintenance of liquidity facilities. Vanderbilt was in compliance with such covenants and restrictions as of June 30, 2012.

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

	2012	2011
Payments for interest costs	\$ 72,125	\$ 79,126
Accrued interest expense	\$ 67,977	\$ 74,794

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Payments for interest costs, including amounts capitalized, occur on varying scheduled payment dates for debt, maturity dates for CP, and settlement dates for interest rate exchange agreements. Accrued interest expense is based on applicable interest rates for Vanderbilt's debt, CP, and interest rate exchange agreements for the respective fiscal year.

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

2013	\$ 33,190
2014	34,530
2015	36,200
2016	50,065
2017	40,505
Thereafter	911,435
<b>Total long-term debt principal retirements</b>	<b>\$ 1,105,925</b>

In addition to scheduled principal and interest payments on long-term debt obligations, Vanderbilt's capital lease agreements outstanding as of June 30, 2012, will require payments of \$1.5 million during fiscal 2013. Of those payments, \$1.4 million will be allocated toward amortizing the \$1.9 million capital lease obligation. Furthermore, requirements noted in the preceding table could be greater if Vanderbilt must purchase either a portion or all of its variable-rate demand obligations, floating-rate notes, and CP in the event of failed remarketings on the respective weekly reset dates, mandatory tender dates, or scheduled maturities as described in the following paragraphs.

Vanderbilt had \$255.3 million of variable-rate bonds outstanding as of June 30, 2012, consisting of \$121.3 million of weekly variable-rate demand obligations and \$134.0 million of floating-rate notes with mandatory tender dates of October 1, 2015 and 2017. During fiscal 2011, all of Vanderbilt's variable-rate bonds were in weekly interest rate reset modes. In the event that Vanderbilt receives notice of an optional tender on its variable-rate demand obligations, the purchase price of the bonds will be paid from the remarketing of such bonds. If the remarketing proceeds are insufficient, Vanderbilt will have a current obligation to purchase the bonds tendered.

As of June 30, 2012, Vanderbilt had \$149.2 million of tax-exempt CP outstanding and \$114.9 million of taxable CP outstanding. Vanderbilt can issue up to a combined \$675.0 million under its tax-exempt and taxable CP programs. However, issuance of incremental taxable CP beyond that outstanding as of June 30, 2012, would require approval by Vanderbilt's Board of Trust, and issuance of incremental tax-exempt CP would require approval by both Vanderbilt's Board of Trust and the HEFB as conduit issuer.

The weighted average duration of Vanderbilt's CP portfolio totaled 151 days as of June 30, 2012, and 96 days as of June 30, 2011.

Liquidity support for debt with short-term remarketing periods (weekly reset variable-rate bonds and CP totaling \$385.4 million) is provided by Vanderbilt's self-liquidity. As of June 30, 2012, Vanderbilt estimates that \$792.4 million of liquid assets were available on a same-day basis and an additional \$893.1 million was available within 30 days.

A second tier of liquidity support consists of two bank revolving credit facilities with maximum available commitments totaling \$200.0 million as of June 30, 2012, dedicated solely to Vanderbilt's debt portfolio liquidity support. These commitments expire in March 2013 and March 2014. Maximum repayment periods, which

may extend beyond the expiration dates, range from 90 days to three years. Vanderbilt has never borrowed against revolving credit agreements to support redemptions of debt.

Vanderbilt has also entered into agreements with two banks to provide general use lines of credit with maximum available commitments totaling \$300.0 million as of June 30, 2012. These lines of credit, which may be drawn upon for general operating purposes, expire in June 2013 and October 2014. No amounts were drawn on these credit facilities as of June 30, 2012 or June 30, 2011.

Vanderbilt's long-term debt is reported at carrying value, which is the par amount adjusted for the net unamortized amount of bond premiums and discounts. The carrying value and estimated market value of Vanderbilt's long-term debt as of June 30 were as follows (*in thousands*):

	<b>2012</b>	<b>2011</b>
Carrying value of long-term debt	\$ 1,115,040	\$ 1,174,828
Market value of long-term debt	\$ 1,205,749	\$ 1,237,561

The estimated market value of Vanderbilt's long-term debt is based on market conditions prevailing at fiscal year-end reporting dates. Besides potentially volatile market conditions, market value estimates typically also reflect limited secondary market trading. Vanderbilt's capital leases and commercial paper are also reported at carrying value, which closely approximates market value for those liabilities.

On October 1, 2011, Vanderbilt fully redeemed the remaining principal maturities of the Series 1998B and 1998C fixed-rate bonds

On March 29, 2012, Vanderbilt issued the Series 2012A, 2012B, and 2012C bonds aggregating \$176.3 million for the purpose of redeeming weekly reset variable-rate debt and callable fixed-rate debt. The Series 2012A and 2012B variable-rate bonds (floating-rate notes) were issued in the amount of \$134.0 million and bear interest initially at fixed spreads to weekly SIFMA resets of 0.40% and 0.60%, respectively, through the initial mandatory tender dates of October 1, 2015 and October 1, 2017, respectively, and final maturity dates of October 1, 2038. Series 2012A and 2012B proceeds were used to fund the full redemption of Vanderbilt's variable-rate Series 2000B, 2002B, and 2003A and a partial redemption of Series 2005A. The Series 2012C fixed-rate bonds were issued in the par amount of \$42.3 million and include an original issue premium of \$3.9 million. The Series 2012C bonds are noncallable with an average coupon of 4.7% and a final maturity of October 1, 2017. Par and premium proceeds from the Series 2012C issuance fully funded the redemption of Series 2001A and 2001B fixed-rate principal maturities due after May 1, 2012. This refunding produced a \$0.8 million accounting loss reported as other nonoperating in the consolidated statement of activities and resulted in present value savings of \$6.7 million.

None of Vanderbilt's fixed-rate debt has a mandatory tender date preceding the respective final maturity dates. The Series 2008A and 2008B bonds include amortizing principal amounts each year but these bonds are noncallable before their October 2018 final maturity date. The Series 2009A and 2009B bonds include amortizing principal amounts each year beginning fiscal 2016 and these bonds may be called at par beginning October 2019. The Series 2009A Taxable notes do not amortize and are callable before the April 2019 maturity date only if Vanderbilt pays a make-whole call provision to the bondholders. The Series 2012C bonds include annual amortizing principal amounts beginning October 2012, excluding October 2015, until their final maturity in October 2017.

## 11. Interest Rate Exchange Agreements

Vanderbilt has entered into interest rate exchange agreements as part of its debt portfolio management strategy. These agreements result in periodic net cash settlements paid to, or received from, counterparties. Net settlements due to counterparties totaled \$25.5 million and \$29.9 million in fiscal 2012 and 2011, respectively, and were reflected as adjustments to interest expense.

The fair value of interest rate exchange agreements is based on the present value sum of future net cash settlements that reflect market yields as of the measurement date and reflects estimated amounts that Vanderbilt would pay, or receive, to terminate the contracts as of the report date. The estimated fair value of Vanderbilt's outstanding interest rate exchange agreements was a liability of \$315.6 million and a liability of \$135.0 million as of June 30, 2012 and 2011, respectively.

Vanderbilt did not enter into any new interest rate exchange agreements during fiscal 2012 or 2011. Vanderbilt allowed a \$500.0 million fixed-receiver interest rate exchange contract option to expire. This option had zero intrinsic value on the expiration date of December 1, 2010.

During fiscal 2011, Vanderbilt terminated \$280.0 million of fixed-payer interest rate exchange agreements at a net cost of \$23.7 million to reduce collateral exposure and eliminate ongoing settlement

costs as reported in the nonoperating section of the consolidated statement of activities.

Gains and losses from changes in the fair value of interest rate exchange agreements are reported in the nonoperating section of the consolidated statements of activities. These changes resulted in net losses of \$180.6 million in fiscal 2012 and net gains of \$72.1 million in fiscal 2011.

The interest rate exchange agreements include collateral pledging requirements based on the fair value of the contracts. Collateral held by counterparties as of June 30, 2012 and 2011, totaled \$236.2 million and \$81.4 million, respectively. Vanderbilt estimates that a decline in long-term LIBOR rates to approximately 2% would result in the fair value of the portfolio being a liability of approximately \$400 million and correspondingly increase Vanderbilt's collateral pledging requirements to approximately \$310 million. As of June 30, 2012, 30-year LIBOR was 2.51%.

As of June 30, 2012, Vanderbilt's adjusted debt portfolio, after taking into account outstanding fixed-payer interest rate exchange agreements, was approximately 115% fixed.

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

Description	Rate Paid	Rate Received	Maturity	2012	2011
Fixed-payer interest rate exchange agreements <sup>1</sup>	Avg fixed rate of 3.72%	Avg of 68.3% of one-month LIBOR <sup>2</sup>	19 to 33 years	\$ 721,600	\$ 724,800
Basis interest rate exchange agreements	SIFMA <sup>3</sup>	Avg of 81.5% of one-month LIBOR <sup>2</sup>	23 to 24 years	\$ 500,000	\$ 500,000

<sup>1</sup> For one amortizing fixed-payer interest rate exchange agreement that will have a notional balance of \$51.6 million in October 2012, the counterparty may exercise an option to terminate the contract, in whole or in part and at no cost, at any time from that date until the final maturity in October 2030.

<sup>2</sup> LIBOR (London Interbank Offered Rate) is a reference rate based on interest rates at which global banks borrow funds from other banks in the London interbank lending market.

<sup>3</sup> SIFMA (Securities Industry and Financial Markets Association) is a seven day high-grade market index rate based upon tax-exempt variable rate debt obligations.

## 12. Net Assets

**Unrestricted net assets** are internally designated into the following groups:

*Designated for operations* represents the cumulative operating activity of Vanderbilt and plant replacement reserves. These net assets also reflect the realized losses of derivative financing activities.

*Designated gifts and grants* are composed of 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 (a) Vanderbilt's investment in property, plant, and equipment, net of accumulated depreciation, as well as (b) funds designated for active construction projects and retirement of capital-related debt, offset by (c) Vanderbilt's conditional asset retirement obligation.

*Reinvested distributions of donor-restricted endowments at historical value* are amounts related to donor-restricted endowments that are reinvested in the endowment in accordance with donor requests.

*Accumulated net appreciation of reinvested distributions* represents cumulative appreciation on reinvestments of donor-restricted endowments.

*Institutional endowments (quasi-endowments) at historical value* are amounts set aside by Vanderbilt to generate income in perpetuity to support operating needs.

*Accumulated net appreciation of institutional endowments* represents cumulative appreciation on institutional endowments.

*Fair value of interest rate exchange agreements, net* represents the mark-to-market valuation for such contracts. Because these agreements are intended to manage interest rate risks within the debt portfolio, segregation from other designations is maintained.

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*Net assets related to noncontrolling interests* represents minority partners' share of the equity in two partnerships (endowment private equity and real estate partnerships) formed to acquire, hold, and manage private fund assets.

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

	2012	2011
Designated for operations	\$ 693,025	\$ 531,460
Designated gifts and grants	118,023	164,683
Designated for student loans	22,480	25,851
Designated for plant facilities	714,944	685,102
Reinvested distributions of donor-restricted endowments at historical value	133,836	129,010
Accumulated net appreciation of reinvested distributions	144,321	177,185
Institutional endowments at historical value	208,716	177,826
Accumulated net appreciation of institutional endowments	840,034	847,306
Fair value of interest rate exchange agreements, net	(315,577)	(135,026)
Net assets related to noncontrolling interests	201,386	199,249
<b>Total unrestricted net assets</b>	<b>\$ 2,761,188</b>	<b>\$ 2,802,646</b>

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

	2012	2011
Donor-restricted endowments at historical value	\$ 26,889	\$ 26,564
Accumulated net appreciation of donor-restricted endowments	1,040,036	1,102,607
Reinvested distributions of donor-restricted endowments at historical value	1,641	1,727
Accumulated net appreciation of reinvested distributions	1,767	2,178
Contributions	101,603	102,749
Interests in trusts held by others	6,826	6,991
Life income and gift annuities	12,454	19,455
<b>Total temporarily restricted net assets</b>	<b>\$ 1,191,216</b>	<b>\$ 1,262,271</b>

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

	2012	2011
Student scholarships	\$ 223,133	\$ 301,756
Instruction	463,067	518,648
Capital improvements	16,183	11,831
Subsequent period operations and other	488,833	430,036
<b>Total temporarily restricted net assets</b>	<b>\$ 1,191,216</b>	<b>\$ 1,262,271</b>

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

	2012	2011
Donor-restricted endowments at historical value	\$ 962,796	\$ 910,750
Contributions	40,101	53,125
Interests in trusts held by others	32,431	32,370
Life income and gift annuities	31,816	29,357
<b>Total permanently restricted net assets</b>	<b>\$ 1,067,144</b>	<b>\$ 1,025,602</b>

Based on relative fair values as of June 30, 2012, approximately 21% of donor-restricted endowments support scholarships, 20% support endowed chairs, 23% support operations, and 36% were for other purposes.

### 13. Fair Value Measurement

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

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

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

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

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

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

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

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by others are reported as changes in appreciation of other investments in the consolidated statements of activities.

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

	June 30, 2011	Realized and unrealized gains (losses)	Purchases	Sales	Transfers into and (out) of level 3	June 30, 2012	Change in unrealized gains (losses) for investments still held at June 30, 2012
<b>LEVEL 3 ASSETS</b>							
Developed market equities	\$ 70,225	(7,295)	7,867	(38,274)	-	32,523	(3,014)
Emerging market equities	134,448	(19,855)	-	(6,250)	-	108,343	(19,856)
Fixed income	19,706	581	6,981	(7,514)	-	19,754	(1,249)
Absolute return	612,815	(24,022)	5,773	(86,577)	-	507,989	(122,215)
Other hedge funds	182,937	8,751	-	-	-	191,688	8,751
Private equity	754,233	4,088	89,647	(102,832)	-	745,136	43,423
Venture capital	395,621	35,724	69,996	(68,035)	-	433,306	2,125
Real estate	269,553	43,565	45,694	(35,956)	-	322,856	170,196
Natural resources	255,343	11,695	37,948	(30,803)	-	274,183	(10,629)
Equity method securities and trusts	18,367	7,847	3,609	(3,424)	(8,317)	18,082	(7,032)
Other investments	23,779	(6,344)	2,793	(8,133)	214	12,309	17,325
Interests in trusts held by others	39,362	(105)	-	-	-	39,257	(105)
<b>Total Level 3</b>	<b>\$ 2,776,389</b>	<b>\$ 54,630</b>	<b>\$ 270,308</b>	<b>\$ (387,798)</b>	<b>\$ (8,103)</b>	<b>\$ 2,705,426</b>	<b>\$ 77,720</b>

	June 30, 2010	Realized and unrealized gains (losses)	Purchases	Sales	Transfers into and (out) of level 3	June 30, 2011	Change in unrealized gains (losses) for investments still held at June 30, 2011
<b>LEVEL 3 ASSETS</b>							
Developed market equities	\$ 217,019	\$ 8,564	\$ 7,208	\$ (133,365)	\$ (29,201)	\$ 70,225	\$ (24,860)
Emerging market equities	211,945	33,083	3,750	(80,797)	(33,533)	134,448	32,287
Fixed income	20,294	228	2,519	(3,335)	-	19,706	-
Absolute return	548,293	52,417	83,962	(114,226)	42,369	612,815	39,814
Other hedge funds	193,755	9,243	-	(20,061)	-	182,937	9,243
Private equity	562,285	154,906	117,747	(80,705)	-	754,233	65,502
Venture capital	253,419	96,003	91,851	(45,652)	-	395,621	83,916
Real estate	219,044	19,191	47,335	(16,017)	-	269,553	19,803
Natural resources	214,468	27,053	46,539	(32,717)	-	255,343	25,203
Equity method securities and trusts	21,368	10,692	-	(10,870)	(2,823)	18,367	-
Other investments	24,823	(874)	154	(324)	-	23,779	276
Interests in trusts held by others	36,393	2,969	-	-	-	39,362	-
<b>Total Level 3</b>	<b>\$ 2,523,106</b>	<b>\$ 413,475</b>	<b>\$ 401,065</b>	<b>\$ (538,069)</b>	<b>\$ (23,188)</b>	<b>\$ 2,776,389</b>	<b>\$ 251,184</b>

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

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

As of June 30, 2012, 87% of cash and cash equivalents were available on a same-day basis.

Most investments that have been classified as levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings. Since the net asset value reported by each fund is used as a practical expedient to estimate the fair value of Vanderbilt's interest therein, its classification within the fair value hierarchy as level 2 or level 3 is based on Vanderbilt's ability to redeem its interest at or near the financial statement date. Vanderbilt defines near-term as within 90 days of the financial statement date.

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

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trustees. Vanderbilt deems a redemption or liquidation frequency for these amounts as nonapplicable.

