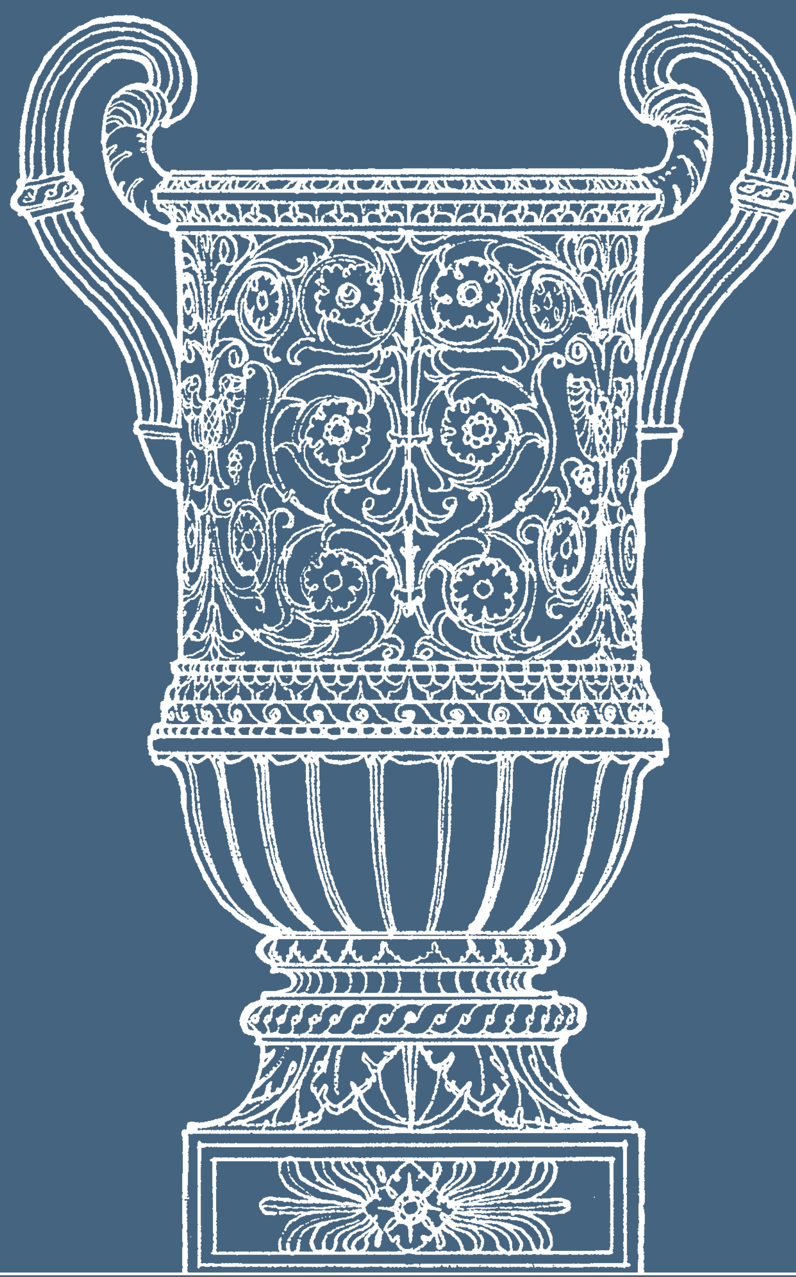
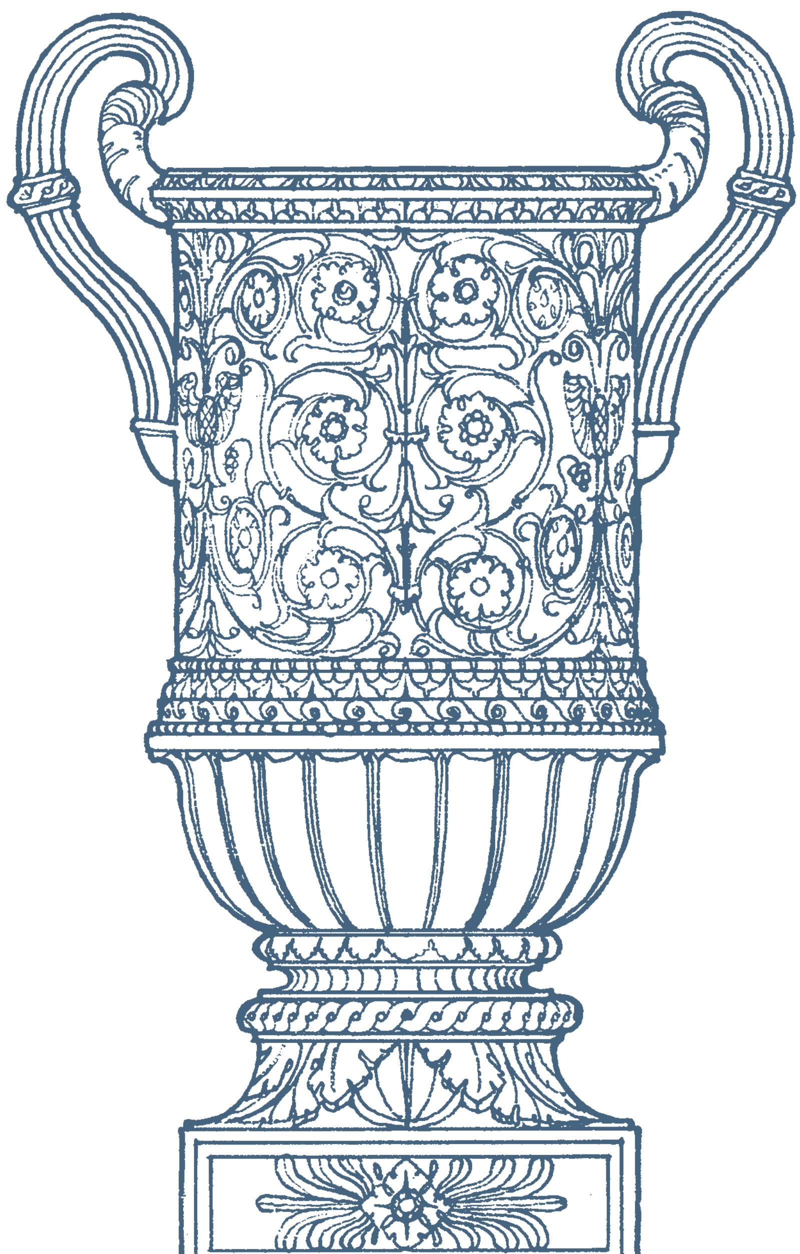
2007–2008 Financial Statements



University of Rochester
and Related Entities

2007–2008 Financial Statements



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University of Rochester and Related Entities

Message from the CFO

December 2008

To: The President and The Board of Trustees

This document contains the 2007–08 financial statements for the University of Rochester including its affiliated entities. The University emerged from fiscal 2007–08 in a solid financial position, maintaining its net assets in a deteriorating national economic environment. The University experienced a slight decrease in net assets of $34.3 million on a base of $2.7 billion, reflecting the downturn in capital markets.

The fiscal year was characterized by continued positive performance of the University's health system, a solid year for enrollment in all of its schools, including a banner year for undergraduate admissions in the College and successful results in fundraising.

The University reached significant milestones in fiscal 2007–08 with the completion of the complementary processes to develop the University's Strategic Plans and Campus Master Plan. The approval by the Board of Trustees of both of these comprehensive plans in October 2008 represents an important step in advancing the University's programmatic and financial strength in the future.

The second half of fiscal 2007–08 saw the disruption in the credit markets and the collapse of major financial institutions. The University took several actions to reduce the costs and risks of its variable rate debt portfolio. These actions were successfully concluded in the first quarter of fiscal year 2008–09 with restructuring of the University's Series 2003 and 2006 tax-exempt bond issues.

At this writing in December 2008, the global economic crisis has worsened dramatically from its state at the close of the 2007–08 fiscal year. The University is responding to the challenges presented by this crisis in a responsible manner by instituting programs of cost reduction, deferral of capital expenditures, and careful liquidity management. These programs are undertaken to ensure the continued financial strength of the institution. At the same time, the University reaffirms its commitment to maintain and improve the excellence of its instructional, research and clinical programs. Despite these turbulent times, our resolve to attain the goals of the Strategic Plans remains undiminished.

Ronald J. Paprocki
Senior Vice President for Administration and Finance and Chief Financial Officer

Financial Statement Highlights

Summary

The University of Rochester ended fiscal year 2008 in a strong financial position and marked another year of positive operating results. The downturn in the global capital markets did, however, have a negative impact on consolidated net assets. On the University's financial statements, **the change in net assets** is one of several key performance indicators highlighted. It is comprised of two primary components, operating and non-operating activities. The University's change in net assets **from operating activities** was a positive $79.9 million signaling a return to more normal operating margins compared with the previous two fiscal years, each of which experienced one-time revenue enhancements. The favorable operating results were generated by the combined positive margins of the hospitals and other health-related entities of $63.3 million; other University operations provided an additional $16.6 million. The change in net assets **from non-operating activities** was a negative $114.2 million due to the negative return on the University's endowment portfolio (-0.1%) and endowment income and gains used for operations of $85.2 million. The **total change to net assets** was a decrease of $34.3 million.

On the balance sheet, the University's consolidated cash position (including operating investments) decreased by $31.4 million; however, it remained strong at approximately $367 million. The University's endowment and similar funds investment portfolio ended the year with a market value of $1.72 billion. Additionally, the University's property, plant, and equipment increased by $112.1 million to $1.3 billion while long-term debt decreased by $25.6 million to $683 million.