Equities and fixed income provide varying levels of liquidity as defined in the following tables. As of June 30, 2012, 47%, 63%, and 85% of developed market equities value, emerging market equities value, and fixed income value, respectively, were available for daily redemption requests with liquidity within 30 days.

Absolute return and other hedge funds includes daily, quarterly, and annual redemption frequencies. Notice may be provided to the fund managers to exit from the respective funds in the time periods noted.

As of June 30, 2012, 21% of absolute return investments were comprised of hedge funds in "hard lockup" periods of up to 36 months, during which redemptions or liquidations are not allowed per terms of the respective agreements with fund managers. Additionally, 5% of absolute return investments were in "soft lockup" periods of up to nine months, during which redemptions or liquidations may occur but are subject to withdrawal penalties of up to 4.5%.

The total fair values for private equity, venture capital, real estate, natural resources, and other investments were reported as illiquid as of June 30, 2012. These amounts predominantly consist of limited partnerships. Under the terms of these limited partnership agreements, Vanderbilt is obligated to remit additional funding periodically as capital calls are exercised by the general partner. These partnerships have a limited existence and the agreements may provide for annual extensions relative to the timing for disposing portfolio positions and returning capital to investors. Depending on market conditions, the ability or inability of a fund to execute its strategy, and other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may liquidate the fund prematurely. Vanderbilt cannot anticipate such changes because they are based on unforeseen events. As a result, the timing and amount of future capital calls or distributions in any particular year are uncertain and the related market values are reported as illiquid.

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

2012

	Fair Value Measurements				Group	Redemption	Days
	Level 1	Level 2	Level 3	Total	%	or Liquidation Frequency	Notice
<b>ASSETS REPORTED AT FAIR VALUE</b>							
Cash and cash equivalents	\$ 912,419	\$ -	\$ -	\$ 912,419	87% 13%	Daily Daily	same-day 2-90 days
Derivative contract collateral and short-term securities	259,835	-	-	259,835	100%	n/a	n/a
Equity investments:							
Developed market equities	101,637	4,240	32,523	138,400	47% 43% 3% 7%	Daily Daily Annually n/a	2-30 days >30 days >30 days n/a
Emerging market equities	271,156	-	108,343	379,499	63% 22% 15%	Daily Monthly Quarterly	2-30 days >30 days >30 days
Fixed income	431,466	-	19,754	451,220	51% 34% 15%	Daily Daily Daily	next-day 2-30 days >30 days
Absolute return	82,847	87,228	507,989	678,064	5% 57% 9% 26% 3%	Daily Quarterly Annually Lockup n/a	2-30 days >30 days >30 days >30 days n/a
Other hedge funds	-	168,681	191,688	360,369	28% 27% 45%	Daily Quarterly Annually	>30 days >30 days >30 days
Private equity	-	-	745,136	745,136	100%	>1yr	n/a
Venture capital	-	-	433,306	433,306	100%	>1yr	n/a
Real estate	-	-	322,856	322,856	100%	>1yr	n/a
Natural resources	-	-	274,183	274,183	100%	>1yr	n/a
Equity method securities and trusts	-	-	18,082	18,082	100%	n/a	n/a
Other investments	141	-	12,309	12,450	100%	>1yr	n/a
Interests in trusts held by others	-	-	39,257	39,257	100%	n/a	n/a
<b>Total assets reported at fair value</b>	<b>\$ 2,059,501</b>	<b>\$ 260,149</b>	<b>\$ 2,705,426</b>	<b>\$ 5,025,076</b>			
<b>LIABILITIES REPORTED AT FAIR VALUE</b>							
Interest rate exchange agreements, net	\$ -	\$ 315,577	\$ -	\$ 315,577			

*Vanderbilt University*

2011

2011

	Fair Value Measurements				Group %	Redemption or Liquidation Frequency	Days Notice
	Level 1	Level 2	Level 3	Total			
ASSETS REPORTED AT FAIR VALUE							
Cash and cash equivalents	\$ 1,129,804	\$ -	\$ -	\$ 1,129,804	98% 2%	Daily Daily	same-day 2-90 days
Derivative contract collateral and short-term securities	95,249	-	-	95,249	100%	n/a	n/a
Equity investments:							
Developed market equities	89,052	5,790	70,225	165,067	20% 10% 38% 17% 3% 12%	Daily Daily Daily Quarterly Annually n/a	next-day 2-30 days >30 days >30 days >30 days n/a
Emerging market equities	308,631	30,647	134,449	473,727	58% 6% 22% 14%	Daily Bi-Weekly Monthly Quarterly	2-30 days 2-30 days >30 days >30 days
Fixed income	339,874	-	19,706	359,580	40% 41% 19%	Daily Daily Daily	next-day 2-30 days >30 days
Absolute return	138,707	-	612,815	751,522	8% 58% 31% 3%	Daily Quarterly Lockup n/a	next-day >30 days >30 days n/a
Other hedge funds	-	118,100	182,937	301,037	25% 44% 31%	Quarterly Annually Lockup	>30 days >30 days >30 days
Private equity	-	-	754,233	754,233	100%	>1yr	n/a
Venture capital	177	-	395,621	395,798	100%	>1yr	n/a
Real estate	-	-	269,553	269,553	100%	>1yr	n/a
Natural resources	-	-	255,343	255,343	100%	>1yr	n/a
Equity method securities and trusts	-	-	18,367	18,367	100%	n/a	n/a
Other investments	177	-	23,778	23,955	1% 99%	Daily n/a	>30 days n/a
Interests in trusts held by others	-	-	39,362	39,362	100%	n/a	n/a
Total assets reported at fair value	\$ 2,101,671	\$ 154,537	\$ 2,776,389	\$ 5,032,597			
LIABILITIES REPORTED AT FAIR VALUE							
Interest rate exchange agreements, net	\$ -	\$ 135,026	\$ -	\$ 135,026			



## 14. Natural Classification of Expenses and Allocations

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

	2012	2011
Salaries, wages, and benefits	\$ 2,195,716	\$ 2,056,804
Services	188,488	188,372
General expenses and supplies	726,116	692,735
Depreciation and amortization	172,718	173,195
Interest	67,977	74,794
Utilities, operating leases, and other	156,385	154,981
<b>Total operating expenses</b>	<b>\$ 3,507,400</b>	<b>\$ 3,340,881</b>

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

2012	Depreciation	Interest
Instruction	\$ 19,295	\$ 3,359
Research	27,080	6,276
Health care services	78,548	42,731
Public service	816	100
Academic support	8,241	1,210
Student services	1,207	428
Institutional support	15,117	1,781
Room, board, and other auxiliary services	22,414	12,092
<b>Total</b>	<b>\$ 172,718</b>	<b>\$ 67,977</b>

2011	Depreciation	Interest
Instruction	\$ 19,056	\$ 5,233
Research	25,067	7,319
Health care services	79,167	41,496
Public service	1,101	300
Academic support	9,410	2,314
Student services	1,404	593
Institutional support	15,174	2,705
Room, board, and other auxiliary services	22,816	14,834
<b>Total</b>	<b>\$ 173,195</b>	<b>\$ 74,794</b>

## 15. Retirement Plans

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

Vanderbilt's obligations under these plans are fully funded by monthly transfers to the respective retirement plan administrators with the corresponding expenses recognized in the year incurred. Vanderbilt's retirement plan contributions for fiscal 2012 and 2011 were \$59.8 million and \$56.2 million, respectively.

## 16. Student Financial Aid

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

In fiscal 2012 and 2011, financial aid for tuition and educational fees of \$199.3 million and \$193.5 million was applied to gross tuition and educational fees of \$449.4 million and \$437.4 million, respectively. In fiscal 2012 and 2011, financial aid for room and board of \$28.8 million and \$27.2 million was applied to gross room and board of \$70.1 million and \$67.1 million, respectively.

Loans to students from Vanderbilt funds are carried at cost, which, based on secondary market information, approximates the fair value of educational loans with similar interest rates and payment terms. Loans to qualified students historically have been funded principally with government advances to Vanderbilt under the Perkins, Nursing, and Health Professions Student Loan Programs. Loans receivable from students under governmental loan programs, also carried at cost, can only be assigned to the federal government or its designees. Student loan receivables are reported net of allowances for estimated uncollectible accounts of \$4.5 million as of June 30, 2012 and 2011.

## 17. Charity Care Assistance and Community Benefits

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Consistent with Vanderbilt's mission, the university's medical center (including hospitals, clinics, and physician practice units) maintains a policy which sets forth the criteria pursuant to those health care services that are provided without expectation of payment, or, at a reduced payment rate to patients who have minimal financial resources to pay for their medical care. These services represent charity care and are not reported as revenue.

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

The cost of charity care provided by the medical center was \$120.1 million and \$104.2 million in fiscal 2012 and 2011, respectively. Of the total uncompensated care provided by the medical center (comprising charity care and bad debt reflected as deductions from gross revenue), 78% and 75% of the total in fiscal 2012 and 2011, respectively, was charity care. Charity care services represent 5.7% and 5.4%, respectively, of total patient services at the medical center in fiscal 2012 and 2011.

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

The medical center also 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.

## 18. Related Parties

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

Furthermore, Vanderbilt's conflict of interest policy extends beyond the foregoing business activities in that disclosure is required for any situation in which an applicable individual's financial, professional, or other personal activities may directly or indirectly affect, or have the appearance of affecting, an individual's professional

judgment in exercising any university duty or responsibility, including the conduct or reporting of research.

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

When situations exist relative to the conflict of interest policy, active measures are taken to appropriately manage the actual or perceived conflict in the best interests of the university, including periodic reporting of the measures taken to the Board of Trust Audit Committee.

## 19. Lease Obligations

Vanderbilt leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms of up to 15 years. Total operating lease expense in fiscal 2012 and 2011 was \$56.1 million and \$51.8 million, respectively.

As of June 30, 2012, future committed minimum rentals by fiscal year on significant noncancelable operating leases with initial or remaining lease terms in excess of one year were as follows (*in thousands*):

2013	\$	43,681
2014		31,723
2015		28,539
2016		20,994
2017		16,227
Thereafter		32,803
<b>Total future minimum rentals</b>	<b>\$</b>	<b>173,967</b>

Vanderbilt leases over 50% of the space in the approximately 850,000-square-foot One Hundred Oaks facility, located within five miles of the main campus, primarily for medical clinic and office uses. This operating lease commenced in fiscal 2008 with an initial lease term of 12 years. Minimum aggregate rental payments of \$40.5 million related to this space are included in the preceding table.

## 20. Commitments and Contingencies

(A) *Construction.* As of June 30, 2012, approximately \$145.1 million was contractually committed for projects under construction and equipment purchases. The largest components of these commitments were for the second phase of Vanderbilt's residential colleges program, College Halls at Kissam (\$93.6 million); floor build-outs in the Critical Care Tower of the adult hospital (\$19.8 million); and renovations to Alumni Hall (\$11.1 million).

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

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

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

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

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

(G) *Health Care Services.* Revenue from health care services includes amounts paid under reimbursement agreements with certain third-party payers and is subject to examination and retroactive adjustments. Any differences between estimated year-end settlements and actual final settlements are reported in the year final settlements are known. Substantially all final settlements have been determined through the year ended June 30, 2007. Cahaba Government Benefit Administrators (Cahaba GBA), Vanderbilt's Medicare Administrative Contractor, has been unable to complete final settlements for more recent years due to data issues at the Centers for Medicare and Medicaid Services (CMS) and other factors such as Cahaba GBA audit backlogs. Final settlements relative to periods through June 30, 2010, are expected to be complete during fiscal 2013.

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

(I) *Partnership Investment Commitments.* There were \$632.8 million of commitments to venture capital, real estate, and private equity investments as of June 30, 2012. These funds may be drawn down over the next several years upon request by the general partners. Vanderbilt expects to finance these commitments with available cash and expected proceeds from the sales of securities. In addition, Vanderbilt is a secondary guarantor for \$33.5 million of commitments for certain investment vehicles where minority limited partners in subsidiaries that Vanderbilt controls have the primary obligations.

(J) *McKendree Village, Inc. Debt Guaranty.* In July 1998, Vanderbilt and McKendree Village, Inc. (McKendree), a not-for-profit retirement community, entered into an affiliation agreement, including a guarantee of certain McKendree debt by the university, largely secured by asset liens on McKendree property. The assets of McKendree have been sold to a third party and as of June 30, 2012, the aforementioned McKendree debt has been fully retired. Expectations are that the university's affiliation with McKendree will cease during fiscal 2013.

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## **APPENDIX C**

### **Summaries of Certain Provisions of Indentures and Loan Agreements**

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**SUMMARIES OF CERTAIN PROVISIONS OF  
SERIES 2012D INDENTURE AND SERIES 2012D LOAN AGREEMENT**

**CERTAIN DEFINITIONS PARTICULAR TO THE SERIES 2012D INDENTURE,  
THE SERIES 2012D BONDS AND THE SERIES 2012D LOAN AGREEMENT**

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used under this caption (“Summaries of Certain Provisions of Series 2012D Indenture and Series 2012D Loan Agreement”) and elsewhere in this Official Statement have the following meanings with respect to the Series 2012D Indenture, the Series 2012D Bonds and the Series 2012D Loan Agreement, unless the context or use indicates another or different meaning or intent.

*“Act of Bankruptcy”* means the filing of a petition in bankruptcy (or the other commencement of a bankruptcy or similar proceeding) by or against a person under any applicable bankruptcy, insolvency, reorganization, or similar law, now or hereafter in effect.

*“Affiliate”* of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For purposes of this definition, *“control”* when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms *“controlling”* and *“controlled”* have meanings correlative to the foregoing.

*“Amortization Requirement”* means, with respect to the Term Bonds for any Bond Year, the principal amount fixed or specified for the retirement of such Term Bonds by purchase, redemption or payment pursuant to the Series 2012D Indenture and subject to adjustment as therein provided. The aggregate amount of such Amortization Requirements for the Term Bonds, together with the amount remaining due upon the final maturity of such Term Bonds, shall be equal to the aggregate principal amount of the Term Bonds.

*“Authorized Denominations”* means \$5,000 or any integral multiple thereof.

*“Authorized Representative of the Board”* means the Chairman, the Vice Chairman, the Treasurer or the Secretary of the Board, or any other officer or agent of the Board authorized by the governing body of the Board to act as “Authorized Representative of the Board” for purposes of the Bond Documents.

*“Authorized Representative of the University”* means the Chancellor, any Vice Chancellor, or any other officer or agent of the University authorized by the governing body of the University or the Chancellor to act as “Authorized Representative of the University” for purposes of the Bond Documents.

*“Bondholder,”* when used with respect to any Series 2012D Bond, means the person in whose name such Series 2012D Bond is registered in the Bond Register.

*“Bond Documents”* means the Series 2012D Bonds, the Series 2012D Indenture, the Series 2012D Loan Agreement and the Series 2012D Note.

*“Bond Payment Date”* means each date on which Debt Service is payable on the Series 2012D Bonds, including any date fixed for redemption of Series 2012D Bonds or on which the principal of and accrued interest thereon has been declared to be immediately due and payable pursuant to the Series 2012D Indenture.

*“Bond Register”* means the register or registers for the registration and transfer of Series 2012D Bonds maintained by the Trustee for the Board pursuant to the Series 2012D Indenture.

*“Bond Year”* means a period of 12 consecutive months beginning on October 1 in any calendar year and ending on September 30 of the succeeding calendar year.

“*Book-Entry System*” means the book-entry system maintained by DTC for the registration, transfer, exchange and payment of debt obligations.

“*Business Day*” means any day other than a Saturday, a Sunday, or a day on which the Trustee is authorized to be closed under general law or regulation applicable in the place where the Trustee performs its business with respect to the Series 2012D Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, or the corresponding provisions of any successor internal revenue laws of the United States of America.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement entered into by the University in connection with the issuance of the Bonds.

“*Debt Service*” means the principal, including any Amortization Requirement, redemption premium (if any) and interest payable on the Series 2012D Bonds.

“*Debt Service Fund*” means the fund of that name established pursuant to the Series 2012D Indenture.

“*Defeased*,” when used with respect to a Series 2012D Bond, means (i) such Series 2012D Bond has been cancelled by the Trustee or delivered to the Trustee for cancellation, (ii) such Series 2012D Bond has matured or has been called for redemption and, on such maturity date or redemption date, money for the payment of Debt Service on such Series 2012D Bond is held by the Trustee in trust for the benefit of the person entitled thereto, or (iii) a trust for the payment of such Series 2012D Bond has been established in accordance with the provisions of the Series 2012D Indenture.

“*DTC*” means The Depository Trust Company, and its successors and assigns.

“*Enabling Law*” means Title 48, Chapter 101, Part 3 of the Tennessee Code Annotated, as it may from time to time be amended, or any successor statute.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the occurrence of which requires such an opinion, an Opinion of Bond Counsel to the effect that such action is permitted under the Series 2012D Indenture and will not adversely affect the validity of the Series 2012D Bonds under the laws of the State or the exclusion from gross income for federal income tax purposes of interest on the Series 2012D Bonds, which opinion shall in each instance be addressed and delivered, unless otherwise required by the Series 2012D Indenture, to the Board, the University and the Trustee.