Results of Operations

A review of the consolidated financial results over the last three years reveals continued growth in several of the following key financial statement indicators:

Selected Financial Trends

($'s in millions)

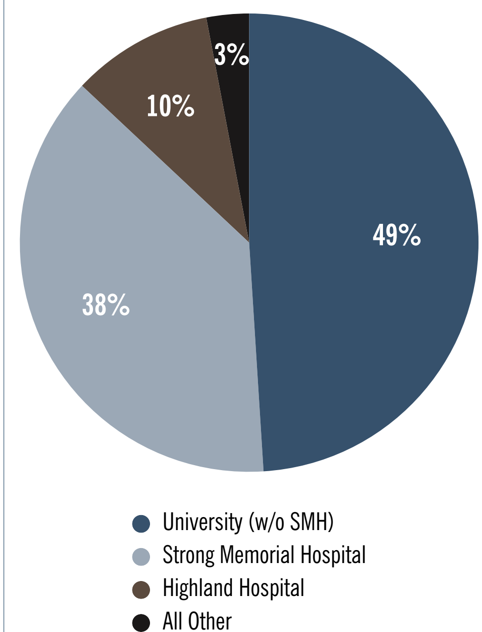
	FY08	FY07	FY06
Consolidated operating revenues	$ 2,418.6	$ 2,295.4	$ 2,139.8
Consolidated operating expenses	$ 2,338.7	$ 2,177.1	$ 2,038.9
Consolidated investments held for long-term purposes	$ 1,881.7	$ 1,989.9	$ 1,632.2
Return on endowment	(0.1%)	19.4%	14.0%
Consolidated changes in net assets:			
From operating activities	$ 79.9	$ 118.3	$ 100.9
From all other non-operating activities	(114.2)	201.9	116.8
Total increase/(decrease) to net assets	**$ (34.3)**	**$ 320.2**	**$ 217.7**
Consolidated total net assets	**$ 2,699.5**	**$ 2,733.9**	**$ 2,413.6**

Revenues

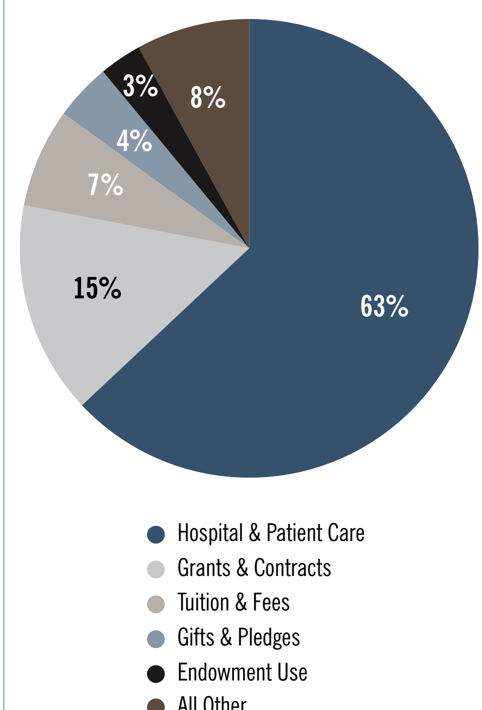
Consolidated operating revenues were $2.42 billion, reflecting a 5.4% increase over the prior year. Tuition and fees, gifts and pledges, and combined hospital and faculty practice patient care revenues accounted for most of this increase. Tuition and fee revenues (gross) were $161.5 million, 12% greater than the prior year. The year-over-year increase in gross tuition for the College was $15 million or almost 10% over last year. The College increased tuition rates by approximately 5%, and enrollments increased by the same percentage rate. The School of Medicine and Dentistry tuition revenues increased to $32.2 million due primarily to an increase in enrollments in the Ph.D. programs. The William E. Simon Graduate School of Business Administration saw its tuition revenues increase by 15% to $27 million as a result of expanded programs and tuition rate increases. Composite financial aid rates were 40.2% and 40.5% for fiscal years 2008 and 2007, respectively. Gift and pledges revenues increased by 30.7% and aggregated to just under the $100 million mark, reflective of increased contributions from trustees and others as well as a $10 million gift to renovate the Eastman Theatre. Hospital and faculty practice patient care revenues grew to $1.52 billion and represent the largest aggregate revenue line item. The increase was $75 million over last year. Leading the way was the Strong Memorial Hospital (SMH) at $900.3 million followed by the University of Rochester Medical Faculty Group (URMFG) at $319.1 million and Highland Hospital at $228.6 million. The SMH revenue increased by 4.2% and was due primarily to increased inpatient discharges and outpatient emergency department volumes. The URMFG increase of 9% was attributable to increased patient volumes in cardiology and radiology and favorable third-party insurer settlements. The Highland Hospital increase of approximately 5.5% was due to increases in case mix, inpatient discharges, and 23-hour patient stays.

The University's grant and contract revenue leveled off after dramatic increases in recent years. Federal grant and contract revenue declined by about 4.3%, or $12 million, to $268.3 million; however, this was due primarily to the completion of the federally funded OMEGA EP (a $78 million capital project) in the Laboratory for Laser Energetics (LLE). Government-sponsored grants and contracts account for about 80% of the grants and contracts revenue of $366.3 million shown on the Statement of Activities. Revenues from the Department of Health and Human Services along with the Department of Energy and New York State comprised 90% of all government grants and contracts revenues. Aggregate research expenditures increased by 6.3% in the Medical Center and 5.7% in the College and decreased by approximately 18% at LLE. FY 2008 saw the University's royalty revenue surpass the prior year record by 5.7% to just under $65 million. The University's Medical Center continued to benefit from the income streams from increased sales of the HPV vaccine used in the prevention of cervical cancer.

Revenues by Division



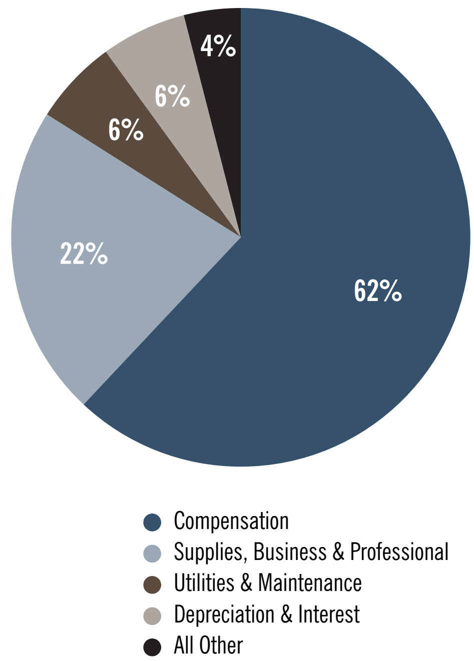
Revenues by Source



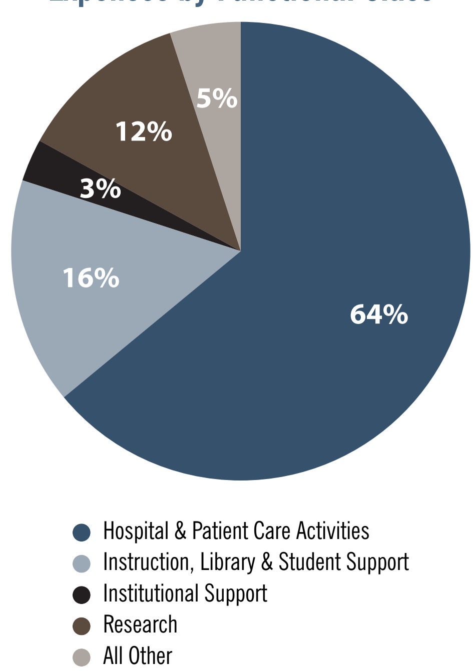
Expenses

Consolidated operating expenses increased by 7.1% to over $2.3 billion for the year ended June 30, 2008. Compensation and related fringe benefits expenses were $1.44 billion and reflected a 7.6% increase over last year. The employee population increased by 4.6%, reflecting faculty recruitment, increased staffing to accommodate patient care activities, and continued ramp up of staffing for fundraising/advancement initiatives. Fringe benefits expense increased by almost 8% to $302.9 million. This increase was tied to the costs of benefits as well as increased employee headcounts. Additionally, the early adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 158 for the change in measurement date for defined benefit post-retirement plan from March 31 to June 30 resulted in an additional $3.4 million of benefits expense recorded for FY 2008. Supplies expenses, comprised primarily of medical/pharmaceutical and laboratory supplies, increased by over 6% due to patient care volume increases. Business and professional expenses were $215.5 million and increased by 23.5% over FY 2007. This increase was attributable to consulting (outsourcing anesthesia services), professional liability insurance, and distribution of faculty/inventor share of royalty. Capital-related expenses such as depreciation and interest (combined) increased by over 18% from the prior year. The increase to depreciation expense was due to the large number of construction projects fully or partially completed during FY 2008 (approximately $217 million capitalized). Interest expense increased due to the full-year effect of University bond Series 2007 (issued in spring of 2007) and additional accruals for Series 2000 deferred interest bonds.

Expenses by Natural Class



Expenses by Functional Class



Related entities and affiliates

The combined operating activities of the related and affiliate organizations represent about 13.7% of total consolidated operating revenues and approximately 5.6% of consolidated net assets. Within the affiliated group, Highland Hospital (and subsidiaries) generated operating revenues of $283.2 million followed by Visiting Nurse Service, Inc. with $43.8 million. Over the past several years, the financial performance of the entities organized under the affiliation agreement with Strong Health Partners, Inc. (wholly owned by the University) has steadily improved. This network continues to be successful and demonstrates the financial results of a well-coordinated patient care program among the University's hospitals and nursing homes.