“*Federal Securities*” means noncallable, nonprepayable, direct obligations of, or noncallable, nonprepayable obligations the full and timely payment of which is guaranteed by, the United States of America.

“*Financing Participants*” means the Board, the University and the Trustee.

“*Fitch*” means Fitch Ratings, Inc.

“*Holder*,” when used with respect to any Series 2012D Bond, means the person in whose name such Series 2012D Bond is registered in the Bond Register.

“*Indenture Default*” has the meaning giving under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012D INDENTURE – Events of Default” below.

“*Indenture Funds*” means any fund or account established pursuant to the Series 2012D Indenture.

“*Indenture Indebtedness*” means all indebtedness of the Board secured by the Series 2012D Indenture, including without limitation (a) all Debt Service on the Series 2012D Bonds and (b) all reasonable fees, charges and disbursements of the Trustee for services performed and disbursements made under the Series 2012D Indenture.



*“Independent,”* when used with respect to any person, means a person who (a) does not have any direct financial interest or any material indirect financial interest in any Financing Participant or any Affiliate of a Financing Participant, (b) does not serve as a member of the governing body of any Financing Participant or any Affiliate of a Financing Participant, and (c) is not employed by any Financing Participant or any Affiliate of a Financing Participant.

*“Interest Payment Date”* means each April 1 and October 1, commencing April 1, 2013.

*“Loan Default”* has the meaning assigned in the Series 2012D Loan Agreement. See “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012D LOAN AGREEMENT – Events of Default” below.

*“Loan Payments”* means payments by the University pursuant to the Series 2012D Loan Agreement with respect to payment of Debt Service on the Series 2012D Bonds.

*“Moody’s”* means Moody’s Investors Service, Inc.

*“Obligor Bonds”* means Series 2012D Bonds registered in the name of (or in the name of a nominee for) the Board, the University, or any Affiliate of the Board or the University.

*“Opinion of Bond Counsel”* means an opinion from an Independent attorney or firm of Independent attorneys that is nationally recognized bond counsel.

*“Opinion of Counsel”* means an opinion from an attorney or firm of attorneys with experience in the matters to be covered in the opinion. Except as otherwise expressly provided in the Series 2012D Indenture, the attorney or attorneys rendering such opinion may be counsel for one or more of the Financing Participants, including counsel in the full-time employment of a Financing Participant.

*“Outstanding,”* when used with respect to Series 2012D Bonds means, as of the date of determination, all Series 2012D Bonds authenticated and delivered under the Series 2012D Indenture, except (i) Series 2012D Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (ii) Series 2012D Bonds for whose payment or redemption money in the necessary amount has been deposited with the Trustee in trust for the Holders of such Series 2012D Bonds, provided that, if such Series 2012D Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Series 2012D Indenture or provision therefor satisfactory to the Trustee has been made; and (iii) Series 2012D Bonds in exchange for or in lieu of which other Series 2012D Bonds have been authenticated and delivered under the Series 2012D Indenture; provided, however, that in determining whether the Holders of the requisite principal amount of Series 2012D Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver thereunder, Obligor Bonds shall be disregarded and deemed not to be Outstanding unless all Series 2012D Bonds Outstanding are Obligor Bonds. Obligor Bonds which have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Series 2012D Bonds and that Series 2012D Bonds registered in the name of such pledgee as beneficial owner would not be considered Obligor Bonds.

*“Qualified Investments”* means (i) direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America, including unit investment trusts and mutual funds that invest solely in such obligations; (ii) bonds, debentures, notes or other obligations issued or guaranteed by any federal agency if such obligations are (1) backed by the full faith and credit of the United States of America or (2) rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency; (iii) money market funds rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency; (iv) certificates of deposit or other bank deposits that are described in one of the following clauses: (1) certificates of deposit or bank deposits issued by, or made with, a bank whose unsecured, long-term obligations are rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency, or (2) certificates of deposit or bank deposits secured at all times by collateral described in clauses (i) and (ii) above that is held by the Trustee or by a third party custodian acceptable to the University and the Trustee with a perfected first security interest in the collateral; (v) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation; (vi) investment

agreements, including guaranteed investment contracts, repurchase agreements and forward purchase agreements, provided that (1) any securities purchased or held pursuant to such agreement are otherwise Qualified Investments under the Series 2012D Indenture, (2) the counterparty's long-term debt obligations are rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency, and (3) the securities, if purchased, are owned by the University or the Trustee and are held by the Trustee or by a third party custodian acceptable to the University and the Trustee or, if held as collateral, are held by the Trustee or a third party custodian acceptable to the University and the Trustee with a perfected first security interest in such collateral; (vii) commercial paper rated, at the time of purchase, not less than "Prime-1" by Moody's or not less than "A-1" by S&P; and (viii) bonds or notes issued by any state, county or municipality which are rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency. The determination whether an investment has a rating sufficient to be a Qualified Investment for purposes of the Series 2012D Indenture shall be made at the time the investment is made, and such investment shall not cease to be a Qualified Investment if the rating assigned to such investment is later reduced or withdrawn.

*"Rating Agency"* means Moody's, S&P, Fitch and any other nationally recognized securities rating agency.

*"Refunding Account"* means the account established pursuant to the Series 2012D Indenture for the retirement of the Refunded Bonds.

*"S&P"* means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies.

*"Tax Certificate"* means that certain Tax Certificate and Agreement entered into by the Board and the University in connection with the issuance of the Bonds.

*"Tenor"* means the series designation, maturity date, interest rate and CUSIP number of a Series 2012D Bond. Series 2012D Bonds of the same Tenor have the same series designation, maturity date, interest rate and CUSIP number.

*"Term Bonds"* means the Series 2012D Bonds stated to mature on October 1, 2037.

*"Trust Estate"* means, collectively, the property, rights and privileges described in the granting clauses of the Series 2012D Indenture.

*"Trustee"* means U.S. Bank National Association, a national banking association as trustee under the Series 2012D Indenture, until a successor Trustee has become the Trustee pursuant to the applicable provisions of the Series 2012D Indenture, and thereafter *"Trustee"* means such successor.

*"Trustee's Adjusted Base Rate"* means a variable rate equal to the Trustee's prime or base rate plus one (1) percentage point (100 basis points) per annum, computed on the basis of a 365 or 366-day year, as the case may be, for actual days elapsed.

*"University"* means The Vanderbilt University, a Tennessee not-for-profit corporation, and its successors and assigns under the Series 2012D Loan Agreement.

## **SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012D INDENTURE**

The following statements are brief summaries of certain provisions of the Series 2012D Indenture and are in all respects subject to and qualified in their entirety by reference to the Series 2012D Indenture.

### **Funds and Accounts**

***Debt Service Fund.*** The Series 2012D Indenture establishes a trust fund designated the "Debt Service Fund." The Series 2012D Loan Agreement requires the University to make Loan Payments for deposit to the Debt Service Fund at times and in amounts sufficient to pay Debt Service on the Series 2012D Bonds. On each Bond Payment Date, the Trustee shall apply money in the Debt Service Fund to pay Debt Service on the Series 2012D

Bonds. If money is on deposit in the Debt Service Fund on any Bond Payment Date sufficient to pay Debt Service on the Series 2012D Bonds due and payable on such date, but the Holder of any Series 2012D Bond that matures on such date or that is subject to redemption on such date fails to surrender such Series 2012D Bond to the Trustee for payment of Debt Service due and payable on such date, the Trustee shall segregate and hold in trust for the benefit of the person entitled thereto money sufficient to pay the Debt Service due and payable on such Series 2012D Bond on such date. Money so segregated and held in trust shall not be a part of the Trust Estate and shall not be invested, but shall constitute a separate trust fund for the benefit of the persons entitled to such Debt Service. Notwithstanding the foregoing, while the Series 2012D Bonds are held in the Book Entry System, payment of the principal of, premium, if any, and interest on the Series 2012D Bonds when due and payable, whether at maturity, by declaration of acceleration or call for redemption or otherwise, shall be made in accordance with any existing agreement between the Board and DTC without surrender of the Series 2012D Bonds.

***Refunding Account.*** The Series 2012D Indenture establishes a trust fund designated the “Refunding Account.” Money in the Refunding Account shall be transferred by the Trustee to the Refunded Bonds Trustee in accordance with a certificate as to application of funds to be delivered to the Trustee by the Board and the University on the date of the original issuance and delivery of the Series 2012D Bonds. No requisition or further direction is required for such transfer by the Trustee.

### **Investment of Indenture Funds**

Except as otherwise expressly provided in the Series 2012D Indenture, any money held as part of an Indenture Fund shall be invested or reinvested in Qualified Investments by the Trustee in accordance with the instructions of the University or its designated agent, to the extent that such investment is, in the opinion of the Trustee, feasible and consistent with the purposes for which such Indenture Fund was created. Any such Qualified Investments shall mature not later than the respective dates when the money held for the credit of such Indenture Fund shall be required for the purposes intended. Any investment made with money on deposit in an Indenture Fund shall be held by or under control of the Indenture Fund custodian and shall be deemed at all times a part of the Indenture Fund where such money was on deposit, and the interest and profits realized from such investment shall be credited to such Indenture Fund and any loss resulting from such investment shall be charged to such Indenture Fund.

### **Events of Default**

“*Indenture Default*” means the occurrence and continuation of any one or more of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body): (i) failure to pay (1) the interest on any Series 2012D Bond when such interest becomes due and payable, or (2) the principal of (or premium, if any, on) any Series 2012D Bond when such principal (or premium, if any) becomes due and payable, whether at maturity, by declaration of acceleration or call for redemption or otherwise; or (ii) default in the performance, or breach, of any covenant or warranty of the Board in the Series 2012D Indenture (other than a covenant or warranty a default in the performance or breach of which is specifically dealt with elsewhere in this definition), and continuance of such default or breach for a period of 30 days after notice of such default or breach, stating that such notice is a “notice of default” under the Series 2012D Indenture, has been given to the Board by the Trustee, or to the Board and the Trustee by the Holders of at least 10% in aggregate principal amount of the Outstanding Series 2012D Bonds, unless, in the case of a default or breach that cannot be cured by the payment of money, the Board initiates efforts to correct such default or breach within 30 days from the receipt of such notice and diligently pursues such action until the default or breach is corrected; or (iii) the existence of an event of default under the Series 2012D Loan Agreement and the expiration of the applicable notice period or grace period, if any. Failure by the University to comply with any covenant or agreement of the Continuing Disclosure Agreement shall not constitute an Indenture Default.

### **Remedies on Default**

***Acceleration of Maturity.*** If an Indenture Default exists, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Series 2012D Bonds Outstanding shall, by written notice to the Board and the University, declare the principal of all the Series 2012D Bonds and the interest

accrued thereon to be due and payable immediately. Upon any such declaration such Debt Service shall become immediately due and payable. At any time after such a declaration of acceleration has been made pursuant to the provisions of the Series 2012D Indenture described in this paragraph, the Holders of a majority in aggregate principal amount of the Series 2012D Bonds Outstanding may, by notice to the Board and the Trustee, rescind and annul such declaration and its consequences if (i) there has been deposited with the Trustee a sum sufficient to pay (1) all overdue installments of interest on all Series 2012D Bonds, (2) the principal of (and premium, if any, on) any Series 2012D Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Series 2012D Bonds, (3) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates prescribed therefor in the Series 2012D Bonds, and (4) all sums paid or advanced by the Trustee under the Series 2012D Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and (ii) all Indenture Defaults, other than the non-payment of the principal of and interest on Series 2012D Bonds which has become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Series 2012D Indenture. No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

***Rights and Remedies Cumulative.*** No right or remedy conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under the Series 2012D Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy under the Series 2012D Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

***Remedies Subject to Applicable Law.*** All rights, remedies and powers provided by the Series 2012D Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of the Series 2012D Indenture are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render the Series 2012D Indenture invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law.

### **Application of Money Collected**

Any money collected by the Trustee pursuant to the exercise of rights and remedies under the Series 2012D Indenture and any other sums then held by the Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Series 2012D Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

*First:* To the payment of all undeducted amounts due the Trustee under the Series 2012D Indenture;

*Second:* To the payment of the whole amount then due and unpaid upon the Outstanding Series 2012D Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Series 2012D Bonds) on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Series 2012D Bonds, then to the payment of such principal (and premium, if any) and interest, without any preference or priority, ratably according to the aggregate amount so due; provided, however, that payments with respect to Obligor Bonds shall be made only after all other Series 2012D Bonds have been Defeased; and

*Third:* To the payment of the remainder, if any, to the University or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

### **Trustee May Enforce Claims without Possession of Series 2012D Bonds**

All rights of action and claims under the Series 2012D Indenture or the Series 2012D Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Series 2012D Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust. After provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, any recovery of judgment shall be for the ratable benefit of the Holders of the Series 2012D Bonds in respect of which such judgment has been recovered.

### **Limitation on Suits**

No Holder of any Series 2012D Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Series 2012D Indenture, or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (i) such Holder has previously given notice to the Trustee of a continuing Indenture Default; (ii) the Holders of not less than 25% in aggregate principal amount of the Outstanding Series 2012D Bonds shall have made request to the Trustee to institute proceedings in respect of such Indenture Default in its own name as Trustee thereunder; (iii) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and (v) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012D Bonds. No one or more Holders of Series 2012D Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Series 2012D Indenture to affect, disturb or prejudice the lien of the Series 2012D Indenture or the rights of any other Holders of Series 2012D Bonds, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under the Series 2012D Indenture, except in the manner therein provided.

### **Unconditional Right of Bondholders to Receive Principal, Premium and Interest**

Notwithstanding any other provision in the Series 2012D Indenture, the Holder of any Series 2012D Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Series 2012D Bond on the maturity date expressed in such Series 2012D Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

### **Control by Bondholders**

The Holders of a majority in aggregate principal amount of the Outstanding Series 2012D Bonds shall have the right, during the continuance of an Indenture Default, (i) to require the Trustee to proceed to enforce the Series 2012D Indenture, either by judicial proceedings for the enforcement of the payment of the Series 2012D Bonds or otherwise, and (ii) to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee thereunder, including the power to direct or withhold directions for acceleration of the maturity of the Series 2012D Bonds pursuant to the Series 2012D Indenture, provided that (1) such direction shall not be in conflict with any rule of law or the Series 2012D Indenture, (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (3) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Bondholders not taking part in such direction.

### **Waiver of Past Defaults**

Before any judgment or decree for payment of money due has been obtained by the Trustee, the Holders of not less than a majority in aggregate principal amount of the Outstanding Series 2012D Bonds may, by notice to the Trustee and the Board, on behalf of all Bondholders waive any past default under the Series 2012D Indenture or under any other Bond Document and its consequences, except a default (i) in the payment of Debt Service on any Series 2012D Bond, or (ii) in respect of a covenant or provision of the Series 2012D Indenture which under the Series 2012D Indenture cannot be modified or amended without the consent of the Holder of each Outstanding

Series 2012D Bond affected. Upon any such waiver, such default shall cease to exist, and any Indenture Default arising therefrom shall be deemed to have been cured, for every purpose of the Series 2012D Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

### **Suits to Protect the Trust Estate**

The Trustee shall have power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Series 2012D Indenture and to protect its interests and the interests of the Bondholders in the Trust Estate and in the rents, issues, profits, revenues and other income arising therefrom, including power to institute and maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security under the Series 2012D Indenture or be prejudicial to the interests of the Bondholders or the Trustee.

### **Certain Duties and Responsibilities of Trustee**

Except during the continuance of an Indenture Default, (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Series 2012D Indenture, and no implied covenants or obligations shall be read into the Series 2012D Indenture against the Trustee; and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Series 2012D Indenture; but in the case of any such certificates or opinions which by any provision of the Series 2012D Indenture are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Series 2012D Indenture. If an Indenture Default exists, the Trustee shall exercise such of the rights and powers vested in it by the Series 2012D Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not incur liability for its action or inaction with respect to the performance of its duties and obligations under the Series 2012D Indenture unless such action or inaction constitutes willful misconduct or gross negligence under the circumstances. Liability of the Trustee for such action or inaction shall be further limited as follows:

- (1) the Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;
- (2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in aggregate principal amount of the Outstanding Series 2012D Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Series 2012D Indenture; and
- (3) no provision of the Series 2012D Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Whether or not therein expressly so provided, every provision of the Series 2012D Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions described under this caption.

## **Certain Rights of Trustee**

Except as otherwise provided under the caption “Certain Duties and Responsibilities of Trustee”:

(1) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(2) Any request or direction of the Board mentioned in the Series 2012D Indenture shall be sufficiently evidenced by a certificate or order executed by an Authorized Representative of the Board, and any request or direction of the University mentioned in the Series 2012D Indenture shall be sufficiently evidenced by a certificate or order executed by an Authorized Representative of the University.