Financial Condition

Consolidated total assets grew slightly by less than 2% from FY 2007 to $4.13 billion at June 30, 2008. Decreases in the University's cash position and long-term investment balances offset the larger increases in property, plant, and equipment (net) and contributions receivable. The decrease in consolidated cash position of $31.4 million was the result of declining interest rates and capital expenditures in advance of and in anticipation of bond financing. Long-term investments (including securities lending) decreased by $24.4 million, driven by the effects of the declining capital markets on portfolio value, the spend-down of construction funds held by bond trustees, and endowment used for operations. The FY 2008 return on the University's endowment was a negative 0.1% (compared to a positive 19.4% in the prior year).

However, the five-year average annual net return through June 30, 2008, was 12.4% versus 9.6% for the benchmark. The 10-year average annual net return was 9.2% compared to 4.7% benchmark. Property, plant, and equipment (net) increased to $1.32 billion at fiscal year end 2008. Consolidated capital spending was $241.8 million for the year compared to $216.1 million for the prior year. Included in this year's total was $31.1 million for the James P. Wilmot Cancer Center, $12.3 million for the Middle Campus Chiller, $11.0 million for a new Data Center, and over $73 million for equipment and library acquisitions. Consolidated liabilities totaled to approximately $1.43 billion, an increase of 7.8% over FY 2007. Accounts payable and accrued expenses increased by $51.4 due to a draw on the line of credit with the custodial bank to cover capital calls on the University's long-term investment partnerships ($25 million), the change in the mark-to-market position of interest rate swaps ($9.5 million), and an increase to incurred but not reported medical malpractice claims liability ($6.8 million). As indicated previously, the University elected to adopt early the final provisions of SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans,* for the change in measurement date from March 31 to June 30. The impact of adopting this provision was approximately $3.4 million recorded in accrued pension, post-retirement, and post-employment liability.

Long-term debt decreased by $25.5 million to $683.0 million at June 30, 2008. New debt was incurred for equipment purchases acquired through capital leases ($6.7 million), the increase in debt for which was more than offset by scheduled debt service principal payments ($31.8 million). The University's credit ratings were reviewed by Moody's and Standard & Poor's in September 2008 in conjunction with the restructuring of the Series 2003 and 2006 bonds. The University received a ratings upgrade from Moody's from A1 to Aa3 with stable outlook.

To summarize the financial health of the University of Rochester and its affiliates, fiscal year 2008 was another strong year for operating performance. Expectations of continued strong operating results, ample operating cash flow, and balance sheet management will be carefully monitored during the next fiscal year. Like peer institutions, the University expects to continue to be challenged by the global economic crisis.

Douglas W. Wylie
University Controller

Report of Independent Auditors

To the Board of Trustees
University of Rochester

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Rochester (the "University") at June 30, 2008 and 2007, and the changes in their net assets and their 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 the 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 9 to the consolidated financial statements, the University changed the manner in which it accounts its postretirement benefit liability in 2007.

PricewaterhouseCoopers LLP

October 16, 2008

Consolidated Financial Statements

Consolidated Balance Sheet

As of June 30 ($'s in thousands)

ASSETS	2008	2007
Cash and cash equivalents	$ 188,264	$ 180,827
Operating investments, at market	178,251	217,077
Collateral held for securities lending	103,656	19,863
Accounts receivable, net	264,513	251,784
Inventories, prepaid expense and deferred charges	53,968	56,429
Contributions receivable, net	45,119	33,645
Notes receivable, net	19,561	18,556
Other assets	12,740	14,530
Investments held for long-term purposes	1,881,683	1,989,875
Property, plant and equipment, net	1,315,340	1,203,203
Interest in net assets of foundation	16,859	18,553
Investments in perpetual trusts held by others	51,324	57,823
Total assets	$ 4,131,278	$ 4,062,165

LIABILITIES		
Accounts payable and accrued expenses	$ 283,092	$ 231,698
Advanced receipt of sponsored research revenues	30,811	29,636
Deferred revenue	53,100	50,757
Third-party settlements payable, net	54,022	68,459
Securities lending liabilities	103,656	19,863
Accrued pension, post-retirement, and post-employment	191,205	186,154
Long-term debt	682,974	708,542
Asset retirement obligation	16,999	17,349
Refundable U.S. Government grants for student loans	15,870	15,818
Total liabilities	1,431,729	1,328,276

NET ASSETS		
Unrestricted	2,159,147	2,209,589
Temporarily restricted	242,367	247,546
Permanently restricted	298,035	276,754
Total net assets	2,699,549	2,733,889
Total liabilities and net assets	$ 4,131,278	$ 4,062,165

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2008 ($'s in thousands)

OPERATING REVENUES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Tuition and fees	$ 269,926	$ -	$ -	$ 269,926
Less: scholarships and fellowships	(108,378)	-	-	(108,378)
Net tuition and fees	161,548	-	-	161,548
State and local appropriations	1,796	-	-	1,796
Grants and contracts	366,278	-	-	366,278
Gifts and pledges	33,646	37,050	28,037	98,733
Hospital and faculty practice patient care activities	1,520,558	-	-	1,520,558
Auxiliary enterprises	69,155	-	-	69,155
Interest income and appreciation of operating investments	12,192	-	-	12,192
Educational activities	24,040	-	-	24,040
Royalty income	64,921	-	-	64,921
Other sources	14,225	-	-	14,225
Long-term investment income and gains allocated to operations	85,195	-	-	85,195
Net assets released from restriction	37,255	(37,268)	13	-
Total operating revenues	2,390,809	(218)	28,050	2,418,641
OPERATING EXPENSES				
Salaries and wages	1,143,813	-	-	1,143,813
Fringe benefits	302,858	-	-	302,858
Total compensation	1,446,671	-	-	1,446,671
Supplies	296,107	-	-	296,107
Business and professional	215,045	-	-	215,045
Utilities	55,043	-	-	55,043
Maintenance and facilities costs	89,950	-	-	89,950
Depreciation	127,622	-	-	127,622
Interest	35,352	-	-	35,352
Other	72,945	-	-	72,945
Total operating expenses	2,338,735	-	-	2,338,735
Change in net assets from operating activities	**52,074**	**(218)**	**28,050**	**79,906**
NON-OPERATING ACTIVITIES				
Long-term investment activities:				
Investment income	19,938	1,678	48	21,664
Net depreciation	(35,817)	(327)	(6,594)	(42,738)
Total long-term investment activities	(15,879)	1,351	(6,546)	(21,074)
Long-term investment income and gains allocated for operations	(85,195)	-	-	(85,195)
Other changes, net	(1,442)	-	(267)	(1,709)
Change in valuation of annuities	-	(6,312)	44	(6,268)
Change in net assets from non-operating activities	**(102,516)**	**(4,961)**	**(6,769)**	**(114,246)**
Change in net assets	**(50,442)**	**(5,179)**	**21,281**	**(34,340)**
Beginning net assets	**2,209,589**	**247,546**	**276,754**	**2,733,889**
Ending net assets	**$ 2,159,147**	**$ 242,367**	**$ 298,035**	**$ 2,699,549**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2007 ($'s in thousands)

OPERATING REVENUES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Tuition and fees	$ 242,121	$ -	$ -	$ 242,121
Less: scholarships and fellowships	(97,948)	-	-	(97,948)
Net tuition and fees	144,173	-	-	144,173
State and local appropriations	1,954	-	-	1,954
Grants and contracts	362,156	-	-	362,156
Gifts and pledges	42,443	18,640	14,411	75,494
Hospital and faculty practice patient care activities	1,445,795	-	-	1,445,795
Auxiliary enterprises	65,030	-	-	65,030
Interest income and appreciation of operating investments	23,731	-	-	23,731
Educational activities	25,749	-	-	25,749
Royalty income	61,429	-	-	61,429
Other sources	10,223	-	-	10,223
Long-term investment income and gains allocated to operations	79,672	-	-	79,672
Net assets released from restriction	31,208	(28,808)	(2,400)	-
Total operating revenues	2,293,563	(10,168)	12,011	2,295,406
OPERATING EXPENSES				
Salaries and wages	1,058,157	-	-	1,058,157
Fringe benefits	280,837	-	-	280,837
Total compensation	1,338,994	-	-	1,338,994
Supplies	291,986	-	-	291,986
Business and professional	191,989	-	-	191,989
Utilities	51,573	-	-	51,573
Maintenance and facilities costs	81,710	-	-	81,710
Depreciation	114,796	-	-	114,796
Interest	29,888	-	-	29,888
Other	76,144	-	-	76,144
Total operating expenses	2,177,080	-	-	2,177,080
Change in net assets from operating activities	**116,483**	**(10,168)**	**12,011**	**118,326**
NON-OPERATING ACTIVITIES				
Long-term investment activities:				
Investment income	23,745	3,213	39	26,997
Net appreciation	234,103	48,180	10,257	292,540
Total long-term investment activities	257,848	51,393	10,296	319,537
Long-term investment income and gains allocated for operations	(79,672)	-	-	(79,672)
Loss on extinguishment of debt	(1,018)	-	-	(1,018)
Reclass of net assets	5,065	(3,585)	(1,480)	-
Other changes, net	(55)	-	(747)	(802)
Change in valuation of annuities	-	(2,063)	15	(2,048)
Change in net assets from non-operating activities	**182,168**	**45,745**	**8,084**	**235,997**
Change in net assets before cumulative effect of change in accounting principle	298,651	35,577	20,095	354,323
Cumulative effect of change in accounting principle	(34,052)	-	-	(34,052)
Change in net assets	**264,599**	**35,577**	**20,095**	**320,271**
Beginning net assets	**1,944,990**	**211,969**	**256,659**	**2,413,618**
Ending net assets	**$ 2,209,589**	**$ 247,546**	**$ 276,754**	**$ 2,733,889**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30 ($'s in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2008	2007
Change in net assets	$ (34,340)	$ 320,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	127,622	114,796
Net (appreciation) / depreciation on long-term investment activities	42,738	(292,540)
Gifts of property, plant, equipment and other	(2,479)	(1,176)
Bond discount amortization	(381)	(158)
Loss on the extinguishment of debt	-	1,018
Provision for bad debts	29,909	29,682
Contributed securities	(14,981)	(17,318)
Loss on disposals of property, plant, and equipment	4,674	4,049
Cumulative effect of change in accounting principle	-	34,052
(Increases) / decreases in:		
Operating investments	38,826	(61,758)
Accounts receivable, net	(44,438)	(48,408)
Inventories, prepaid expenses and deferred charges	1,718	(4,050)
Contributions receivable, net	(11,182)	(3,397)
Other assets	1,717	(9,120)
Increases / (decreases) in:		
Accounts payable and accrued expenses	14,642	20,783
Advanced receipt of sponsored research revenues	1,175	(1,496)
Deferred revenues	2,343	2,057
Third-party settlements payable, net	(14,437)	(7,401)
Accrued post-employment and post-retirement benefits	5,051	10,322
Contributions for long-term investment, net	(37,032)	(18,001)
Net cash provided by operating activities	111,145	72,207
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(234,401)	(195,589)
Purchase of investments	(1,145,732)	(2,047,752)
Proceeds from the sale of investments	1,246,880	1,977,466
Decrease in investments in perpetual trusts held by others	80	2,196
(Increase) / decrease in notes receivable, net	(1,005)	27
Net cash used in investing activities	(134,178)	(263,652)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on lines-of-credit	25,441	-
Principal repayments of long-term debt	(31,857)	(89,757)
Proceeds from issuance of long-term debt	-	248,769
Deferred financing costs	(198)	(4,645)
Increase in refundable U.S. Government grants for student loans	52	99
Contributions for long-term investment, net	37,032	18,001
Net cash provided by financing activities	30,470	172,467
Net increase in cash and cash equivalents	7,437	(18,978)
Cash and cash equivalents, beginning of year	180,827	199,805
Cash and cash equivalents, end of year	$ 188,264	$ 180,827
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on long-term debt	$ 33,377	$ 26,148
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Increase in construction related payables	$ 776	$ 10,919
Assets acquired under capital leases	$ 6,670	$ 8,383

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) General

The University of Rochester (the University) is a private nonprofit institute of higher education based in Rochester, New York. The University provides education and training services, primarily for students at the undergraduate, graduate and postdoctoral levels. It also performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government; and provides health care services through Strong Memorial Hospital (Hospital), Strong Home Care Group and the various entities included in Strong Partners Health System, Inc. (SPHS).

(b) Basis of Presentation

The accompanying consolidated financial statements include all of the integrated divisions of the University—the College, Margaret Warner Graduate School of Education and Human Development, William E. Simon Graduate School of Business Administration, Eastman School of Music, Memorial Art Gallery, School of Medicine and Dentistry, Strong Memorial Hospital, School of Nursing, Eastman Dental Center, Health Affairs and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health Systems, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Excell Partners, Inc., and Rochester BioVenture Center, Inc. (formerly Excell Technology Center, Inc.). All significant interorganizational balances and transactions have been eliminated.

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries Highland Foundation, Inc., Highland Facilities Development Corp., and the Medical Administrative Associates, Inc.); The Highlands Living Center, Inc.; Highland Community Development Corporation; and The Meadows at Westfall, Inc. Highland Hospital and its subsidiaries have debt outstanding, which has been included in the University's consolidated financial statements; however, under the terms of the affiliation agreement with SPHS, the University has no legal obligation for the debt of Highland Hospital and affiliates.

The Eastman Dental Center Foundation, Inc. (the Foundation) was formed to hold and manage the investment assets of the former Eastman Dental Center, which was merged into the University during 1998. Income and assets of the Foundation are used to support oral health, education, and research projects at the University.

The University is the sole corporate member of Strong Home Care Group, which is the sole member of Visiting Nurse Service of Rochester and Monroe County, Inc. and Community Care of Rochester.

The University, through SPHS, Strong Memorial Hospital and URMFG, formed a Managed Care Organization (MCO) in October 1997 together with two community physician organizations: the Highland Physician Organization and the Rochester Community Physician Organization. The MCO has ceased operations related to member contracting activities and is in the process of winding down its activities.

The University is the sole corporate member of Excell Partners, Inc., which was formed to support early-stage commercial development utilizing technologies created at the University of Rochester and other regional colleges and universities.

The University is the sole corporate member of Rochester BioVenture Center, Inc., which was formed to support the development of new businesses utilizing technologies created at the University and other regional colleges and universities, through the operation of incubator/research facilities in Monroe County, New York.

In November 2007, the University became the sole corporate member of High Tech Rochester, Inc. (HTR), which is a not-for-profit economic development organization that promotes the creation and growth of technology companies through support services and incubation facilities and provides consulting services for manufacturers.

(c) Basis of Accounting

The consolidated financial statements of the University are prepared on the accrual basis of accounting and in conformity with generally accepted accounting principles in the United States of America.

Classification of Net Assets: The University reports its net assets and changes therein according to three classifications: unrestricted, temporarily restricted and permanently restricted, based upon the existence or absence of donor-imposed restrictions.

Permanently restricted—Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the University may use the income and gains derived from the donated asset, restricted only by the donor stipulations.

Temporarily restricted—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

Unrestricted—Net assets that are not subject to donor-imposed stipulations and that are generally available for support of the University's activities with certain limitations, as follows:

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trusteed balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.
- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.
- Certain accumulated net investment gains earned on permanently restricted net assets are included within unrestricted net assets. In accordance with New York State law, the appropriation and spending of such gains, absent donor directives, is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i).
- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for property, plant and equipment purposes and for other specific operating purposes.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except those contributions whose imposed restrictions are met in the same fiscal year they are received, are included in unrestricted revenues.

Investment income and gains and losses on investments are reported as increases or decreases in the unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. When such restrictions exist, investment income, gains or losses are reported as temporarily or permanently restricted, except when the restrictions are met in the same fiscal year in which the income or gains are earned, in which case the income and gains are reported within the unrestricted category.

Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) that do not occur within the same period as revenue recognition are reported as releases from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are placed in service.

(d) Income Taxes

The University and its affiliates are not-for-profit organizations as described in section 501(c)(3) of the Internal Revenue Code and are generally exempt from income taxes on related income pursuant to Section 501(a) of the Code.

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of SFAS No. 109, Accounting for Income Taxes,* which did not have a material effect on the consolidated financial statements.

(e) Operations

The statements of activities present the changes in net assets of the University from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to educational and training programs, research activities and hospital and patient care activities provided by the University and its related entities.

Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy, as discussed in note 1(i), is considered operating revenue.

Non-operating activities consist primarily of investment income and appreciation from long-term investments in excess of amounts utilized for operations.

(f) Cash and Cash Equivalents and Operating Investments

Cash and cash equivalents include amounts on deposit with financial institutions; short-term investments with maturities of three months or less at the time of purchase and other highly liquid investments, primarily cash management funds, except that such instruments purchased with endowment and annuity and life income assets on deposit with trustees are classified as investments.

Operating investments include all other current investments with original maturities greater than three months, and are used to support operations. These current investments include obligations of the U.S. Treasury, U.S. Government and other government agencies and corporate and foreign bonds. These items are reported at fair value.

(g) Inventories

Inventories, primarily medical supplies, are valued at the lower of cost, which is determined by the first-in, first-out method, or market.

(h) Contributions

Contributions, including unconditional promises, or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted, at a range of 2% to 6%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

(i) Investments

The University's investments are comprised of the assets of the University's endowment and other investments held for general operating purposes. The University reports those investments at fair value. The fair value of debt and equity securities is based on quoted market prices of public securities markets. Fair value for certain venture investments is based on transactions involving similar issues or on quoted prices of registered securities, although the University's holdings are restricted with respect to disposition in the ordinary manner.

New York State law generally allows the spending of income and gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law allows the University to appropriate and spend such income and gains as is prudent, considering such factors as the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

In accordance with accounting requirements, realized and unrealized gains and losses, as well as gains and losses on temporarily restricted and unrestricted net assets, are reported as temporarily restricted or unrestricted, based upon the presence or absence of donor stipulations as to their use. The University's policy regarding spending of gains thus classified, however, is to spend no more than a stated percentage of fair value of its investment portfolio over time, as described in the following paragraph.

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Accordingly, during both 2008 and 2007, The University Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at a rate of 6.6% of the average fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment and similar purposes.

Investment securities are exposed to various risks, such as interest rates, market, economic conditions, world affairs and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their value could occur in the near term and such changes could materially affect the amounts reported in the investments and investment activity of the University.

The University began securities lending activities during fiscal year 2007. Investments that have been loaned to another institution are included in investments held for long term purposes on the consolidated balance sheets. Cash received as collateral on the securities lending transactions is reported as collateral held for securities lending on the consolidated balance sheets. Because the collateral must be returned in the future, a corresponding liability is reported on the consolidated balance sheet.

(j) Property, Plant, and Equipment

Property, plant and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation and amortization. Buildings used for research activities are componentized as site improvements, buildings, building services and fixed equipment. Depreciation of the building components is recorded using the straight-line method over the useful lives of the components ranging from five to fifty years. Depreciation of non-research buildings, equipment and library books and amortization of leasehold and land improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and museum collections are not subject to depreciation. Estimated useful lives for non-research assets are as follows:

	YEARS
Building	40
Building and leasehold improvements	20
Land improvements	15 to 20
Equipment	3 to 20
Library books	10

The University reports gifts of property, plant and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(k) Museum Collections

The University capitalizes its collections. If purchased, collection items are capitalized at cost, and if donated, at their appraised or fair value on the accession date (the date on which the item is accepted by the Board of Trustees). There is no depreciation recorded on collection items.

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts, charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2008 and 2007, the fair values are $67,776 and $62,045, respectively. Generally, contribution revenues are recognized at the dates the agreements are established after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value of the trust assets.