(3) Whenever in the administration of the Series 2012D Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action thereunder, the Trustee (unless other evidence be specifically prescribed in the Series 2012D Indenture) may, in the absence of bad faith on its part, rely upon a certificate executed by an Authorized Representative of the Board or a certificate by an Authorized Representative of the University.

(4) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee under the Series 2012D Indenture in good faith and in reliance thereon.

(5) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Series 2012D Indenture at the request or direction of any of the Bondholders pursuant to the Series 2012D Indenture, unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(6) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books and records of the Board, personally or by agent or attorney.

(7) The Trustee may execute any of the trusts or powers under the Series 2012D Indenture or perform any duties thereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Series 2012D Indenture.

## **Compensation and Reimbursement**

As security for the performance of the obligations of the Board to pay to the Trustee, or reimburse the Trustee for, its reasonable compensation, expenses, disbursements and advances as set forth in the Series 2012D Indenture, the Trustee shall be secured under the Series 2012D Indenture by a lien prior to the Series 2012D Bonds, and for the payment of such compensation, expenses, reimbursements and indemnity the Trustee shall have the right to use and apply any money held by it as a part of the Trust Estate.

### **Corporate Trustee Required; Eligibility**

The Trustee is deemed to be qualified as Trustee under the Series 2012D Indenture as of the date of the Series 2012D Indenture. The Trustee at all times shall be a trust company or bank (having trust powers) organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having unimpaired capital and surplus of at least \$50,000,000, and subject to supervision or examination by Federal or state authority. If such trust company or bank publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of the provisions described under this caption, the unimpaired capital and surplus of such trust company or bank shall be deemed to be its unimpaired capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions described under this caption, it shall resign immediately in the manner and with the effect specified under the caption "Resignation and Removal; Appointment of Successor."

### **Resignation and Removal; Appointment of Successor**

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Series 2012D Indenture shall become effective until the acceptance of appointment by the successor Trustee in accordance with the provisions described under the caption "Acceptance of Appointment by Successor." The Trustee may resign at any time by giving notice thereof to the Board and the University. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee. The Trustee may be removed at any time by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012D Bonds by notice delivered to the Trustee, the Board and the University. If no Loan Default or Indenture Default exists, the Trustee may be removed at any time by the University by notice delivered to the Trustee.

If at any time: (i) the Trustee shall cease to be eligible under the Series 2012D Indenture and shall fail to resign after request therefor by the University or by any Bondholder who has been a bona fide Holder of a Series 2012D Bond for at least six (6) months, or (ii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case (x) the Board (with the consent of the University) may remove the Trustee, or (y) any Bondholder who has been a bona fide Holder of a Series 2012D Bond for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, a successor Trustee shall be appointed by the Board with the consent of the University. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee may similarly appoint a successor to fill such vacancy until a new Trustee shall be so appointed by the Bondholders. If, within one (1) year after such resignation, removal or incapability or the occurrence of such vacancy, a successor Trustee shall be appointed by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012D Bonds, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Board or the University or by such receiver or trustee. If no successor Trustee shall have been so appointed by the Board, the University or the Bondholders and accepted appointment in the manner provided in the Series 2012D Indenture, any Bondholder who has been a bona fide Holder of a Series 2012D Bond for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Board shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to the Bondholders. Each notice shall include the name of the successor Trustee and the address of the Office of the Trustee.



## **Acceptance of Appointment by Successor**

Every successor Trustee appointed under the Series 2012D Indenture shall execute, acknowledge and deliver to the Board and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the estates, properties, rights, powers, trusts and duties of the retiring Trustee; but, on request of the Board or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument conveying and transferring to such successor Trustee upon the trusts expressed under the Series 2012D Indenture all the estates, properties, rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee under the Series 2012D Indenture, subject nevertheless to its lien, if any, provided for under the caption "Compensation and Reimbursement." Upon request of any such successor Trustee, the Board shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such estates, properties, rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under the Series 2012D Indenture.

## **Merger, Conversion, Consolidation or Succession to Business**

Any commercial bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated, or any commercial bank or trust company resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any commercial bank or trust company succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Series 2012D Indenture, provided such commercial bank or trust company shall be otherwise qualified and eligible under the Series 2012D Indenture, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties thereto. In case any Series 2012D Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Series 2012D Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Series 2012D Bonds.

## **Amendments of the Bond Documents**

The Trustee may, on behalf of the Bondholders, from time to time enter into, or consent to, an amendment of any Bond Document only as permitted by the provisions of the Series 2012D Indenture summarized under this caption.

***Amendments without Consent of Bondholders.*** An amendment of the Bond Documents for any of the following purposes may be made, or consented to, by the Trustee without the consent of the Holders of any Series 2012D Bonds: (i) to correct or amplify the description of any property at any time subject to the lien of any Bond Document, or better to assure, convey and confirm unto any secured party any property subject or required to be subjected to the lien of any Bond Document, or to subject to the lien of any Bond Document, additional property; or (ii) to evidence the succession of another person to any Financing Participant and the assumption by any such successor of the covenants of such Financing Participant (provided that the requirements of the related Bond Document for such succession and assumption are otherwise satisfied); or (iii) to add to the covenants of any Financing Participant for the benefit of Bondholders and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants an event of default under the specified Bond Documents permitting the enforcement of all or any of the several remedies provided therein; provided, however, that with respect to any such covenant, such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available upon such default; or (iv) to surrender any right or power conferred upon any Financing Participant other than rights or powers for the benefit of Bondholders; or (v) to cure any ambiguity or to correct any inconsistency, provided such action shall not, in the reasonable judgment of the Trustee, adversely affect the interests of the Bondholders; or (vi) to appoint a separate agent of the Board or the Trustee to perform any one or more of the following functions: (1) registration of transfers and exchanges of Series 2012D Bonds or (2) payment of Debt Service on the Series 2012D Bonds.

***Amendments Requiring Consent of All Affected Bondholders.*** An amendment of the Bond Documents for any of the following purposes may be entered into, or consented to, by the Trustee only with the consent of the Holder of each Series 2012D Bond affected: (i) to change the maturity date of the principal of, or any installment of interest on, any Series 2012D Bond, or reduce the aggregate principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Series 2012D Bond, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the maturity date thereof (or, in the case of redemption, on or after the redemption date); or (ii) to reduce the percentage in aggregate principal amount of the Outstanding Series 2012D Bonds, the consent of whose Holders is required for any amendment of the Bond Documents, or the consent of whose Holders is required for any waiver provided for in the Bond Documents; or (iii) to modify or alter the provisions of the proviso to the definition of the term “Outstanding”; or (iv) to modify any of the provisions of the Series 2012D Indenture described under this caption or under the caption “Waiver of Past Defaults,” except to increase any percentage provided thereby or to provide that certain other provisions of the Series 2012D Indenture cannot be modified or waived without the consent of the Holder of each Series 2012D Bond affected thereby; or (v) to permit the creation of any lien ranking prior to or on a parity with the lien of the Series 2012D Indenture with respect to any of the Trust Estate or terminate the lien of the Series 2012D Indenture on any property at any time subject thereto or deprive the Holder of any Series 2012D Bond of the security afforded by the lien of the Series 2012D Indenture; or (vi) to eliminate, reduce or delay the obligation of the Board or the University to make payments at times and in amounts sufficient to pay Debt Service on the Series 2012D Bonds.

***Amendments Requiring Majority Consent of Bondholders.*** An amendment of the Bond Documents for any purpose not described under the captions “Amendments without Consent of Bondholders” or “Amendments Requiring Consent of All Affected Bondholders” may be entered into, or consented to, by the Trustee only with the consent of the Holders of a majority in aggregate principal amount of Series 2012D Bonds Outstanding.

***Discretion of Trustee.*** The Trustee may in its discretion determine whether or not any Series 2012D Bonds would be affected by any amendment of the Bond Documents and any such determination shall be conclusive upon the Holders of all Series 2012D Bonds, whether theretofore or thereafter authenticated and delivered. The Trustee shall not be liable for any such determination made in good faith.

***Effect on Bondholders.*** Upon the execution of any amendment of any Bond Document in accordance with the terms of the Series 2012D Indenture, every Holder of Series 2012D Bonds theretofore or thereafter authenticated and delivered shall be bound thereby.

***Amendments Not to Affect Tax Exemption.*** No amendment may be made to the Bond Documents unless the Trustee and the Board receive a Favorable Opinion of Bond Counsel.

## **Defeasance**

***Payment of Indenture Indebtedness; Satisfaction and Discharge of Series 2012D Indenture.*** Whenever all Indenture Indebtedness has been Defeased, then (i) the Series 2012D Indenture and the lien, rights and interests created thereby shall cease, determine and become null and void (except that the Trustee shall retain such rights, powers and privileges under the Series 2012D Indenture as may be necessary and convenient in respect of the Series 2012D Bonds for the payment of the principal and interest thereon and for the registration, transfer and exchange of Series 2012D Bonds), and (ii) the Trustee shall, upon the request of the Board, execute and deliver such instruments of satisfaction and discharge as may be necessary and pay, assign, transfer and deliver to the University all cash and securities then held by it under the Series 2012D Indenture as a part of the Trust Estate.

***Trust for Payment of Debt Service.*** The Board may provide for the payment of any Series 2012D Bond by establishing a trust for such purpose with the Trustee and depositing therein cash and/or Federal Securities which (assuming the due and punctual payment of the principal of and interest on such Federal Securities, but without reinvestment) will provide funds sufficient to pay the Debt Service on such Series 2012D Bond as the same becomes due and payable until the maturity date or redemption of such Series 2012D Bond; provided, however, that:

- (1) Such Federal Securities must not be subject to redemption prior to their respective maturities at the option of the issuer of such Securities.

(2) If such Series 2012D Bond is to be redeemed prior to its maturity date, either (i) the Trustee shall receive evidence that notice of such redemption has been given in accordance with the provisions of the Series 2012D Indenture and such Series 2012D Bond or (ii) the Board and the University shall confer on the Trustee irrevocable authority for the giving of such notice.

(3) Prior to the establishment of such trust, the Trustee and the Board must receive a Favorable Opinion of Bond Counsel.

(4) Prior to the establishment of such trust, the Trustee must receive verification satisfactory to the Trustee demonstrating that the principal and interest payments on the Federal Securities in such trust, without reinvestment, together with the cash balance in such trust remaining after purchase of such Securities, will be sufficient to make the required payments from such trust.

Any trust established pursuant to the Series 2012D Indenture may provide for payment of less than all Series 2012D Bonds Outstanding or less than all Series 2012D Bonds of any remaining maturity.

If any trust provides for payment of less than all Series 2012D Bonds of the same Tenor, the Series 2012D Bonds of such Tenor to be paid from the trust shall be selected by the Trustee by lot by such method as shall provide for the selection of portions (in Authorized Denominations) of the principal of Series 2012D Bonds of such Tenor. Such selection shall be made within seven days after such trust is established or such earlier time required by DTC. This selection process shall be in lieu of the selection process otherwise provided with respect to redemption of Series 2012D Bonds. After such selection is made, Series 2012D Bonds that are to be paid from such trust (including Series 2012D Bonds issued in exchange for such Series 2012D Bonds pursuant to the transfer or exchange provisions of the Series 2012D Indenture) shall be identified by a separate CUSIP number or other designation satisfactory to the Trustee. The Trustee shall notify Holders whose Series 2012D Bonds (or portions thereof) have been selected for payment from such trust and shall direct such Bondholders to surrender their Series 2012D Bonds to the Trustee in exchange for Series 2012D Bonds with the appropriate designation. The selection of Series 2012D Bonds for payment from such trust pursuant to the Series 2012D Indenture shall be conclusive and binding on the Financing Participants.

Cash and/or Federal Securities deposited with the Trustee pursuant to the Series 2012D Indenture shall not be a part of the Trust Estate but shall constitute a separate, irrevocable trust fund for the benefit of the Holder of the Series 2012D Bond to be paid from such fund.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012D LOAN AGREEMENT**

The following statements are brief summaries of certain provisions of the Series 2012D Loan Agreement and are in all respects subject to and qualified in their entirety by reference to the Series 2012D Loan Agreement.

##### **Loan Payments With Respect to Debt Service on Series 2012D Bonds**

The Series 2012D Loan Agreement provides that, in consideration of the Board lending the University the proceeds of the sale of the Series 2012D Bonds, the University shall make Loan Payments to the Trustee, for the benefit of the Holders, on the Business Day next preceding each Bond Payment Date, in an amount equal to the Debt Service on the Series 2012D Bonds due on such Bond Payment Date. All Loan Payments shall be made in funds immediately available to the Trustee on the related Bond Payment Date.

##### **Delivery of Series 2012D Note**

Simultaneously with the delivery of the Series 2012D Bonds, the University shall execute and deliver the Series 2012D Note to the Trustee, as assignee of the Board, in a principal amount equal to the aggregate principal amount of the Series 2012D Bonds and payable at the times and in the amounts corresponding to the required payments of Debt Service with respect to the Series 2012D Bonds. The Series 2012D Note shall evidence the

University's obligation to make Loan Payments under the Series 2012D Loan Agreement. Loan Payments shall be made in amounts sufficient in the aggregate to pay in full when due (whether by maturity, redemption, acceleration or otherwise) the principal of, redemption premium, if any, and interest on the Series 2012D Bonds. All Loan Payments with respect to the Series 2012D Bonds shall be credited against the required payments under the Series 2012D Note, all to the end that the unpaid aggregate principal amount of the Series 2012D Bonds from time to time shall be equal to the unpaid aggregate principal amount of the Series 2012D Note.

### **Additional Payments**

The University shall pay to the Board or to the Trustee, as the case may be, the following: (i) the acceptance fee of the Trustee and the annual (or other regular) fees, charges and expenses of the Trustee under the Series 2012D Indenture; (ii) any amount to which the Trustee may be entitled under the Series 2012D Indenture; and (iii) the reasonable expenses of the Board or the Trustee incurred at the request of the University, or in the performance of its duties under any of the Bond Documents, or in connection with any litigation, inquiry, investigation and/or audit which may at any time be instituted involving any of the Bond Documents, or in the pursuit of any remedies under any of the Bond Documents.

### **Overdue Payments**

Any Loan Payments that are overdue shall bear interest from the related Bond Payment Date until paid at the rate provided in the Series 2012D Indenture with respect to overdue payments of Debt Service on Series 2012D Bonds. Any other payments required by the Series 2012D Loan Agreement that are overdue shall bear interest from the date due until paid at the Trustee's Adjusted Base Rate.

### **Full Faith and Credit Obligation**

The University's obligation to make Loan Payments and the other payments required by the Series 2012D Loan Agreement shall be a full faith and credit obligation of the University. The University's obligation to make such payments and to perform and observe the other agreements and covenants on its part contained in the Series 2012D Loan Agreement shall be absolute and unconditional, irrespective of any rights of set off, recoupment or counterclaim it might otherwise have against the Board or the Trustee.

### **Redemption of Series 2012D Bonds and Prepayment of Series 2012D Note**

If the Series 2012D Loan Agreement has not been terminated, the University may exercise any optional redemption rights with respect to the Series 2012D Bonds on behalf of the Board. If the Series 2012D Loan Agreement has been terminated, the Board may exercise any right of optional redemption without prior notice to or consent of the University.

The Series 2012D Note shall be subject to prepayment, and in accordance with the provisions of the Series 2012D Loan Agreement shall be deemed prepaid, in whole or in part prior to maturity, to the extent and in an amount equal to the principal amount of any Series 2012D Bond or portion thereof that is Defeased.

### **Events of Default**

The occurrence and continuation of any one or more of the following shall constitute an event of default (a "*Loan Default*") under the Series 2012D Loan Agreement (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body): (i) default in the payment of any Loan Payment with respect to Debt Service on the Series 2012D Bonds when such payment becomes due and payable; or (ii) default in the performance, or breach, of any covenant or warranty of the University in the Series 2012D Loan Agreement (other than a covenant or warranty, a default in the performance or breach of which is elsewhere specifically dealt with), and the continuance of such default or breach for a period of 30 days after notice to the University by the Board or by the Trustee specifying such default or breach and requiring it to be remedied and stating that such notice is a "notice of default" under the Series 2012D Loan Agreement; provided, however,

that if such performance requires work to be done, action to be taken, or conditions to be remedied, which by their nature can be done, taken or remedied but cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Loan Default shall be deemed to have occurred or to exist if, and so long as, the University shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion; or (iii) an Act of Bankruptcy shall occur with respect to the University. The Continuing Disclosure Agreement contains the exclusive remedies for breach by the University of the covenants on its part contained in such Agreement, and no such breach shall constitute a Loan Default or an event of default under the Series 2012D Loan Agreement or any other Bond Document.

### **Remedies on Default**

If a Loan Default occurs and is continuing, the Board (or the Trustee) may exercise any of the following remedies: (i) declare all Loan Payments with respect to Debt Service on the Series 2012D Bonds to be immediately due and payable in an amount not to exceed the principal amount of all Outstanding Series 2012D Bonds, plus the redemption premium (if any) payable with respect thereto, plus the interest accrued thereon to the date of such declaration, but only if the Series 2012D Bonds have been accelerated pursuant to the Series 2012D Indenture; (ii) in the event the Series 2012D Bonds have been accelerated pursuant to the Series 2012D Indenture, declare the principal of the Series 2012D Note to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Series 2012D Loan Agreement or in the Series 2012D Note to the contrary notwithstanding; and (iii) take whatever action at law or in equity may appear necessary or desirable to collect the Loan Payments then due, whether by declaration or otherwise, or to enforce any obligation or covenant or agreement of the University under the Series 2012D Loan Agreement or by law.

### **If Performance Date Not a Business Day**

If the last date for the making of any payment, the performance of any act or the exercising of any right, as provided in the Series 2012D Loan Agreement, shall be other than a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day.

### **Amendment or Modification of Bond Documents**

Until all Outstanding Series 2012D Bonds are Defeased, the Bond Documents may not be effectively amended, changed, modified, altered or terminated except in accordance with the Series 2012D Indenture.

### **Tax Covenants**

Pursuant to the Series 2012D Loan Agreement, the University covenants and agrees that: (i) it will comply with all covenants and agreements on its part contained in the Tax Certificate; (ii) it will not cause or permit any action that would cause the Series 2012D Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code; (iii) it will rebate all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code; and (iv) it will not take any action which will, or fail to take any action which failure will, cause interest on the Series 2012D Bonds to become includable in the gross income of the Holders thereof for purposes of federal income taxation.

### **Other Covenants of the University**

The Series 2012D Loan Agreement sets forth certain other agreements of the University with respect to, among other things, compliance with the Continuing Disclosure Agreement, maintenance of corporate existence, and indemnification of the Board and the Trustee under certain circumstances.

**SUMMARIES OF CERTAIN PROVISIONS OF  
SERIES 2012E INDENTURE AND SERIES 2012E LOAN AGREEMENT**

**CERTAIN DEFINITIONS PARTICULAR TO THE SERIES 2012E INDENTURE,  
THE SERIES 2012E BONDS AND THE SERIES 2012E LOAN AGREEMENT**

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used under this caption (“Summaries of Certain Provisions of Series 2012E Indenture and Series 2012E Loan Agreement”) and elsewhere in this Official Statement have the following meanings with respect to the Series 2012E Indenture, the Series 2012E Bonds and the Series 2012E Loan Agreement, unless the context or use indicates another or different meaning or intent.

*“Act of Bankruptcy”* means the filing of a petition in bankruptcy (or the other commencement of a bankruptcy or similar proceeding) by or against a person under any applicable bankruptcy, insolvency, reorganization, or similar law, now or hereafter in effect.

*“Affiliate”* of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For purposes of this definition, *“control”* when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms *“controlling”* and *“controlled”* have meanings correlative to the foregoing.

*“Authorized Denominations”* means \$5,000 or any integral multiple thereof.

*“Authorized Representative of the Board”* means the Chairman, the Vice Chairman, the Treasurer or the Secretary of the Board, or any other officer or agent of the Board authorized by the governing body of the Board to act as “Authorized Representative of the Board” for purposes of the Bond Documents.

*“Authorized Representative of the University”* means the Chancellor, any Vice Chancellor, or any other officer or agent of the University authorized by the governing body of the University or the Chancellor to act as “Authorized Representative of the University” for purposes of the Bond Documents.

*“Bondholder,”* when used with respect to any Series 2012E Bond, means the person in whose name such Series 2012E Bond is registered in the Bond Register.

*“Bond Documents”* means the Series 2012E Bonds, the Series 2012E Indenture, the Series 2012E Loan Agreement and the Series 2012E Note.

*“Bond Payment Date”* means each date on which Debt Service is payable on the Series 2012E Bonds, including any date fixed for redemption of Series 2012E Bonds or on which the principal of and accrued interest thereon has been declared to be immediately due and payable pursuant to the Series 2012E Indenture.

*“Bond Register”* means the register or registers for the registration and transfer of Series 2012E Bonds maintained by the Trustee for the Board pursuant to the Series 2012E Indenture.

*“Book-Entry System”* means the book-entry system maintained by DTC for the registration, transfer, exchange and payment of debt obligations.

*“Business Day”* means any day other than a Saturday, a Sunday, or a day on which the Trustee is authorized to be closed under general law or regulation applicable in the place where the Trustee performs its business with respect to the Series 2012E Indenture.

*“Code”* means the Internal Revenue Code of 1986, as amended from time to time, or the corresponding provisions of any successor internal revenue laws of the United States of America.

*“Continuing Disclosure Agreement”* means the Continuing Disclosure Agreement entered into by the University in connection with the issuance of the Bonds.

*“Debt Service”* means the principal, redemption premium (if any) and interest payable on the Series 2012E Bonds.

*“Debt Service Fund”* means the fund of that name established pursuant to the Series 2012E Indenture.

*“Defeased,”* when used with respect to a Series 2012E Bond, means (i) such Series 2012E Bond has been cancelled by the Trustee or delivered to the Trustee for cancellation, (ii) such Series 2012E Bond has matured or has been called for redemption and, on such maturity date or redemption date, money for the payment of Debt Service on such Series 2012E Bond is held by the Trustee in trust for the benefit of the person entitled thereto, or (iii) a trust for the payment of such Series 2012E Bond has been established in accordance with the provisions of the Series 2012E Indenture.

*“DTC”* means The Depository Trust Company, and its successors and assigns.

*“Enabling Law”* means Title 48, Chapter 101, Part 3 of the Tennessee Code Annotated, as it may from time to time be amended, or any successor statute.

*“Favorable Opinion of Bond Counsel”* means, with respect to any action the occurrence of which requires such an opinion, an Opinion of Bond Counsel to the effect that such action is permitted under the Series 2012E Indenture and will not adversely affect the validity of the Series 2012E Bonds under the laws of the State or the exclusion from gross income for federal income tax purposes of interest on the Series 2012E Bonds, which opinion shall in each instance be addressed and delivered, unless otherwise required by the Series 2012E Indenture, to the Board, the University and the Trustee.

*“Federal Securities”* means noncallable, nonprepayable, direct obligations of, or noncallable, nonprepayable obligations the full and timely payment of which is guaranteed by, the United States of America.

*“Financing Participants”* means the Board, the University and the Trustee.

*“Fitch”* means Fitch Ratings, Inc.

*“Holder,”* when used with respect to any Series 2012E Bond, means the person in whose name such Series 2012E Bond is registered in the Bond Register.

*“Indenture Default”* has the meaning giving under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012E INDENTURE – Events of Default” below.

*“Indenture Funds”* means any fund or account established pursuant to the Series 2012E Indenture.

*“Indenture Indebtedness”* means all indebtedness of the Board secured by the Series 2012E Indenture, including without limitation (a) all Debt Service on the Series 2012E Bonds and (b) all reasonable fees, charges and disbursements of the Trustee for services performed and disbursements made under the Series 2012E Indenture.

*“Independent,”* when used with respect to any person, means a person who (a) does not have any direct financial interest or any material indirect financial interest in any Financing Participant or any Affiliate of a Financing Participant, (b) does not serve as a member of the governing body of any Financing Participant or any Affiliate of a Financing Participant, and (c) is not employed by any Financing Participant or any Affiliate of a Financing Participant.

*“Interest Payment Date”* means each April 1 and October 1, commencing April 1, 2013.

“*Loan Default*” has the meaning assigned in the Series 2012E Loan Agreement. See “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012E LOAN AGREEMENT – Events of Default” below.

“*Loan Payments*” means payments by the University pursuant to the Series 2012E Loan Agreement with respect to payment of Debt Service on the Series 2012E Bonds.

“*Moody’s*” means Moody’s Investors Service, Inc.

“*Obligor Bonds*” means Series 2012E Bonds registered in the name of (or in the name of a nominee for) the Board, the University, or any Affiliate of the Board or the University.

“*Opinion of Bond Counsel*” means an opinion from an Independent attorney or firm of Independent attorneys that is nationally recognized bond counsel.

“*Opinion of Counsel*” means an opinion from an attorney or firm of attorneys with experience in the matters to be covered in the opinion. Except as otherwise expressly provided in the Series 2012E Indenture, the attorney or attorneys rendering such opinion may be counsel for one or more of the Financing Participants, including counsel in the full-time employment of a Financing Participant.

“*Outstanding*,” when used with respect to Series 2012E Bonds means, as of the date of determination, all Series 2012E Bonds authenticated and delivered under the Series 2012E Indenture, except (i) Series 2012E Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (ii) Series 2012E Bonds for whose payment or redemption money in the necessary amount has been deposited with the Trustee in trust for the Holders of such Series 2012E Bonds, provided that, if such Series 2012E Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Series 2012E Indenture or provision therefor satisfactory to the Trustee has been made; and (iii) Series 2012E Bonds in exchange for or in lieu of which other Series 2012E Bonds have been authenticated and delivered under the Series 2012E Indenture; provided, however, that in determining whether the Holders of the requisite principal amount of Series 2012E Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver thereunder, Obligor Bonds shall be disregarded and deemed not to be Outstanding unless all Series 2012E Bonds Outstanding are Obligor Bonds. Obligor Bonds which have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Series 2012E Bonds and that Series 2012E Bonds registered in the name of such pledgee as beneficial owner would not be considered Obligor Bonds.

“*Qualified Investments*” means (i) direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America, including unit investment trusts and mutual funds that invest solely in such obligations; (ii) bonds, debentures, notes or other obligations issued or guaranteed by any federal agency if such obligations are (1) backed by the full faith and credit of the United States of America or (2) rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency; (iii) money market funds rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency; (iv) certificates of deposit or other bank deposits that are described in one of the following clauses: (1) certificates of deposit or bank deposits issued by, or made with, a bank whose unsecured, long-term obligations are rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency, or (2) certificates of deposit or bank deposits secured at all times by collateral described in clauses (i) and (ii) above that is held by the Trustee or by a third party custodian acceptable to the University and the Trustee with a perfected first security interest in the collateral; (v) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation; (vi) investment agreements, including guaranteed investment contracts, repurchase agreements and forward purchase agreements, provided that (1) any securities purchased or held pursuant to such agreement are otherwise Qualified Investments under the Series 2012E Indenture, (2) the counterparty’s long-term debt obligations are rated by at least one Rating Agency in one of the three highest rating categories assigned by such Rating Agency, and (3) the securities, if purchased, are owned by the University or the Trustee and are held by the Trustee or by a third party custodian acceptable to the University and the Trustee or, if held as collateral, are held by the Trustee or a third party custodian acceptable to the University and the Trustee with a perfected first security interest in such collateral; (vii) commercial paper rated, at the time of purchase, not less than “Prime-1” by Moody’s or not less than “A-1” by S&P; and (viii) bonds or notes issued by any state, county or municipality which are rated by at least one Rating Agency



in one of the three highest rating categories assigned by such Rating Agency. The determination whether an investment has a rating sufficient to be a Qualified Investment for purposes of the Series 2012E Indenture shall be made at the time the investment is made, and such investment shall not cease to be a Qualified Investment if the rating assigned to such investment is later reduced or withdrawn.

“*Rating Agency*” means Moody’s, S&P, Fitch and any other nationally recognized securities rating agency.

“*Refunding Account*” means the account established pursuant to the Series 2012E Indenture for the retirement of the Commercial Paper.

“*S&P*” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies.

“*Tax Certificate*” means that certain Tax Certificate and Agreement entered into by the Board and the University in connection with the issuance of the Bonds.

“*Tenor*” means the series designation, maturity date, interest rate and CUSIP number of a Series 2012E Bond. Series 2012E Bonds of the same Tenor have the same series designation, maturity date, interest rate and CUSIP number.

“*Trust Estate*” means, collectively, the property, rights and privileges described in the granting clauses of the Series 2012E Indenture.

“*Trustee*” means U.S. Bank National Association, a national banking association as trustee under the Series 2012E Indenture, until a successor Trustee has become the Trustee pursuant to the applicable provisions of the Series 2012E Indenture, and thereafter “*Trustee*” means such successor.

“*Trustee’s Adjusted Base Rate*” means a variable rate equal to the Trustee’s prime or base rate plus one (1) percentage point (100 basis points) per annum, computed on the basis of a 365 or 366-day year, as the case may be, for actual days elapsed.

“*University*” means The Vanderbilt University, a Tennessee not-for-profit corporation, and its successors and assigns under the Series 2012E Loan Agreement.

## SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012E INDENTURE

The following statements are brief summaries of certain provisions of the Series 2012E Indenture and are in all respects subject to and qualified in their entirety by reference to the Series 2012E Indenture.

### Funds and Accounts

***Debt Service Fund.*** The Series 2012E Indenture establishes a trust fund designated the “Debt Service Fund.” The Series 2012E Loan Agreement requires the University to make Loan Payments for deposit to the Debt Service Fund at times and in amounts sufficient to pay Debt Service on the Series 2012E Bonds. On each Bond Payment Date, the Trustee shall apply money in the Debt Service Fund to pay Debt Service on the Series 2012E Bonds. If money is on deposit in the Debt Service Fund on any Bond Payment Date sufficient to pay Debt Service on the Series 2012E Bonds due and payable on such date, but the Holder of any Series 2012E Bond that matures on such date or that is subject to redemption on such date fails to surrender such Series 2012E Bond to the Trustee for payment of Debt Service due and payable on such date, the Trustee shall segregate and hold in trust for the benefit of the person entitled thereto money sufficient to pay the Debt Service due and payable on such Series 2012E Bond on such date. Money so segregated and held in trust shall not be a part of the Trust Estate and shall not be invested, but shall constitute a separate trust fund for the benefit of the persons entitled to such Debt Service. Notwithstanding the foregoing, while the Series 2012E Bonds are held in the Book Entry System, payment of the principal of, premium, if any, and interest on the Series 2012E Bonds when due and payable, whether at maturity, by declaration of acceleration or call for redemption or otherwise, shall be made in accordance with any existing agreement between the Board and DTC without surrender of the Series 2012E Bonds.

***Refunding Account.*** The Series 2012E Indenture establishes a trust fund designated the “Refunding Account.” Money in the Refunding Account shall be transferred by the Trustee to The Bank of New York Mellon, as issuing and paying agent (the “Issuing and Paying Agent”) for the Commercial Paper, immediately after the deposit to the Refunding Account is made pursuant to the Series 2012E Indenture, such money to be applied by the Issuing and Paying Agent to pay and retire the Commercial Paper. No requisition or further direction is required for such transfer by the Trustee.

## **Investment of Indenture Funds**

Except as otherwise expressly provided in the Series 2012E Indenture, any money held as part of an Indenture Fund shall be invested or reinvested in Qualified Investments by the Trustee in accordance with the instructions of the University or its designated agent, to the extent that such investment is, in the opinion of the Trustee, feasible and consistent with the purposes for which such Indenture Fund was created. Any such Qualified Investments shall mature not later than the respective dates when the money held for the credit of such Indenture Fund shall be required for the purposes intended. Any investment made with money on deposit in an Indenture Fund shall be held by or under control of the Indenture Fund custodian and shall be deemed at all times a part of the Indenture Fund where such money was on deposit, and the interest and profits realized from such investment shall be credited to such Indenture Fund and any loss resulting from such investment shall be charged to such Indenture Fund.

## **Events of Default**

“*Indenture Default*” means the occurrence and continuation of any one or more of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body): (i) failure to pay (1) the interest on any Series 2012E Bond when such interest becomes due and payable, or (2) the principal of (or premium, if any, on) any Series 2012E Bond when such principal (or premium, if any) becomes due and payable, whether at maturity, by declaration of acceleration or call for redemption or otherwise; or (ii) default in the performance, or breach, of any covenant or warranty of the Board in the Series 2012E Indenture (other than a covenant or warranty a default in the performance or breach of which is specifically dealt with elsewhere in this definition), and continuance of such default or breach for a period of 30 days after notice of such default or breach, stating that such notice is a “notice of default” under the Series 2012E Indenture, has been given to the Board by the Trustee, or to the Board and the Trustee by the Holders of at least 10% in aggregate principal amount of the Outstanding Series 2012E Bonds, unless, in the case of a default or breach that cannot be cured by the payment of money, the Board initiates efforts to correct such default or breach within 30 days from the receipt of such notice and diligently pursues such action until the default or breach is corrected; or (iii) the existence of an event of default under the Series 2012E Loan Agreement and the expiration of the applicable notice period or grace period, if any. Failure by the University to comply with any covenant or agreement of the Continuing Disclosure Agreement shall not constitute an Indenture Default.