(m) Refundable U.S. Government Grants for Student Loans
Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying consolidated balance sheets.

(n) Grants and Contracts
Revenue from grants and contracts, primarily for research and training programs, is generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements. Amounts received in advance are reported as advance receipt of sponsored research revenues.

Grants and contracts awarded to the University are subject to audit by the various sponsoring agencies. Indirect facilities and administrative costs recovered on grants and contracts are recorded at rates established by the University with the federal government, or predetermined by the non-federal sponsor. Facilities and administrative cost rates for government grants and contracts are subject to audit, and subsequent final settlements are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the consolidated financial statements.

(o) Benefit Plans
The University provides certain health care and life insurance benefits to retired employees and spouses under a defined benefit plan. Benefits include basic medical and major medical coverage. Certain categories of retirees receive dental coverage and group life insurance. Such post-retirement benefits are accounted for as a form of deferred compensation over the estimated service lives of employees.

Post-employment benefits include benefits provided to former or inactive employees after employment but before retirement. For the University, such benefits include workers' compensation benefits, short-term disability benefits and benefits provided under various other programs.

(p) Hospital and Faculty Practice Patient Care Activities
The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare**
  Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2005.

  Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) revised the Medicare patient classification system. The new Medicare severity adjusted diagnosis related groups (MS-DRGs) reflect changes in technology and current methods of care delivery. CMS has expanded the number of DRGs from 538 to 745 and requires identification of conditions that are present upon admission.

- **Medicaid and Other Third-Party Payors**
  The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State through March 31, 2011. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percent-

age of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges. Effective January 1, 2008, the DOH updated the data utilized to calculate the NYS DRG service intensity weights (SIWs) in order to utilize more current data in the DOH promulgated rates.

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payor and apply to a broader array of health care services. Also, certain payors are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the DOH.

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 16%, respectively, of the Hospital's net patient revenue for the fiscal year ended June 30, 2008 and 2007. Laws and regulation governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During fiscal years 2008 and 2007, the Hospital recognized approximately $24,400 and $20,400 of net patient service revenue as a result of changes in estimates related to third party settlements. In addition, the Hospital recognized additional third party payables of approximately $6,100 and $8,100 related to fiscal years 2008 and 2007, respectively.

There are various other proposals at the federal and New York State levels relating to Medicare and Medicaid, that could, among other things, reduce reimbursement rates, modify reimbursement methods or increase managed care penetration. The ultimate outcome of these proposals and other market changes cannot presently be determined.

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2008, over 982 full-time faculty in 17 clinical departments and 2 clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 826,260 outpatient visits in their offices, mostly on University owned or leased premises; and covered 35,872 hospital admissions, as well as participated in the coverage of the emergency department handling over 95,593 visits. Payments for these services are derived primarily from third party insurers including Managed Care companies (36.6%), Medicare (26.1%), Blue Shield (14.8%), Medicaid (7.9%), commercial (6.3%), other (5.4%) and self-pay (2.9%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 414 University medical students and 711 residents and fellows.

(q) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(r) Investment in Net Assets of Foundation

The University follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* in accounting for its interest in the net assets of the James P. Wilmot Foundation, Inc. (Foundation). SFAS No. 136 establishes standards for transactions in which a donor transfers assets to a not-for-profit organization or charitable trust, which then agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. Under the provisions of SFAS No. 136, the University is required to recognize the net assets and its share of the change in the net assets of the Foundation. The Foundation was established for the support of cancer research at the University's School of Medicine and Dentistry.

(s) Asset Retirement Obligations

The University accounts for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations,* and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143.* This standard primarily affects the way the University accounts for asbestos-related removal costs. The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

(t) Derivative Instruments and Hedging Activities

Derivative instruments related to the University's long-term debt are included in accounts payable and accrued expenses or in accounts receivable, net on the consolidated balance sheets. The change in the fair value of the derivative instruments is included in the net depreciation/appreciation in the statement of activities. The University selected the combination of variable rate bond issues and interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transactions. The University is exposed to credit loss in the event of nonperformance by the counterparty to its long-term rate swaps. The interest rate swaps do not qualify for cash flow hedge accounting.

(u) Reclassification

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation.

During fiscal year 2008, the University reviewed certain activity related to contributed securities and determined that $17,318 should have been treated as non-cash activity within the consolidated statement of cash flows at June 30, 2007. In addition, the University reclassified $4,022 from operating cash flows related to investment income restricted for long-term purposes and $19,863 from financing cash flows related to securities lending activities. The impact of these reclassifications was as reduction of $21,340 in cash flows from operating activities, an increase of $17,318 in cash flows used in investing activities and a decrease in cash flows provided by financing activities of $15,841.

(v) New Authoritative Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007, except for certain provisions, which were deferred for an additional year. Management is still evaluating the impact of this pronouncement but does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management is still evaluating the impact of this pronouncement but does not believe the adoption of SFAS 159 will have a material impact on the financial statements.

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	2008	2007
Designated		
For long-term purposes to support scholarships and other programs:		
Funds functioning as endowment	$ 970,061	$ 1,007,879
Accumulated appreciation resulting from investment of permanently restricted net assets	293,865	317,151
For property, plant and equipment purposes and debt service reserves held by trustees under debt agreements	(128,625)	71,057
For student loan programs, including required matching funds under Federal Government loan programs	3,121	3,210
For other specific operating purposes	62,921	60,010
For Highland Hospital and affiliates	99,989	78,212
For Eastman Dental Center Foundation	52,312	49,304
For other related entities	(11,187)	(11,522)
Total designated	1,342,457	1,575,301
Net investment in property, plant and equipment	720,660	532,371
Undesignated	96,030	101,917
Total unrestricted net assets	$ 2,159,147	$ 2,209,589

Temporarily restricted net assets consist of the following at June 30:

	2008	2007
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions		
Scholarships and grants	$ 30,605	$ 33,119
Instruction	76,045	80,305
Other	25,713	26,978
Subtotal	132,363	140,402
Interest in net assets of foundation	16,859	18,553
Related entities	3,893	5,919
Other gifts and income subject to:		
Purpose restrictions	16,577	20,447
Time restrictions:		
Contributions receivable	36,048	25,020
Split-interest agreements	36,627	37,205
Total temporarily restricted net assets	$ 242,367	$ 247,546

Permanently restricted net assets consist of the following at June 30:

	2008	2007
Perpetual endowment funds		
Restricted income purposes:		
Scholarships and grants	$ 14,691	$ 12,932
Instruction	41,820	40,429
Other	8,175	8,185
Unrestricted income purposes	168,255	143,437
Subtotal	232,941	204,983
Interests in perpetual trusts held by others:		
Restricted income purposes:		
Instruction	33,035	37,853
Student loans	1,480	1,547
Other	1,897	1,897
Unrestricted income purposes	15,117	16,526
Subtotal	51,529	57,823
Related entities	3,200	3,299
Split-interest agreements	894	895
Perpetual loan funds	3,685	3,660
Contributions receivable	5,786	6,094
Total permanently restricted net assets	$ 298,035	$ 276,754

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2008	2007
Patient care and related activities, net of allowances for doubtful accounts of $37,061 and $31,970	$ 157,743	$ 149,079
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of $355 and $489	49,746	45,606
Student receivables, net of allowances for doubtful accounts of $2,075 and $1,845	7,971	6,933
Royalties and other	49,053	50,166
Total accounts receivable	$ 264,513	$ 251,784

(4) Contributions

Contributions receivable, net, are summarized as follows at June 30:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$ 12,227	$ 17,085
One year to five years	31,216	18,572
Over five years	7,626	1,450
Subtotal	51,069	37,107
Less unamortized discount and allowance for uncollectible amounts	(5,950)	(3,462)
Total contributions receivable, net	$ 45,119	$ 33,645

At June 30, 2008, the University had also received $18,365 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they will generally be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

The University expended $27,417 and $22,879, for University relations and development for the years ended June 30, 2008 and 2007, respectively.

(5) Notes Receivable

Student loans receivable at June 30, 2008 and 2007 are reported net of allowances for doubtful loans of $1,412 and $1,320, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

(6) Investments Held for Long-Term Purposes

Investments were held for the following long-term purposes at June 30:

	2008	2007
Endowment and similar purposes	$ 1,722,211	$ 1,732,437
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	31,563	48,023
Other	49,976	124,822
Total property, plant and equipment purposes	81,539	172,845
Other purposes	77,933	84,593
Total investments held for long-term purposes	$ 1,881,683	$ 1,989,875

Investments at fair value consist of the following at June 30:

	2008	2007
Cash and cash equivalents	$ 45,928	$ 87,473
Debt securities	204,158	319,731
Common and preferred stocks	664,643	778,850
Hedge / Distressed	523,675	492,616
Real assets	197,155	123,007
Venture capital	53,534	39,381
Buyouts / Private equity	179,981	137,661
Other investments	12,609	11,156
Total	$ 1,881,683	$ 1,989,875

Included in the investments held for long-term purposes above are $644,040 and $639,675 of international investments at June 30, 2008 and 2007, respectively.

Under the terms of certain limited partnership agreements, the University is obligated periodically to advance additional funding for private-equity and real estate investments. At June 30, 2008 and 2007, respectively, the University had commitments of $507,341 and $414,558 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The University maintains sufficient liquidity in its investment portfolio to cover such calls.

For investment purposes, substantially all investments held for endowment and similar purposes participate in one of several pools, each with its own investment policy and objectives. The investment pool assets are owned by the separate funds based on shares purchased by each fund and fund addition when it entered the pool. The pooled assets are valued on a monthly basis and a "fair value per share" is determined and used to calculate the number of shares applicable to funds entering or leaving the pool.

The following table summarizes changes in relationships between cost and fair values of investments held for endowment and similar purposes:

	2008		
	FAIR VALUE	COST	NET GAINS
End of year	$ 1,722,211	$ 1,457,137	$ 265,074
Beginning of year	$ 1,732,437	$ 1,299,552	$ 432,885
Unrealized depreciation			(167,811)
Realized net gains for year			150,119
Net decrease for year			$ (17,692)

	2007		
	FAIR VALUE	COST	NET GAINS
End of year	$ 1,732,437	$ 1,299,552	$ 432,885
Beginning of year	$ 1,494,515	$ 1,217,696	$ 276,819
Unrealized appreciation			156,066
Realized net gains for year			117,339
Net increase for year			$ 273,405

The University permits several of its investment managers to utilize forward contracts, currency options and futures with the specific authorization of the investment committee of the Board of Trustees. These financial instruments involve, to varying degrees, elements of market risk in excess of the amounts recorded in the consolidated financial statements.

Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the consolidated financial position of the University.

During June 2007, the University began lending securities to qualified financial institutions through a program administered by a securities lending agent. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. The cash collateral minimum requirement is 100% for securities on loan. The fair value of loaned securities and related cash collateral at June 30, 2008, is as follows:

	LOANED SECURITIES	COLLATERAL
Equities	$ 86,857	$ 89,151
U.S. government fixed income securities	12,063	12,356
U.S. agencies securities	1,629	1,674
U.S. corporate fixed income securities	462	475
Total	$ 101,011	$ 103,656

Income generated from securities lending arrangements was $414 and $6 for the fiscal years ended June 30, 2008 and 2007, respectively.

Investment fees were $38,736 and $34,143 for the years ended June 30, 2008 and 2007, respectively.

(7) Property, Plant, and Equipment

As of June 30, 2008 and 2007, the University's investment in property, plant, and equipment is as follows:

	2008	2007
Buildings and improvements	$ 1,643,486	$ 1,411,805
Land improvements	37,384	34,242
Completed projects under leasehold agreements	5,246	4,315
Equipment owned	702,093	658,265
Library books	117,638	109,961
Subtotal	2,505,847	2,218,588
Less accumulated depreciation	1,369,892	1,298,200
Subtotal	1,135,955	920,388
Land	7,718	7,168
Museum collections	29,444	29,088
Construction in progress	142,223	246,559
Total property, plant and equipment, net	$ 1,315,340	$ 1,203,203

(8) Long-term Debt

The following is a summary of the University's long-term indebtedness at June 30:

	2008	2007
Obligations under capital lease agreements, 3.414% to 7.85%, **(a)**	$ 27,252	$ 26,984
Urban Development Corporation loan, **(b)**	2,167	2,333
Note payable, 7.60% **(c)**	52	84
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of $26 in 2008 and $28 in 2007), **(d)**	8,574	8,572
Bonds Payable – COMIDA, 10.00% **(e)**	676	698
Bonds payable – DASNY Series 1994, 7.625%, **(f)**	8,495	8,721
Bonds payable – DASNY Series 1994B, 5.50% **(g)**	10,415	10,780
Bonds payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of $608 in 2008 and $644 in 2007), **(h)**	10,338	17,624
Bonds payable – DASNY Series 1998A, 3.50% to 5.25% (net of unamortized discount of $43 in 2008 and $45 in 2007), **(i)**	27,853	32,775
Bonds payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of $62 in 2008 and $74 in 2007), **(j)**	4,488	5,256
Bonds payable – DASNY Series 2000A, 4.50% to 6.05% **(k)**	7,036	7,036
Bonds payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of $92 in 2008 and $100 in 2007), **(l)**	18,378	19,975
Bonds payable – DASNY Series 2003A, B, and C, 3.97%, **(m)**	136,675	143,275
Bonds payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of $399 in 2008 and $414 in 2007), **(n)**	28,264	28,879
Bonds payable – COMIDA, 3.125% to 5.450% (net of unamortized premium of $961 in 2008 and $1,061 in 2007), **(o)**	38,175	40,326
Bonds payable – DASNY Series 2006 A-1 and B-1, 3.919%, **(p)**	111,180	111,180
Bonds payable – DASNY Series 2007A-1, A-2, B, and C, 4.00% to 5.00% (net of unamortized premium of $7,872 in 2008 and $8,123 in 2007), **(q)**	242,956	243,786
Term note repaid in 2008	-	258
Total long-term debt	$ 682,974	$ 708,542

The following is a description of the University's long-term debt.

(a) Obligations Under Capital Lease Agreements

The University entered into a tax-exempt capital lease program in November 2006 for $10,832. The lease is being repaid with quarterly payments of $573, including interest at 3.879% to 3.881% through November 2012. The leased equipment includes a network infrastructure upgrade and the purchase of an MRI.

In addition to the arrangement discussed above, the University and its related entities have entered into several other capital leases for equipment.

(b) Urban Development Corporation Loan

In March 1992, the New York State Urban Development Corporation (UDC) entered into an agreement with the University to partially fund the construction of the University's Center for Optoelectronics and Imaging (COI) with a loan of $5,000. The agreement requires the University to pay an amount equal to the debt service on the $6,320 tax-exempt bond issued by which UDC financed the loan and the associated reserve funds and costs of issuance. The loan is collateralized by a mortgage on the property.

Pursuant to an agreement authorized by statute, the State of New York leases the COI from the University for the 30 year term of the loan, paying, as rent, an amount sufficient to cover the University's obligations to UDC. These rents have been assigned to UDC as further collateral for the loan. The University retains possession of the property under a sublease from the State of New York at an annual rent equivalent to one-thirtieth of the sum of the loan principal and the cost of issuance of the UDC bonds.

(c) Note Payable—HSBC

Pursuant to an agreement between a University related entity and HSBC Bank, USA dated July 2007, HSBC issued a note payable of $99 for various information technology purchases. The note is being repaid at an interest rate of 7.60% on the unpaid balance through December 2009.

(d) Direct Note Obligation—The Bank of New York

Pursuant to an agreement between the University and the Bank of New York dated November 25, 2003, the Bank of New York issued $8,600 of notes known as the University of Rochester Direct Note Obligations, Series 2003. The Series 2003 notes were issued to refinance drawings under the University's revolving line of credit with JPMorgan Chase Bank. The line of credit had been used to refinance indebtedness and certain other mortgages related to Eastman Place. Eastman Place is a facility used partly to house activities of the Eastman School of Music.

The Series 2003 notes are general, unsecured obligations of the University.

(e) Bond Payable—COMIDA

Pursuant to an agreement between the University and the County of Monroe Industrial Development Agency (COMIDA) dated January 6, 2004, COMIDA issued a replacement bond in the amount of $698. The 2004 COMIDA Replacement bond is for the purchase of property at 10 Gibbs Street, Rochester, New York which has become part of the Eastman School of Music campus.

(f) Bonds Payable—DASNY Series 1994

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and DASNY dated July 1, 1994, DASNY issued and sold $11,790 of FHA-Insured Mortgage Revenue Bonds, Series 1994. The related entity is repaying the bonds that are due December 1, 2025, at a fixed rate of 7.625%. The Series 1994 bonds are collateralized by buildings.

(g) Bonds Payable—DASNY Series 1994B

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and DASNY, $13,000 of Series 1994B Revenue Bonds were issued and sold by DASNY. The related entity is repaying the indebtedness at a fixed rate of 5.50%, maturing July 1, 2023. The bond issue is collateralized by an irrevocable direct pay letter that is held by the trustee, JPMorgan Chase Bank. The Series 1994B Revenue Bonds are collateralized by a parity mortgage and an interest in certain buildings and equipment.

(h) Bonds Payable—DASNY Series 1997A

Pursuant to an agreement between the University and the Dormitory Authority of the State of New York (DASNY) dated November 7, 1997, DASNY issued and sold $78,280 of bonds known as University of Rochester Revenue Bonds, Series 1997A. The Series 1997A bonds were issued at a premium of $1,041 resulting in proceeds of $79,321 to finance (1) interior and exterior building renewal for major buildings at the Eastman School of Music as part of a multiyear project; (2) installation of a local area network for all River Campus and Eastman School of Music residence halls to provide high-speed data access to undergraduate students; (3) reconstruction of an existing pedestrian bridge connecting Hill Court Residence Complex with the River Campus; and (4) major renewal and replacement projects for various buildings, structures, roadways, and other facilities on the River Campus, on Mt. Hope Avenue, and at the Mees Observatory in South Bristol, New York, as part of a multiyear project. Series 1997A also refunded a portion of the University of Rochester Revenue Bonds, Series 1987.

During fiscal year 2006, a portion of the Series 1997A bonds were refinanced as a result of the issuance of Series 2006A-1.

The bonds are collateralized by the pledge and assignment of certain revenues of the University. These pledged revenues include all tuition, room and board, and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges collateralizing outstanding indebtedness of the University.

(i) Bonds Payable—DASNY Series 1998A

Pursuant to an agreement between the University and DASNY dated March 18, 1998, DASNY issued and sold $131,615 of bonds known as University of Rochester Revenue Bonds, Series 1998A. The Series 1998A bonds were issued at a discount of $370 resulting in proceeds of $131,245 to finance (1) design and construction of a new biomedical research facility of approximately 240,000 square feet; (2) construction of a new entrance to the School of Medicine and Dentistry of approximately 55,000 square feet; (3) renovations for laboratory space of approximately 65,000 square feet; (4) the acquisition of scientific equipment and furnishings for the new facility and renovated laboratory space; (5) the University-wide telecommunications system; and (6) replacement of the chiller at the central utilities plant. Series 1998A also refunded a portion of the University of Rochester Revenue Bonds, Series 1987.

A portion of the Series 1998A bonds were refinanced as a result of the issuances of Series 2006A-1 and Series 2007C during fiscal years 2006 and 2007, respectively.