## **Remedies on Default**

***Acceleration of Maturity.*** If an Indenture Default exists, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Series 2012E Bonds Outstanding shall, by written notice to the Board and the University, declare the principal of all the Series 2012E Bonds and the interest accrued thereon to be due and payable immediately. Upon any such declaration such Debt Service shall become immediately due and payable. At any time after such a declaration of acceleration has been made pursuant to the provisions of the Series 2012E Indenture described in this paragraph, the Holders of a majority in aggregate principal amount of the Series 2012E Bonds Outstanding may, by notice to the Board and the Trustee, rescind and annul such declaration and its consequences if (i) there has been deposited with the Trustee a sum sufficient to pay (1) all overdue installments of interest on all Series 2012E Bonds, (2) the principal of (and premium, if any, on) any Series 2012E Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Series 2012E Bonds, (3) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates prescribed therefor in the Series 2012E Bonds, and (4) all sums paid or advanced by the Trustee under the Series 2012E Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and (ii) all Indenture

Defaults, other than the non-payment of the principal of and interest on Series 2012E Bonds which has become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Series 2012E Indenture. No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

***Rights and Remedies Cumulative.*** No right or remedy conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under the Series 2012E Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy under the Series 2012E Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

***Remedies Subject to Applicable Law.*** All rights, remedies and powers provided by the Series 2012E Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of the Series 2012E Indenture are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render the Series 2012E Indenture invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law.

### **Application of Money Collected**

Any money collected by the Trustee pursuant to the exercise of rights and remedies under the Series 2012E Indenture and any other sums then held by the Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Series 2012E Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

*First:* To the payment of all undeducted amounts due the Trustee under the Series 2012E Indenture;

*Second:* To the payment of the whole amount then due and unpaid upon the Outstanding Series 2012E Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Series 2012E Bonds) on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Series 2012E Bonds, then to the payment of such principal (and premium, if any) and interest, without any preference or priority, ratably according to the aggregate amount so due; provided, however, that payments with respect to Obligor Bonds shall be made only after all other Series 2012E Bonds have been Defeased; and

*Third:* To the payment of the remainder, if any, to the University or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

### **Trustee May Enforce Claims without Possession of Series 2012E Bonds**

All rights of action and claims under the Series 2012E Indenture or the Series 2012E Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Series 2012E Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust. After provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, any recovery of judgment shall be for the ratable benefit of the Holders of the Series 2012E Bonds in respect of which such judgment has been recovered.

### **Limitation on Suits**

No Holder of any Series 2012E Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Series 2012E Indenture, or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (i) such Holder has previously given notice to the Trustee of a continuing Indenture Default; (ii) the Holders of not less than 25% in aggregate principal amount of the Outstanding Series 2012E Bonds shall have made request to the Trustee to institute proceedings in respect of such Indenture Default in its own name as Trustee thereunder; (iii) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and (v) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012E Bonds. No one or more Holders of Series 2012E Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Series 2012E Indenture to affect, disturb or prejudice the lien of the Series 2012E Indenture or the rights of any other Holders of Series 2012E Bonds, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under the Series 2012E Indenture, except in the manner therein provided.

### **Unconditional Right of Bondholders to Receive Principal, Premium and Interest**

Notwithstanding any other provision in the Series 2012E Indenture, the Holder of any Series 2012E Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Series 2012E Bond on the maturity date expressed in such Series 2012E Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

### **Control by Bondholders**

The Holders of a majority in aggregate principal amount of the Outstanding Series 2012E Bonds shall have the right, during the continuance of an Indenture Default, (i) to require the Trustee to proceed to enforce the Series 2012E Indenture, either by judicial proceedings for the enforcement of the payment of the Series 2012E Bonds or otherwise, and (ii) to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee thereunder, including the power to direct or withhold directions for acceleration of the maturity of the Series 2012E Bonds pursuant to the Series 2012E Indenture, provided that (1) such direction shall not be in conflict with any rule of law or the Series 2012E Indenture, (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (3) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Bondholders not taking part in such direction.

### **Waiver of Past Defaults**

Before any judgment or decree for payment of money due has been obtained by the Trustee, the Holders of not less than a majority in aggregate principal amount of the Outstanding Series 2012E Bonds may, by notice to the Trustee and the Board, on behalf of all Bondholders waive any past default under the Series 2012E Indenture or under any other Bond Document and its consequences, except a default (i) in the payment of Debt Service on any Series 2012E Bond, or (ii) in respect of a covenant or provision of the Series 2012E Indenture which under the Series 2012E Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Series 2012E Bond affected. Upon any such waiver, such default shall cease to exist, and any Indenture Default arising therefrom shall be deemed to have been cured, for every purpose of the Series 2012E Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

### **Suits to Protect the Trust Estate**

The Trustee shall have power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Series 2012E Indenture and to protect its interests and the interests of the Bondholders in the Trust Estate and in the rents, issues,

profits, revenues and other income arising therefrom, including power to institute and maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security under the Series 2012E Indenture or be prejudicial to the interests of the Bondholders or the Trustee.

### **Certain Duties and Responsibilities of Trustee**

Except during the continuance of an Indenture Default, (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Series 2012E Indenture, and no implied covenants or obligations shall be read into the Series 2012E Indenture against the Trustee; and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Series 2012E Indenture; but in the case of any such certificates or opinions which by any provision of the Series 2012E Indenture are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Series 2012E Indenture. If an Indenture Default exists, the Trustee shall exercise such of the rights and powers vested in it by the Series 2012E Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not incur liability for its action or inaction with respect to the performance of its duties and obligations under the Series 2012E Indenture unless such action or inaction constitutes willful misconduct or gross negligence under the circumstances. Liability of the Trustee for such action or inaction shall be further limited as follows:

- (1) the Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;
- (2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in aggregate principal amount of the Outstanding Series 2012E Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Series 2012E Indenture; and
- (3) no provision of the Series 2012E Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Whether or not therein expressly so provided, every provision of the Series 2012E Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions described under this caption.

### **Certain Rights of Trustee**

Except as otherwise provided under the caption “Certain Duties and Responsibilities of Trustee”:

- (1) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.
- (2) Any request or direction of the Board mentioned in the Series 2012E Indenture shall be sufficiently evidenced by a certificate or order executed by an Authorized Representative

of the Board, and any request or direction of the University mentioned in the Series 2012E Indenture shall be sufficiently evidenced by a certificate or order executed by an Authorized Representative of the University.

(3) Whenever in the administration of the Series 2012E Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action thereunder, the Trustee (unless other evidence be specifically prescribed in the Series 2012E Indenture) may, in the absence of bad faith on its part, rely upon a certificate executed by an Authorized Representative of the Board or a certificate by an Authorized Representative of the University.

(4) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee under the Series 2012E Indenture in good faith and in reliance thereon.

(5) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Series 2012E Indenture at the request or direction of any of the Bondholders pursuant to the Series 2012E Indenture, unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(6) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books and records of the Board, personally or by agent or attorney.

(7) The Trustee may execute any of the trusts or powers under the Series 2012E Indenture or perform any duties thereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Series 2012E Indenture.

### **Compensation and Reimbursement**

As security for the performance of the obligations of the Board to pay to the Trustee, or reimburse the Trustee for, its reasonable compensation, expenses, disbursements and advances as set forth in the Series 2012E Indenture, the Trustee shall be secured under the Series 2012E Indenture by a lien prior to the Series 2012E Bonds, and for the payment of such compensation, expenses, reimbursements and indemnity the Trustee shall have the right to use and apply any money held by it as a part of the Trust Estate.

### **Corporate Trustee Required; Eligibility**

The Trustee is deemed to be qualified as Trustee under the Series 2012E Indenture as of the date of the Series 2012E Indenture. The Trustee at all times shall be a trust company or bank (having trust powers) organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having unimpaired capital and surplus of at least \$50,000,000, and subject to supervision or examination by Federal or state authority. If such trust company or bank publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of the provisions described under this caption, the unimpaired capital and surplus of such trust company or bank shall be deemed to be its unimpaired capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions described under this caption, it shall resign immediately in the manner and with the effect specified under the caption "Resignation and Removal; Appointment of Successor."

## **Resignation and Removal; Appointment of Successor**

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Series 2012E Indenture shall become effective until the acceptance of appointment by the successor Trustee in accordance with the provisions described under the caption "Acceptance of Appointment by Successor." The Trustee may resign at any time by giving notice thereof to the Board and the University. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee. The Trustee may be removed at any time by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012E Bonds by notice delivered to the Trustee, the Board and the University. If no Loan Default or Indenture Default exists, the Trustee may be removed at any time by the University by notice delivered to the Trustee.

If at any time: (i) the Trustee shall cease to be eligible under the Series 2012E Indenture and shall fail to resign after request therefor by the University or by any Bondholder who has been a bona fide Holder of a Series 2012E Bond for at least six (6) months, or (ii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case (x) the Board (with the consent of the University) may remove the Trustee, or (y) any Bondholder who has been a bona fide Holder of a Series 2012E Bond for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, a successor Trustee shall be appointed by the Board with the consent of the University. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee may similarly appoint a successor to fill such vacancy until a new Trustee shall be so appointed by the Bondholders. If, within one (1) year after such resignation, removal or incapability or the occurrence of such vacancy, a successor Trustee shall be appointed by the Holders of a majority in aggregate principal amount of the Outstanding Series 2012E Bonds, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Board or the University or by such receiver or trustee. If no successor Trustee shall have been so appointed by the Board, the University or the Bondholders and accepted appointment in the manner provided in the Series 2012E Indenture, any Bondholder who has been a bona fide Holder of a Series 2012E Bond for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Board shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to the Bondholders. Each notice shall include the name of the successor Trustee and the address of the Office of the Trustee.

## **Acceptance of Appointment by Successor**

Every successor Trustee appointed under the Series 2012E Indenture shall execute, acknowledge and deliver to the Board and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the estates, properties, rights, powers, trusts and duties of the retiring Trustee; but, on request of the Board or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument conveying and transferring to such successor Trustee upon the trusts expressed under the Series 2012E Indenture all the estates, properties, rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee under the Series 2012E Indenture, subject nevertheless to its lien, if any, provided for under the caption "Compensation and Reimbursement." Upon request of any such successor Trustee, the Board shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such estates, properties, rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under the Series 2012E Indenture.

### **Merger, Conversion, Consolidation or Succession to Business**

Any commercial bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated, or any commercial bank or trust company resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any commercial bank or trust company succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Series 2012E Indenture, provided such commercial bank or trust company shall be otherwise qualified and eligible under the Series 2012E Indenture, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties thereto. In case any Series 2012E Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Series 2012E Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Series 2012E Bonds.

### **Amendments of the Bond Documents**

The Trustee may, on behalf of the Bondholders, from time to time enter into, or consent to, an amendment of any Bond Document only as permitted by the provisions of the Series 2012E Indenture summarized under this caption.

***Amendments without Consent of Bondholders.*** An amendment of the Bond Documents for any of the following purposes may be made, or consented to, by the Trustee without the consent of the Holders of any Series 2012E Bonds: (i) to correct or amplify the description of any property at any time subject to the lien of any Bond Document, or better to assure, convey and confirm unto any secured party any property subject or required to be subjected to the lien of any Bond Document, or to subject to the lien of any Bond Document, additional property; or (ii) to evidence the succession of another person to any Financing Participant and the assumption by any such successor of the covenants of such Financing Participant (provided that the requirements of the related Bond Document for such succession and assumption are otherwise satisfied); or (iii) to add to the covenants of any Financing Participant for the benefit of Bondholders and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants an event of default under the specified Bond Documents permitting the enforcement of all or any of the several remedies provided therein; provided, however, that with respect to any such covenant, such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available upon such default; or (iv) to surrender any right or power conferred upon any Financing Participant other than rights or powers for the benefit of Bondholders; or (v) to cure any ambiguity or to correct any inconsistency, provided such action shall not, in the reasonable judgment of the Trustee, adversely affect the interests of the Bondholders; or (vi) to appoint a separate agent of the Board or the Trustee to perform any one or more of the following functions: (1) registration of transfers and exchanges of Series 2012E Bonds or (2) payment of Debt Service on the Series 2012E Bonds.

***Amendments Requiring Consent of All Affected Bondholders.*** An amendment of the Bond Documents for any of the following purposes may be entered into, or consented to, by the Trustee only with the consent of the Holder of each Series 2012E Bond affected: (i) to change the maturity date of the principal of, or any installment of interest on, any Series 2012E Bond, or reduce the aggregate principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Series 2012E Bond, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the maturity date thereof (or, in the case of redemption, on or after the redemption date); or (ii) to reduce the percentage in aggregate principal amount of the Outstanding Series 2012E Bonds, the consent of whose Holders is required for any amendment of the Bond Documents, or the consent of whose Holders is required for any waiver provided for in the Bond Documents; or (iii) to modify or alter the provisions of the proviso to the definition of the term “Outstanding”; or (iv) to modify any of the provisions of the Series 2012E Indenture described under this caption or under the caption “Waiver of Past Defaults,” except to increase any percentage provided thereby or to provide that certain other provisions of the Series 2012E Indenture cannot be modified or waived without the consent of the Holder of each Series 2012E Bond affected thereby; or (v) to permit the creation of any lien ranking



prior to or on a parity with the lien of the Series 2012E Indenture with respect to any of the Trust Estate or terminate the lien of the Series 2012E Indenture on any property at any time subject thereto or deprive the Holder of any Series 2012E Bond of the security afforded by the lien of the Series 2012E Indenture; or (vi) to eliminate, reduce or delay the obligation of the Board or the University to make payments at times and in amounts sufficient to pay Debt Service on the Series 2012E Bonds.

***Amendments Requiring Majority Consent of Bondholders.*** An amendment of the Bond Documents for any purpose not described under the captions “Amendments without Consent of Bondholders” or “Amendments Requiring Consent of All Affected Bondholders” may be entered into, or consented to, by the Trustee only with the consent of the Holders of a majority in aggregate principal amount of Series 2012E Bonds Outstanding.

***Discretion of Trustee.*** The Trustee may in its discretion determine whether or not any Series 2012E Bonds would be affected by any amendment of the Bond Documents and any such determination shall be conclusive upon the Holders of all Series 2012E Bonds, whether theretofore or thereafter authenticated and delivered. The Trustee shall not be liable for any such determination made in good faith.

***Effect on Bondholders.*** Upon the execution of any amendment of any Bond Document in accordance with the terms of the Series 2012E Indenture, every Holder of Series 2012E Bonds theretofore or thereafter authenticated and delivered shall be bound thereby.

***Amendments Not to Affect Tax Exemption.*** No amendment may be made to the Bond Documents unless the Trustee and the Board receive a Favorable Opinion of Bond Counsel.

## **Defeasance**

***Payment of Indenture Indebtedness; Satisfaction and Discharge of Series 2012E Indenture.*** Whenever all Indenture Indebtedness has been Defeased, then (i) the Series 2012E Indenture and the lien, rights and interests created thereby shall cease, determine and become null and void (except that the Trustee shall retain such rights, powers and privileges under the Series 2012E Indenture as may be necessary and convenient in respect of the Series 2012E Bonds for the payment of the principal and interest thereon and for the registration, transfer and exchange of Series 2012E Bonds), and (ii) the Trustee shall, upon the request of the Board, execute and deliver such instruments of satisfaction and discharge as may be necessary and pay, assign, transfer and deliver to the University all cash and securities then held by it under the Series 2012E Indenture as a part of the Trust Estate.

***Trust for Payment of Debt Service.*** The Board may provide for the payment of any Series 2012E Bond by establishing a trust for such purpose with the Trustee and depositing therein cash and/or Federal Securities which (assuming the due and punctual payment of the principal of and interest on such Federal Securities, but without reinvestment) will provide funds sufficient to pay the Debt Service on such Series 2012E Bond as the same becomes due and payable until the maturity date or redemption of such Series 2012E Bond; provided, however, that:

- (1) Such Federal Securities must not be subject to redemption prior to their respective maturities at the option of the issuer of such Securities.
- (2) If such Series 2012E Bond is to be redeemed prior to its maturity date, either (i) the Trustee shall receive evidence that notice of such redemption has been given in accordance with the provisions of the Series 2012E Indenture and such Series 2012E Bond or (ii) the Board and the University shall confer on the Trustee irrevocable authority for the giving of such notice.
- (3) Prior to the establishment of such trust, the Trustee and the Board must receive a Favorable Opinion of Bond Counsel.
- (4) Prior to the establishment of such trust, the Trustee must receive verification satisfactory to the Trustee demonstrating that the principal and interest payments on the Federal Securities in such trust, without reinvestment, together with the cash balance in such trust

remaining after purchase of such Securities, will be sufficient to make the required payments from such trust.

Any trust established pursuant to the Series 2012E Indenture may provide for payment of less than all Series 2012E Bonds Outstanding or less than all Series 2012E Bonds of any remaining maturity.