The bonds are collateralized by the pledge and assignment of certain revenues of the University. These pledged revenues include all tuition, room and board and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges collateralizing certain other outstanding indebtedness of the University.

(j) Bonds Payable—DASNY Series 1999B

Pursuant to an agreement between the University and DASNY dated August 15, 1999, DASNY issued and sold $25,860 of bonds known as the University of Rochester, Strong Memorial Hospital Revenue Bonds, Series 1999B. The Series 1999B bonds were issued at a discount of $306 resulting in proceeds of $25,554 to finance (1) the design and construction of a new emergency room at the Hospital; (2) relocation and expansion of the cardiac catheterization laboratory; and (3) expansion of existing space for the Hospital clinical laboratories.

During fiscal year 2006, a portion of the Series 1999B bonds were refinanced as a result of the issuance of Series 2006B-1.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No collateralized interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(k) Bonds Payable—DASNY Series 2000A

Pursuant to an agreement between the University and DASNY dated June 1, 2000, DASNY issued and sold $45,764 of bonds known as the University of Rochester Revenue Bonds, Series 2000A. The Series 2000A bonds were issued at a discount of $2 resulting in proceeds of $45,762 to finance (1) the construction of an addition to the Medical Research Building to expand research space for core programs in the School of Medicine and Dentistry; (2) the renovation of faculty office space and the expansion of instructional facilities of the William E. Simon Graduate School of Business Administration; (3) the upgrading of chilled water supply infrastructure; (4) improvements to faculty office and laboratory space at the University's River Campus; and (5) infrastructure repairs at the Eastman School of Music and other facility improvements on the River Campus including the continuation of general deferred maintenance items. Series 2000A also refinanced a portion of the University of Rochester Revenue Bond, Series 1972C.

During fiscal year 2006, a portion of the Series 2000A bonds were refinanced as a result of the issuance of Series 2006A-1.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No collateralized interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(l) Bonds Payable—DASNY Series 2001A

Pursuant to an agreement between the University and DASNY dated July 10, 2001, DASNY issued and sold $22,920 of bonds known as the University of Rochester Revenue Bonds, Series 2001A. The Series 2001A bonds were issued at a discount of $152 resulting in net proceeds of $22,768 to refinance (1) all the outstanding $184 University's Dormitory (Apartment) bonds of 1962, HUD Series D and all the outstanding $840 University's Dormitory

(Apartment) bonds of 1966, HUD Series E and (2) a portion of the University of Rochester Revenue Bond, Series 1994A, maturing on and after July 1, 2007. HUD Series D and E were paid on October 1, 2001. DASNY Series 1994A bondholders were paid on July 1, 2004.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University.

No collateralized interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(m) Bonds Payable—DASNY Series 2003A, B, and C

Pursuant to an agreement with the University and DASNY dated October 29, 2003, DASNY issued and sold $164,425 of Series 2003 bonds, consisting of $32,550 Series 2003A bonds, $49,650 Series 2003B bonds, and $82,225 Series 2003C bonds. The 2003 Bonds pay interest at a variable market rate determined either daily or weekly by the bonds' auction rate.

Series 2003A bonds were issued to finance (1) an expansion of the Laboratory for Laser Energetics building to accommodate the construction of a federally funded laser expansion; (2) renovation of space to house a functional MRI; (3) deferred maintenance remediation in various buildings; and (4) renovation and information technology upgrades in various faculty offices, laboratory space and student residential buildings. A portion of the proceeds from Series 2003A also refinanced the remaining portion of the University of Rochester Revenue Bonds, Series 1987.

Series 2003B bonds were issued to finance (1) equipment acquisitions for the Hospital; (2) the expansion of an existing garage; and (3) laboratory relocations at the Hospital. Series 2003B bonds also refinanced University of Rochester Series 1993A bonds and a portion of the University of Rochester Series 1994 bonds.

Series 2003C bonds were issued to finance (1) construction of an Adult Intensive Care Unit; (2) renovations of the Cancer Center; and (3) deferred maintenance, renovations, and improvements to faculty offices, laboratory and clinical spaces for various departments, and areas within the Hospital and School of Medicine and Dentistry. Series 2003C also refinanced a portion of the University of Rochester Series 1994 bonds.

On July 31, 2003, the University executed $164,425 of interest rate swaps with third parties. The University entered into the interest rate swap agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement the counterparty pays the University a variable interest rate equal to 61.5% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. These rates are subject to change based upon certain conditions as stated in the swap agreement. Net payments or receipts under the swap agreements are recorded as an adjustment to interest expense. As of June 30, 2008, the fair value of the interest rate swap was a liability of $5,900 (asset of $614 as of June 30, 2007), and was included in accounts payable and accrued expenses on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2033.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University.

(n) Bonds Payable—DASNY Series 2004A

Pursuant to an agreement between the University and DASNY dated August 26, 2004, DASNY issued $45,000 of bonds known as the University of Rochester Revenue Bonds, Series 2004A. The Series 2004A bonds were issued at a premium of $603, resulting in proceeds of $45,603 to finance the construction of a co-generation facility to provide supplementary heat and/or electricity to the University and will also provide an addition to the University's Central Utility plant.

A portion of the Series 2004A bonds were refinanced as a result of the issuance of Series 2007C during fiscal year 2007.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University.

(o) Bonds Payable—COMIDA

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the County of Monroe Industrial Agency (COMIDA) dated June 23, 2005, COMIDA issued and sold $20,000 of fixed rate Civic Facility Revenue Refunding Bonds and $14,920 of fixed rate Civic Facility Revenue Project Bonds. The COMIDA Refunding Bonds were issued at a premium of $912 and were used to refund a portion of Series 1997A debt. These Refunding Bonds are collateralized by amounts in a Debt Service Reserve Fund. The COMIDA Project Bonds were issued at a premium of $362 and were issued to finance (1) the Park Ridge Oncology Project, (2) the Bariatric Surgery Project, (3) the Orthopedic Operating Room Project; and (4) various renovation projects throughout Highland Hospital. These Project Bonds are collateralized by the construction projects noted above. In addition, Highland Hospital issued $6,135 of direct taxable notes on June 23, 2005 to refund the remaining portion of Series 1997A and all of Series 1997B debt. These notes were issued at a discount of $5 and are collateralized by amounts in a Debt Service Reserve Fund.

(p) Bonds Payable—DASNY Series 2006A-1 and B-1

Pursuant to an agreement between the University and DASNY dated March 16, 2006, DASNY issued and sold $111,180 of bonds known as the University of Rochester Revenue Bonds, Series 2006, consisting of $94,130 Series 2006A-1 bonds and $17,050 Series 2006B-1 bonds. The Series 2006A-1 bonds were issued to refinance the University of Rochester Series 1999A bonds and portions of the University of Rochester Series 1997A bonds, the University of Rochester Series 1998A bonds and the University of Rochester Series 2000A bonds. The Series 2006B-1 bonds were issued to refinance portions of the University of Rochester Series 1999B bonds. The 2006 Bonds pay interest at a variable market rate determined weekly by the bonds' remarketing agent. The University has a liquidity facility in place as described in note 13.

On March 16, 2006, the University executed $111,180 of interest rate swaps with a third party. The University entered into an interest rate swap agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.92%. These rates are subject to change based upon certain conditions as stated in the swap agreement. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense. As of June 30, 2008, the fair value of the interest rate swap was a liability of $3,591 (asset of $1,185 as of June 30, 2007), and was included in accounts payable and accrued expenses on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2027.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University.

(q) Bonds Payable—DASNY Series 2007A-1, A-2, B and C

Pursuant to an agreement between the University and DASNY dated February 21, 2007, DASNY issued and sold $235,869 of bonds known as the University of Rochester Revenue Bonds, Series 2007, consisting of $111,210 Series 2007A-1 bonds, $20,534 Series 2007A-2 bonds, $40,290 Series 2007B bonds, and $63,835 Series 2007C bonds. The Series 2007 bonds were issued at a net premium of $8,207 resulting in proceeds of $244,076.

Series 2007A-1 bonds were issued to finance (1) the construction of the University's portion of the Cancer Center; (2) the acquisition and renovation of a new University Data Center; (3) an upgrade to the central utilities chilled water capacity and the expansion of its infrastructure; (4) the construction of a new animal facility and the renovation of existing laboratory space at the Cardiovascular Research Building; (5) the construction or renovation of a University Health Service building; and (6) various deferred maintenance projects and renovations of laboratories, office space, and student residential buildings.

Series 2007A-2 bonds were issued to finance (1) the renovation of the University Advancement and Alumni Center and (2) the construction of a biomedical engineering and optics building.

Series 2007B bonds were issued to finance (1) the construction of Hospital's portion of the Cancer Center; (2) the renovation of the Hospital's surgical adult intensive care and intermediate care units; (3) the renovation of the Hospital's medical behavioral inpatient unit; and (4) the purchase of equipment for the Hospital.

Series 2007C bonds were issued to refinance (1) a portion of the University of Rochester Series 1998A bonds and (2) a portion of the University of Rochester Series 2004A bonds.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University.

(r) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount, for each of the years in the five-year period ending June 30, 2013, and thereafter are as follows:

MATURITY	PRINCIPAL PORTIONS OF LEASE PAYMENTS	PRINCIPAL PAYMENTS OF DEBT	TOTAL PRINCIPAL PAYMENTS
2009	$ 5,404	$ 26,415	$ 31,819
2010	4,325	17,696	22,021
2011	3,773	21,348	25,121
2012	2,816	22,169	24,985
2013	1,329	22,339	23,668
Thereafter	9,605	545,755	555,360
Total	$ 27,252	$ 655,722	$ 682,974

The University incurred $35,352 and $29,888 of interest expense for the years ended June 30, 2008 and 2007, respectively, net of interest capitalization of $1,386 and $1,005 for the years ended June 30, 2008 and 2007, respectively.