If any trust provides for payment of less than all Series 2012E Bonds of the same Tenor, the Series 2012E Bonds of such Tenor to be paid from the trust shall be selected by the Trustee by lot by such method as shall provide for the selection of portions (in Authorized Denominations) of the principal of Series 2012E Bonds of such Tenor. Such selection shall be made within seven days after such trust is established or such earlier time required by DTC. This selection process shall be in lieu of the selection process otherwise provided with respect to redemption of Series 2012E Bonds. After such selection is made, Series 2012E Bonds that are to be paid from such trust (including Series 2012E Bonds issued in exchange for such Series 2012E Bonds pursuant to the transfer or exchange provisions of the Series 2012E Indenture) shall be identified by a separate CUSIP number or other designation satisfactory to the Trustee. The Trustee shall notify Holders whose Series 2012E Bonds (or portions thereof) have been selected for payment from such trust and shall direct such Bondholders to surrender their Series 2012E Bonds to the Trustee in exchange for Series 2012E Bonds with the appropriate designation. The selection of Series 2012E Bonds for payment from such trust pursuant to the Series 2012E Indenture shall be conclusive and binding on the Financing Participants.

Cash and/or Federal Securities deposited with the Trustee pursuant to the Series 2012E Indenture shall not be a part of the Trust Estate but shall constitute a separate, irrevocable trust fund for the benefit of the Holder of the Series 2012E Bond to be paid from such fund.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012E LOAN AGREEMENT**

The following statements are brief summaries of certain provisions of the Series 2012E Loan Agreement and are in all respects subject to and qualified in their entirety by reference to the Series 2012E Loan Agreement.

##### **Loan Payments With Respect to Debt Service on Series 2012E Bonds**

The Series 2012E Loan Agreement provides that, in consideration of the Board lending the University the proceeds of the sale of the Series 2012E Bonds, the University shall make Loan Payments to the Trustee, for the benefit of the Holders, on the Business Day next preceding each Bond Payment Date, in an amount equal to the Debt Service on the Series 2012E Bonds due on such Bond Payment Date. All Loan Payments shall be made in funds immediately available to the Trustee on the related Bond Payment Date.

##### **Delivery of Series 2012E Note**

Simultaneously with the delivery of the Series 2012E Bonds, the University shall execute and deliver the Series 2012E Note to the Trustee, as assignee of the Board, in a principal amount equal to the aggregate principal amount of the Series 2012E Bonds and payable at the times and in the amounts corresponding to the required payments of Debt Service with respect to the Series 2012E Bonds. The Series 2012E Note shall evidence the University's obligation to make Loan Payments under the Series 2012E Loan Agreement. Loan Payments shall be made in amounts sufficient in the aggregate to pay in full when due (whether by maturity, redemption, acceleration or otherwise) the principal of, redemption premium, if any, and interest on the Series 2012E Bonds. All Loan Payments with respect to the Series 2012E Bonds shall be credited against the required payments under the Series 2012E Note, all to the end that the unpaid aggregate principal amount of the Series 2012E Bonds from time to time shall be equal to the unpaid aggregate principal amount of the Series 2012E Note.

##### **Additional Payments**

The University shall pay to the Board or to the Trustee, as the case may be, the following: (i) the acceptance fee of the Trustee and the annual (or other regular) fees, charges and expenses of the Trustee under the

Series 2012E Indenture; (ii) any amount to which the Trustee may be entitled under the Series 2012E Indenture; and (iii) the reasonable expenses of the Board or the Trustee incurred at the request of the University, or in the performance of its duties under any of the Bond Documents, or in connection with any litigation, inquiry, investigation and/or audit which may at any time be instituted involving any of the Bond Documents, or in the pursuit of any remedies under any of the Bond Documents.

### **Overdue Payments**

Any Loan Payments that are overdue shall bear interest from the related Bond Payment Date until paid at the rate provided in the Series 2012E Indenture with respect to overdue payments of Debt Service on Series 2012E Bonds. Any other payments required by the Series 2012E Loan Agreement that are overdue shall bear interest from the date due until paid at the Trustee's Adjusted Base Rate.

### **Full Faith and Credit Obligation**

The University's obligation to make Loan Payments and the other payments required by the Series 2012E Loan Agreement shall be a full faith and credit obligation of the University. The University's obligation to make such payments and to perform and observe the other agreements and covenants on its part contained in the Series 2012E Loan Agreement shall be absolute and unconditional, irrespective of any rights of set off, recoupment or counterclaim it might otherwise have against the Board or the Trustee.

### **Redemption of Series 2012E Bonds and Prepayment of Series 2012E Note**

The Series 2012E Note shall be subject to prepayment in whole or in part prior to maturity in an amount equal to the principal amount of any Series 2012E Bond called for extraordinary optional redemption pursuant to the Series 2012E Indenture.

### **Events of Default**

The occurrence and continuation of any one or more of the following shall constitute an event of default (a "*Loan Default*") under the Series 2012E Loan Agreement (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body): (i) default in the payment of any Loan Payment with respect to Debt Service on the Series 2012E Bonds when such payment becomes due and payable; or (ii) default in the performance, or breach, of any covenant or warranty of the University in the Series 2012E Loan Agreement (other than a covenant or warranty, a default in the performance or breach of which is elsewhere specifically dealt with), and the continuance of such default or breach for a period of 30 days after notice to the University by the Board or by the Trustee specifying such default or breach and requiring it to be remedied and stating that such notice is a "notice of default" under the Series 2012E Loan Agreement; provided, however, that if such performance requires work to be done, action to be taken, or conditions to be remedied, which by their nature can be done, taken or remedied but cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Loan Default shall be deemed to have occurred or to exist if, and so long as, the University shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion; or (iii) an Act of Bankruptcy shall occur with respect to the University. The Continuing Disclosure Agreement contains the exclusive remedies for breach by the University of the covenants on its part contained in such Agreement, and no such breach shall constitute a Loan Default or an event of default under the Series 2012E Loan Agreement or any other Bond Document.

### **Remedies on Default**

If a Loan Default occurs and is continuing, the Board (or the Trustee) may exercise any of the following remedies: (i) declare all Loan Payments with respect to Debt Service on the Series 2012E Bonds to be immediately due and payable in an amount not to exceed the principal amount of all Outstanding Series 2012E Bonds, plus the redemption premium (if any) payable with respect thereto, plus the interest accrued thereon to the date of such declaration, but only if the Series 2012E Bonds have been accelerated pursuant to the Series 2012E Indenture; (ii) in

the event the Series 2012E Bonds have been accelerated pursuant to the Series 2012E Indenture, declare the principal of the Series 2012E Note to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Series 2012E Loan Agreement or in the Series 2012E Note to the contrary notwithstanding; and (iii) take whatever action at law or in equity may appear necessary or desirable to collect the Loan Payments then due, whether by declaration or otherwise, or to enforce any obligation or covenant or agreement of the University under the Series 2012E Loan Agreement or by law.

#### **If Performance Date Not a Business Day**

If the last date for the making of any payment, the performance of any act or the exercising of any right, as provided in the Series 2012E Loan Agreement, shall be other than a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day.

#### **Amendment or Modification of Bond Documents**

Until all Outstanding Series 2012E Bonds are Defeased, the Bond Documents may not be effectively amended, changed, modified, altered or terminated except in accordance with the Series 2012E Indenture.

#### **Tax Covenants**

Pursuant to the Series 2012E Loan Agreement, the University covenants and agrees that: (i) it will comply with all covenants and agreements on its part contained in the Tax Certificate; (ii) it will not cause or permit any action that would cause the Series 2012E Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code; (iii) it will rebate all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code; and (iv) it will not take any action which will, or fail to take any action which failure will, cause interest on the Series 2012E Bonds to become includable in the gross income of the Holders thereof for purposes of federal income taxation.

#### **Other Covenants of the University**

The Series 2012E Loan Agreement sets forth certain other agreements of the University with respect to, among other things, compliance with the Continuing Disclosure Agreement, maintenance of corporate existence, and indemnification of the Board and the Trustee under certain circumstances.

## **APPENDIX D**

### **Proposed Forms of Opinions of Bond Counsel**

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[Proposed Form of Approving Opinion  
Relating to Series 2012D Bonds]

November 29, 2012

The Health and Educational Facilities Board  
of The Metropolitan Government of  
Nashville and Davidson County, Tennessee

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$106,230,000 Revenue Refunding Bonds (The Vanderbilt University), Series 2012D, dated the date of their original issuance (the “Series 2012D Bonds”), of The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “Board”). The Series 2012D Bonds are issued under and pursuant to the constitution and laws of the State of Tennessee, including Chapter 101, Part 3, Title 48 of the Tennessee Code Annotated, as amended (the “Act”), and a Trust Indenture, dated November 1, 2012 (the “Indenture”), between the Board and U.S. Bank National Association, Nashville, Tennessee, as trustee (the “Trustee”), for the purpose of providing funds, together with other available funds, to refund the Prior Bonds (as defined in the Indenture).

The Series 2012D Bonds shall bear interest from the date of issuance at the fixed rates per annum as set forth in the Indenture. The Series 2012D Bonds are subject to redemption prior to their respective maturities in the manner and upon the terms and conditions set forth therein and in the Indenture. The Series 2012D Bonds are issuable in fully registered form initially in denominations of \$5,000 and any integral multiple thereof.

The Board will lend the proceeds of the Series 2012D Bonds to The Vanderbilt University (the “University”) under a Loan Agreement, dated November 1, 2012 (the “Loan Agreement”), between the Board and the University. The Series 2012D Bonds are payable from payments to be made by the University on its note, dated the date of its original issuance (the “Series 2012D Note”), issued by the University under the Loan Agreement and assigned by the Board to the Trustee as security for the payment of the Series 2012D Bonds. The Series 2012D Note is an absolute and unconditional obligation of the University, secured by the general credit of the University and payable from any available moneys of the University.

Simultaneously with the issuance of the Series 2012D Bonds, the Board is issuing its \$45,225,000 Revenue Refunding Bonds (The Vanderbilt University), Series 2012E (the “Series 2012E Bonds” and, together with the Series 2012D Bonds, the “Series 2012 Bonds”). The Series 2012E Bonds are being issued pursuant to a Trust Indenture, dated November 1, 2012 (the “Series 2012E Indenture”), between the Board and U.S. Bank National Association, Nashville, Tennessee, as trustee, and the Board will lend the proceeds of the Series 2012E Bonds to the University under a Loan Agreement, dated November 1, 2012 (the “Series 2012E Loan Agreement”), between the Board and the University. The Indenture and the Series 2012E Indenture are hereinafter collectively referred to as the “Series 2012 Indentures.” The Loan Agreement and the Series 2012E Loan Agreement are hereinafter collectively referred to as the “Series 2012 Loan Agreements.”

We have also examined one of the Series 2012D Bonds as executed and authenticated.

Based upon such examinations, we are of the opinion that, under current law:

1. The Series 2012D Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly authorized, executed and delivered by the Board and, assuming due authorization, execution and delivery by the Trustee, is a valid, binding and enforceable agreement in accordance with its terms. The Indenture makes the valid pledge of the Trust Estate (as defined in the Indenture) which it purports to make.
3. The Series 2012D Bonds are valid and binding limited obligations of the Board payable in accordance with their terms. The principal of and interest on the Series 2012D Bonds are payable from payments to be made by the University under and pursuant to the Series 2012D Note and the Loan Agreement. Under certain circumstances, the principal of and interest on the Series 2012D Bonds are payable from funds held by the Trustee under the Indenture and the income from the investment thereof.
4. The Loan Agreement has been duly authorized, executed and delivered by the Board and the University and is a valid, binding and enforceable agreement in accordance with its terms.
5. The Series 2012D Bonds do not constitute a debt of the Board within the meaning of any constitutional or statutory limitation and are not in any respect general obligations of the Board nor are they payable in any manner by taxation.
6. Interest on the Series 2012D Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the "Code")), interest on the Series 2012D Bonds must be included in computing adjusted current earnings.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2012D Bonds.

This opinion speaks as of its date, is based on the Code and other current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Series 2012D Bonds for federal income tax purposes. This opinion does not contain or provide any opinion or assurance regarding the future activities of the Board or the University or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The Board and the University have covenanted, however, to comply with the requirements of the Code.

In delivering this opinion, we are relying upon (i) certifications of representatives of the Board, the University and other parties as to facts material to the opinion, which we have not independently verified, and (ii) the opinion of the Office of the General Counsel of the University that the University is an organization described in Section 501(c)(3) of the Code and is not a "private foundation" as defined in Section 509(a) of the Code, and to the best of such counsel's knowledge, the University has not failed to file any required report with the IRS or engaged in conduct inconsistent with its status as an exempt organization.

In addition, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Board and the University. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2012D Bonds in order for interest on the Series 2012D Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that the University maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2012 Bonds and the use of the property financed or refinanced by the Series 2012 Bonds, limitations on the source of the payment of and the security for the Series 2012 Bonds, and the obligation to rebate



certain excess earnings on the gross proceeds of the Series 2012 Bonds to the United States Treasury. The Series 2012 Indentures, the Series 2012 Loan Agreements and the Tax Certificate and Agreement relating to the Series 2012 Bonds, dated as of the date of issuance of the Series 2012 Bonds (the “Tax Agreement”), between the Board and the University, contain substantially identical covenants for the benefit of the owners of the Series 2012D Bonds (the “Covenants”) under which the Board and the University have agreed to comply with such requirements. Failure by the Board or the University to comply with their respective Covenants under either Series 2012 Indenture or Series 2012 Loan Agreement or the Tax Agreement could cause interest on the Series 2012D Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2012D Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Board with its respective Covenants does not require the Board to make any financial contribution for which it does not receive funds from the University.

Certain requirements and procedures contained, incorporated or referred to in the Indenture, the Loan Agreement and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Series 2012D Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

7. The Series 2012D Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Series 2012D Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law.

We express no opinion regarding (i) other Tennessee tax consequences arising with respect to the Series 2012D Bonds or (ii) any consequences arising with respect to the Series 2012D Bonds under the tax laws of any state or local jurisdiction other than Tennessee.

The enforceability of the Indenture and the Loan Agreement and the obligations of the parties mentioned above with respect to the Indenture and the Loan Agreement, and the pledge described above, are subject to bankruptcy, insolvency and other laws affecting creditors’ rights generally. To the extent that the remedies under the Indenture or the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

In rendering this opinion, we have relied upon the opinions of the Office of the General Counsel of the University and Balch & Bingham LLP, special counsel to the University, with respect to the due organization and valid existence of the University, its power and authority with respect to the transactions contemplated by, and its due authorization, execution and delivery of, the Loan Agreement.

Respectfully submitted,

[To be signed “McGuireWoods LLP”]

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[Proposed Form of Approving Opinion  
Relating to Series 2012E Bonds]

November 29, 2012

The Health and Educational Facilities Board  
of The Metropolitan Government of  
Nashville and Davidson County, Tennessee

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$45,225,000 Revenue Refunding Bonds (The Vanderbilt University), Series 2012E, dated the date of their original issuance (the "Series 2012E Bonds"), of The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Board"). The Series 2012E Bonds are issued under and pursuant to the constitution and laws of the State of Tennessee, including Chapter 101, Part 3, Title 48 of the Tennessee Code Annotated, as amended (the "Act"), and a Trust Indenture, dated November 1, 2012 (the "Indenture"), between the Board and U.S. Bank National Association, Nashville, Tennessee, as trustee (the "Trustee"), for the purpose of providing funds, together with other available funds, to refund the Commercial Paper to be Refunded (as defined in the Indenture).

The Series 2012E Bonds shall bear interest from the date of issuance at the fixed rates per annum as set forth in the Indenture. The Series 2012E Bonds are subject to redemption prior to their respective maturities in the manner and upon the terms and conditions set forth therein and in the Indenture. The Series 2012E Bonds are issuable in fully registered form initially in denominations of \$5,000 and any integral multiple thereof.

The Board will lend the proceeds of the Series 2012E Bonds to The Vanderbilt University (the "University") under a Loan Agreement, dated November 1, 2012 (the "Loan Agreement"), between the Board and the University. The Series 2012E Bonds are payable from payments to be made by the University on its note, dated the date of its original issuance (the "Series 2012E Note"), issued by the University under the Loan Agreement and assigned by the Board to the Trustee as security for the payment of the Series 2012E Bonds. The Series 2012E Note is an absolute and unconditional obligation of the University, secured by the general credit of the University and payable from any available moneys of the University.

Simultaneously with the issuance of the Series 2012E Bonds, the Board is issuing its \$106,230,000 Revenue Refunding Bonds (The Vanderbilt University), Series 2012D (the "Series 2012D Bonds" and, together with the Series 2012E Bonds, the "Series 2012 Bonds"). The Series 2012D Bonds are being issued pursuant to a Trust Indenture, dated November 1, 2012 (the "Series 2012D Indenture"), between the Board and U.S. Bank National Association, Nashville, Tennessee, as trustee, and the Board will lend the proceeds of the Series 2012D Bonds to the University under a Loan Agreement, dated November 1, 2012 (the "Series 2012D Loan Agreement"), between the Board and the University. The Indenture and the Series 2012D Indenture are hereinafter collectively referred to as the "Series 2012 Indentures." The Loan Agreement and the Series 2012D Loan Agreement are hereinafter collectively referred to as the "Series 2012 Loan Agreements."

We have also examined one of the Series 2012E Bonds as executed and authenticated.

Based upon such examinations, we are of the opinion that, under current law:

1. The Series 2012E Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly authorized, executed and delivered by the Board and, assuming due authorization, execution and delivery by the Trustee, is a valid, binding and enforceable agreement in accordance with its terms. The Indenture makes the valid pledge of the Trust Estate (as defined in the Indenture) which it purports to make.
3. The Series 2012E Bonds are valid and binding limited obligations of the Board payable in accordance with their terms. The principal of and interest on the Series 2012E Bonds are payable from payments to be made by the University under and pursuant to the Series 2012E Note and the Loan Agreement. Under certain circumstances, the principal of and interest on the Series 2012E Bonds are payable from funds held by the Trustee under the Indenture and the income from the investment thereof.
4. The Loan Agreement has been duly authorized, executed and delivered by the Board and the University and is a valid, binding and enforceable agreement in accordance with its terms.
5. The Series 2012E Bonds do not constitute a debt of the Board within the meaning of any constitutional or statutory limitation and are not in any respect general obligations of the Board nor are they payable in any manner by taxation.
6. Interest on the Series 2012E Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the "Code")), interest on the Series 2012E Bonds must be included in computing adjusted current earnings.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2012E Bonds.

This opinion speaks as of its date, is based on the Code and other current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Series 2012E Bonds for federal income tax purposes. This opinion does not contain or provide any opinion or assurance regarding the future activities of the Board or the University or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The Board and the University have covenanted, however, to comply with the requirements of the Code.

In delivering this opinion, we are relying upon (i) certifications of representatives of the Board, the University and other parties as to facts material to the opinion, which we have not independently verified, and (ii) the opinion of the Office of the General Counsel of the University that the University is an organization described in Section 501(c)(3) of the Code and is not a "private foundation" as defined in Section 509(a) of the Code, and to the best of such counsel's knowledge, the University has not failed to file any required report with the IRS or engaged in conduct inconsistent with its status as an exempt organization.

In addition, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Board and the University. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2012E Bonds in order for interest on the Series 2012E Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that the University maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2012 Bonds and the use of the property financed or refinanced by the Series 2012 Bonds, limitations on the source of the payment of and the security for the Series 2012 Bonds, and the obligation to rebate certain excess

earnings on the gross proceeds of the Series 2012 Bonds to the United States Treasury. The Series 2012 Indentures, the Series 2012 Loan Agreements and the Tax Certificate and Agreement relating to the Series 2012 Bonds, dated as of the date of issuance of the Series 2012 Bonds (the “Tax Agreement”), between the Board and the University, contain substantially identical covenants for the benefit of the owners of the Series 2012E Bonds (the “Covenants”) under which the Board and the University have agreed to comply with such requirements. Failure by the Board or the University to comply with their respective Covenants under either Series 2012 Indenture or Series 2012 Loan Agreement or the Tax Agreement could cause interest on the Series 2012E Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2012E Bonds from becoming includible in gross income for federal income tax purposes. Compliance by the Board with its respective Covenants does not require the Board to make any financial contribution for which it does not receive funds from the University.

Certain requirements and procedures contained, incorporated or referred to in the Indenture, the Loan Agreement and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Series 2012E Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

7. The Series 2012E Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Series 2012E Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law.

We express no opinion regarding (i) other Tennessee tax consequences arising with respect to the Series 2012E Bonds or (ii) any consequences arising with respect to the Series 2012E Bonds under the tax laws of any state or local jurisdiction other than Tennessee.

The enforceability of the Indenture and the Loan Agreement and the obligations of the parties mentioned above with respect to the Indenture and the Loan Agreement, and the pledge described above, are subject to bankruptcy, insolvency and other laws affecting creditors’ rights generally. To the extent that the remedies under the Indenture or the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

In rendering this opinion, we have relied upon the opinions of the Office of the General Counsel of the University and Balch & Bingham LLP, special counsel to the University, with respect to the due organization and valid existence of the University, its power and authority with respect to the transactions contemplated by, and its due authorization, execution and delivery of, the Loan Agreement.

Respectfully submitted,

[To be signed “McGuireWoods LLP”]

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## **APPENDIX E**

### **Proposed Form of Continuing Disclosure Agreement**

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## CONTINUING DISCLOSURE AGREEMENT

**\$151,455,000**

**The Health and Educational Facilities Board of  
The Metropolitan Government of Nashville and Davidson County, Tennessee  
Revenue Refunding Bonds (The Vanderbilt University) Series 2012D and Series 2012E**

This Continuing Disclosure Agreement (this “**Disclosure Agreement**”), dated as of November 1, 2012, is executed and delivered by The Vanderbilt University (the “**Borrower**”) and U.S. Bank National Association (the “**Dissemination Agent**”) in connection with the issuance of The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee Revenue Refunding Bonds (The Vanderbilt University) Series 2012D in the aggregate principal amount of \$106,230,000 and Series 2012E in the aggregate principal amount of \$45,225,000 (collectively, the “**Bonds**”). The Bonds of each series are being issued pursuant to a separate Trust Indenture dated November 1, 2012 (each, an “**Indenture**”), between The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “**Issuer**”) and U.S. Bank National Association, as trustee (the “**Trustee**”). In connection with each Indenture, the Borrower and the Issuer executed a separate Loan Agreement, each dated November 1, 2012 (each a “**Loan Agreement**”).

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is executed and delivered by the Borrower and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds. The Borrower and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices, or disclosures provided or required under this Disclosure Agreement and has no liability to any person, including any Holder or Beneficial Owner of any Bond, with respect such reports, notices, and disclosures.

SECTION 2. Definitions. In addition to the definitions set forth in the Indentures, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 hereof.

“**Beneficial Owner**” shall mean any person that (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

“**Disclosure Representative**” shall mean the Vice Chancellor for Finance and Chief Financial Officer of the Borrower or his or her designee, or such other person as the Borrower shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent which is designated in writing by the Borrower and which has filed with U.S. Bank National Association a written acceptance of such designation, but only until the Borrower exercises its option in Section 11 hereof to discharge the Dissemination Agent without replacement, following which all references to the “Dissemination Agent” herein shall be disregarded.

“**MSRB**” means the Municipal Securities Rulemaking Board.

“**Official Statement**” means the Official Statement dated November 14, 2012 relating to the Bonds.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**SEC**” shall mean the Securities and Exchange Commission.

***“Specified Event”*** means the occurrence of any of the events with respect to the Bonds set forth in Exhibit C hereto.

***“State”*** shall mean the State of Tennessee.

### SECTION 3. Provision of Annual Reports.

(a) Submission of Annual Report to MSRB. The Borrower shall, or shall cause the Dissemination Agent to, not later than six months after the end of the Borrower’s fiscal year (currently June 30), commencing with the report for the fiscal year ending June 30, 2013, provide to the MSRB an Annual Report meeting the requirements of Section 4 hereof. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 hereof. If the Borrower’s fiscal year changes, the Borrower shall give notice of such change in the same manner as for Specified Events under Section 5 hereof.

(b) Communication with Dissemination Agent. Not later than 15 Business Days prior to the date specified in paragraph (a) of this Section for providing the Annual Report to the MSRB, the Borrower shall provide the Annual Report to the Dissemination Agent and the Trustees (if the Trustees are not the Dissemination Agent). If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Borrower to determine if the Borrower is in compliance with the first sentence of this paragraph (b) of this Section.

(c) Notice of Failure to Provide. If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in paragraph (a) of this Section, the Dissemination Agent shall promptly send a notice to the MSRB in substantially the form attached as **Exhibit A** hereto.

(d) Confirmation of Filing. If so requested in writing by the Borrower, the Dissemination Agent shall confirm to the Borrower that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement and the date on which it was provided.

SECTION 4. Content of Annual Reports. The Borrower’s Annual Report shall contain or include by reference in the manner permitted by the Rule the following:

(a) Financial Statements. The audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board.

(b) Other Financial and Operating Data. If and to the extent not included in the report required by paragraph (a) of this Section, financial and operating data for or as of the end of the prior fiscal year or academic year, as applicable, of the general type appearing in the sections of or tables to Appendix A to the Official Statement described in Exhibit B hereto. For the avoidance of doubt, any data may be provided in the report required by paragraph (a) of this Section or in a separate document, and need not be provided for exactly the same categories or in the same format as in such sections and tables. If the data described in Exhibit B hereto no longer can be generated because the operations to which it relates have been materially changed or discontinued, the Borrower shall provide (or cause the Dissemination Agent to provide) to the MSRB a statement to that effect in lieu of such information. Any Annual Report containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided. Any or all data may be included in an Annual Report by specific reference to other documents, including official statements of debt issues with respect to which the Borrower is an “obligated person” (as defined by the Rule), that have been filed with the MSRB or with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Borrower shall clearly identify each such other document so included by reference.

SECTION 5. Notice of Specified Events and Failure to Provide Annual Information.

(a) Notice of Specified Events. The Borrower shall, or shall cause the Dissemination Agent to, provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner not more than 10 business days after the occurrence of the event:

(i) Specified Events: any Specified Event; and

(ii) Failure to File Annual Report: any failure to provide or cause to be provided to the MSRB an Annual Report on or prior to the date on which such Annual Report is due.

(b) Dissemination Agent to Provide. Upon receipt of a notice from the Borrower pursuant to paragraph (a) of this Section, the Dissemination Agent shall promptly, but in any case not more than 10 business days after the occurrence of the event described therein, file such notice with the MSRB, in all cases with a copy to the Borrower. Notwithstanding the foregoing, the Borrower and the Dissemination Agent acknowledge that (i) the Borrower must make a determination whether Specified Events 2, 6 (as applicable), 7, 8 (with regards to Bond calls), 10, 13 and 14 are material in order to determine whether a filing is required, and (ii) notice of the occurrence of a mandatory, scheduled redemption, not contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption (such as mandatory sinking fund redemption).

(c) No Implied Obligations. The Dissemination Agent shall have no obligation to make disclosure on any other matter except as provided herein. The Dissemination Agent shall not be deemed to have knowledge of any event except as may be provided by written notice to the Dissemination Agent pursuant to this Disclosure Agreement. The Dissemination Agent shall not be responsible for reviewing or for verifying the accuracy or completeness of any notice received.

SECTION 6. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the Borrower chooses to include any such additional information in any Annual Report or notice of occurrence of a Specified Event, the Borrower shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Specified Event.

SECTION 7. Format Changes. The format for the information required to be provided by this Disclosure Agreement may be altered to reflect changes in accounting principles, reporting procedures, operational reorganizations of the Borrower, or applicable law and regulations so long as the substance of all of the required information that is available is supplied and readily identifiable as such.

SECTION 8. Default. In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed to be an Event of Default under either Indenture or Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 9. Amendment. The Borrower may modify its obligations hereunder without the consent of the Holders, provided that (a) this Disclosure Agreement as so modified complies with the Rule as it exists at the time of modification and (b) such amendment, in the opinion of independent counsel expert in the federal securities laws reasonably acceptable to the Dissemination Agent and the applicable Trustee, is an amendment consistent with

the requirements of the Rule, taking into account any amendments or interpretations of the Rule. In the event of any amendment of this Disclosure Agreement, the Borrower shall describe such amendment in its next Annual Report and shall include therein, as applicable, a narrative explanation of the reason for the amendment or waiver and its effect on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (a) notice of such change shall be given in the same manner as for a Specified Event under Section 5 hereof, and (b) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 10. Termination of Reporting Obligation.** The Borrower's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Borrower's obligations under any Loan Agreement are assumed in full by some other entity, the Borrower shall cause such person to assume the Borrower's obligations hereunder as if it were the Borrower, whereupon the original Borrower shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination or substitution in the same manner as for a Specified Event under Section 5 hereof.

**SECTION 11. Dissemination Agent.** The Borrower may from time to time appoint or engage a replacement Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent, in each case by written notice to the Dissemination Agent then serving and the Trustee. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Disclosure Agreement. If at any time the Borrower discharges and does not replace the Dissemination Agent, then the Borrower shall remain obligated hereunder for the benefit of the Beneficial Owners for the full remaining term of this Disclosure Agreement, but the Dissemination Agent shall have no further right or obligation hereunder.

**SECTION 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Borrower and the Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

**SECTION 13. Duties, Immunities and Liabilities of Applicable Trustee and Dissemination Agent.** Article 12 of each of the Indentures is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in each of the Indentures. The Dissemination Agent (if other than the applicable Trustee or the applicable Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agrees to indemnify and to save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and the payment of the Bonds.

**SECTION 14. Notices.** Any notices or communications to or between the parties to this Disclosure Agreement may be given as follows:

**If to the Dissemination Agent:**

U.S. Bank National Association,  
U.S. Bank Corporate Trust Services  
150 Fourth Avenue North, 2nd Floor  
Nashville, Tennessee 37219  
Attention: Donna L. Williams, Vice President,

and, if to the Trustee, addressed to it at its designated corporate trust office.

If to the Borrower:

The Vanderbilt University  
Vice Chancellor for Finance and Chief Financial Officer  
321 Kirkland Hall  
2201 West End Avenue  
Nashville, Tennessee 37240  
Attention: Vice Chancellor for Finance and Chief Financial Officer.

SECTION 15. Governing Law. This Disclosure Agreement shall be construed and interpreted in accordance with the laws of the State; provided, however, that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

*[Signature page follows]*

IN WITNESS WHEREOF, the Borrower and the Dissemination Agent have caused this Disclosure Agreement to be executed and delivered by its duly authorized representatives, all as of the date first written above.

THE VANDERBILT UNIVERSITY

By: \_\_\_\_\_  
Brett Sweet  
Vice Chancellor for Finance  
and Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: The Health and Educational Facilities Board  
of The Metropolitan Government of Nashville and  
Davidson County, Tennessee

Name of Bond Issue: Revenue Refunding Bonds (The Vanderbilt University)  
Series 2012D and Series 2012E

Name of Borrower: The Vanderbilt University

Date of Issuance: November 29, 2012

NOTICE IS HEREBY GIVEN that the Borrower has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Borrower's Continuing Disclosure Agreement and such Annual Report has not been filed as contemplated by such Continuing Disclosure Agreement. The Borrower anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, on behalf of  
the Borrower

cc: Borrower

## EXHIBIT B

The financial and operating data referred to in Section 4(a) of this Disclosure Agreement is financial data and operating data of the general type appearing in the following sections of or tables to Appendix A to the Official Statement:

- (i) in the table under “INTRODUCTION–Overview–Academic Units”;
- (ii) under the caption “ACADEMIC ENTERPRISE”:
  - (A) under the heading “Faculty and Staff” (listing the number of faculty and other employees);
  - (B) in the two tables under the heading “Student Enrollment”;
  - (C) in the two tables under the heading “Tuition and Fees”;
  - (D) in the table under “Student Financial Aid”; and
  - (E) under the heading “Research Activities and Programs” (the amount of federally funded and other research awards);
- (iii) under the caption “VANDERBILT UNIVERSITY MEDICAL CENTER”:
  - (A) in the table under the heading “Patient Care Facilities and Services”;
  - (B) in the table under the heading “Vanderbilt Medical Group and Clinical Facility”;
  - (C) in the table under the heading “Patient Origins”;
  - (D) in the table under the heading “Hospitals and Clinics Service Area Market Share” [in the line beginning “Vanderbilt”];
  - (E) in and following the table under the heading “Medical Utilization”;
  - (F) in the table under the heading “Hospitals and Clinics Payor Mix”; and
  - (G) under the heading “Nursing, Paramedical, and Other Hospitals and Clinics Staff” (number employed by the Borrower’s Hospitals and Clinics); and
- (iv) under the caption “FINANCIAL INFORMATION”:
  - (A) in the table under the heading “Summary of Assets, Liabilities, and Net Assets”;
  - (B) in the table under the heading “Summary of Revenues and Expenses”;
  - (C) in the three tables under the heading “Endowment”;
  - (D) in the table under the heading “Property, Plant, and Equipment.”
  - (E) in the table under the heading “Pro Forma Outstanding Debt”;



(F) in the table under the heading “Estimated Annual Debt Service Requirements for Long-Term Debt”;

(G) under the heading “Interest Rate Exchange Agreements” (the notional amount of, rates on, and value of the Borrower’s interest rate exchange agreements); and

(H) under the heading “Liquidity” (the amounts of lines of credit and liquid-assets).

## **EXHIBIT C**

### **SPECIFIED EVENTS**

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership, or similar event of the Issuer or Borrower, which shall occur as described below;
13. The consummation of a merger, consolidation, or acquisition involving the Borrower, or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in item (12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer or Borrower in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer or Borrower, as the case may be, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer or Borrower, as the case may be.





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