(9) Benefits Plans

Self-insurance Plans—University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2008, were discounted by 3.5% and amounted to $43,302 (4.5% and $37,037 in 2007). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $6,523 at June 30, 2008 ($5,303 at June 30, 2007). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheets. The University has a $31.0 million standby letter of credit with JP-Morgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was $11,433 and $10,425 as of June 30, 2008 and 2007, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheets and have not been discounted.

Retirement Plan—University

Most full-time University employees participate in the retirement plans administered by TIAA-CREF, or in a defined contributions plan sponsored by the University. Under these plans, the University made contributions of $59,619 and $55,374 in 2008 and 2007, respectively, which were vested for the benefit of the participants.

Post-retirement Benefit Plan—University

The University's post-retirement benefit plan includes basic medical, major medical, dental coverage and life insurance. Benefit levels differ for current retirees, current employees eligible to retire and current employees not eligible to retire.

The University incurred post-retirement plan expense of $16,995 and $13,812 for the years ended June 30, 2008 and 2007, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

Benefit expense for this plan for the years ended June 30, 2008 and 2007 includes the following components:

CHANGE IN BENEFIT OBLIGATION	2008	2007
Benefit obligation at beginning of year	$ 106,165	$ 109,923
Service cost	2,792	2,183
Interest cost	7,676	6,408
Estimated plan participant contributions	1,799	1,451
Actuarial (gain)/loss	5,308	(6,102)
Benefits paid	(9,426)	(7,698)
Amendments	(1,437)	-
Benefit obligation at end of year	$ 112,877	$ 106,165
CHANGE IN PLAN		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	7,627	6,247
Participant contributions	1,799	1,451
Benefits paid	(9,426)	(7,698)
Fair value of plan assets at end of year	$ -	$ -
COMPONENTS OF ACCRUED BENEFIT		
Funded status	$ (112,877)	$ (106,165)
Unrecognized net actuarial (gain)/loss	3,550	(1,757)
Unrecognized prior service cost	21,060	29,023
Accrued benefits	$ (88,267)	$ (78,899)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF		
Accrued post-retirement benefit cost	$ (78,900)	$ (71,334)
Net post-retirement benefit expense	(13,596)	(13,812)
Net benefits paid	7,627	6,247
Accrued benefits paid at end of year	$ (84,869)	$ (78,899)
Amount recorded in unrestricted net assets	(28,008)	(27,266)
Net amount recognized in consolidated balance sheets	$ (112,877)	$ (106,165)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 2,234	$ 2,183
Interest cost	6,141	6,408
Amortization of prior service cost	5,221	5,221
Net periodic benefit cost	$ 13,596	$ 13,812

Estimated future contributions, benefit payments and 28% prescription subsidy payments are as follows:

	ESTIMATED CONTRIBUTIONS/ BENEFIT PAYMENTS	ESTIMATED 28% Rx SUBSIDY PAYMENTS
2009	$ 7,665	$ 1,009
2010	8,134	1,105
2011	8,532	1,191
2012	8,894	1,271
2013	9,328	1,326
2014 to 2018	50,656	2,760

Benefits are valued based upon the projected unit cost method. The weighted average assumptions used at the measurement date, July 1, are as follows:

	2008	2007
Discount rate for obligation	6.75%	6.00%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate – initial	10.00%	9.00%
Health care cost trend rate – final	4.50%	4.00%

The rate increase in health care costs was assumed to decrease to 4.50% in 2014 and to remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in the health care cost trend rate would have the following effects:

	ONE PERCENTAGE POINT INCREASE	ONE PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$ 578	$ (705)
Effect on post-retirement benefit obligation	$ 4,583	$ (7,369)

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent in the government plan. The University qualified for the Medicare Part D prescription drug federal subsidy.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans,* which is an amendment of SFAS No.'s 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plan as of the consolidated balance sheet date. The University adopted the balance sheet recognition provisions of SFAS No. 158 as of June 30, 2007. The impact of the adoption resulted in a decrease of $27,266 in unrestricted net assets, which was recorded as a cumulative effect of a change in accounting principle.

The University elected to adopt early the measurement date provisions of SFAS No. 158 and changed the measurement date for its defined benefit postretirement plan to June 30 from March 31 for its 2008 financial statements. The University elected the alternative transition method for the change in measurement date. The impact of the adoption resulted in a decrease of $3,399 in unrestricted net assets, which has been recorded as benefits expense in the consolidated statement of activities.

Post-employment Benefits—University

Accrued post-employment benefits of the University amounted to $56,091 and $50,237 at June 30, 2008 and 2007, respectively.

Retirement Plan—Related Entity (Highland Hospital and Affiliates)

The retirement plan of a related entity covers all employees who have completed two years of continuous employment. The benefits for this plan are based primarily on years of service and employees' pay near retirement. The related entity's funding policy is to contribute annually, an amount consistent with the requirement of the Employee Retirement Income Security Act. Plan assets consist principally of cash equivalents, common stocks and fixed income investments.

Retirement plan expense of $3,566 and $4,321 was incurred for the years ended December 31, 2007 and 2006, respectively, and is recorded in benefits expense in the consolidated statement of activities. In addition, the related entity recorded a reduction in minimum pension liability of $5,715 and $3,874 in 2007 and 2006 respectively. These amounts are included in other changes on the 2007 and 2006 consolidated statement of operation and changes in net assets of the related entity.

Pension expense for this plan for the years ended December 31, 2007 and 2006 (the most recent data available) includes the following components (in thousands):

CHANGE IN BENEFIT OBLIGATION	2007	2006
Benefit obligation at beginning of year	$ 79,654	$ 77,114
Service cost	3,403	3,345
Interest cost	4,606	4,194
Actuarial loss	(5,412)	(3,154)
Benefits paid	(2,123)	(1,845)
Benefit obligation at end of year	$ 80,128	$ 79,654

CHANGE IN PLAN ASSETS	2007	2006
Fair value of assets at beginning of year	$ 60,019	$ 50,838
Actual return on plan assets	8,655	4,036
Employer contribution	6,002	7,351
Benefits paid	(2,228)	(1,968)
Administrative expenses paid	(323)	(238)
Fair value of assets at end of year	$ 72,125	$ 60,019

COMPONENTS OF ACCRUED PENSION LIABILITY		
Funded status	$ (8,003)	$ (19,636)
Unrecognized net actuarial loss	-	14,155
Accumulated comprehensive pension expense	-	(5,759)
Accrued pension liability	$ (8,003)	$ (11,240)

AMOUNTS RECOGNIZED IN THE BALANCE SHEET CONSIST OF		
Accrued benefits cost	$ (8,003)	$ (11,240)
Projected benefit obligation	80,128	79,654
Accumulated benefit obligation	80,128	71,259
Fair value of plan assets	72,125	60,019

COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 3,403	$ 3,345
Interest cost	4,606	4,194
Expected return on plan assets	(5,156)	(4,364)
Amortization of transition asset	-	(16)
Amortization gain/loss	713	1,162
Net periodic benefit cost	$ 3,566	$ 4,321

WEIGHTED-AVERAGE ASSUMPTIONS AS OF SEPTEMBER 30		
Discount rate for obligation	6.32%	5.85%
Discount rate for pension expense	5.85%	5.50%
Investment return assumption (regular)	8.50%	8.50%
Future compensation increase rate	3.80%	3.80%

The pension plan funds are allocated to two money market managers, each with a balanced portfolio. These money managers monitor financial market funds and adjust inconsistent strategy accordingly.

The weighted-average asset allocation for the pension plan as of December 31, by asset manager categories is as follows:

WEIGHTED-AVERAGE ASSUMPTIONS BY ASSET CATEGORIES	2007	2006
Equity securities	59%	56%
Fixed income securities	39%	44%
Cash and other investments	2%	0%
	100%	100%

Estimated future contribution and benefit payments for the years ending December 31:

2008	$ 2,049
2009	2,165
2010	2,301
2011	2,506
2012	2,770
2013 to 2017	19,372
Total estimated future payments	$ 31,163

The related entity has adopted the balance sheet recognition provision of SFAS No. 158 as of December 31, 2007. The impact of the adoption resulted in a decrease of $4,958 in unrestricted net assets, which has been recorded in other changes in non-operating activities.

(10) Investment in Captive Insurance Company

The Hospital, together with other universities and teaching hospitals, has formed a captive insurance company (captive) to insure the professional liability risks of the shareholders. The Hospital's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the Hospital's financial participation (based on percentage of premiums paid) is approximately 8% of the financial results of the captive. Due to the Hospital's significant interest in the captive, the investment in the captive has been recorded under the equity method.

The Hospital's premiums are based on its professional liability experience and a shared risk factor with the other participants. Premiums are subject to retrospective adjustment based on, among other things, actual loss experience of the Hospital.

The most recent audited financial information for the captive for years ended December 31 is summarized below:

RESULTS OF OPERATION	2007	2006
Net earned premiums	$ 243,204	$ 253,242
Expenses	(284,240)	(286,019)
Investment income and realized gains on sales of marketable securities	47,996	42,380
Net income	$ 6,960	$ 9,603

FINANCIAL POSITION		
Total assets	$ 2,065,502	$ 1,795,771
Total liabilities	1,820,728	1,611,411
Shareholders' Equity	$ 244,774	$ 184,360

(11) Professional Liability Insurance

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage as well as the buffer and self-insured layers of excess insurance were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is $220,500 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred, but not reported claims were $34,541 and $27,767 as of June 30, 2008 and 2007, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheets.

(12) Fair Value of Financial Instruments

The method and assumptions described below were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value. Fair value estimates are made at a specific point in time, based on relevant market information, and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash and Cash Equivalents, Accounts Receivable, Third-Party Settlements Payable and Accounts Payable, and Accrued Expenses

The carrying amount approximates fair value because of the short maturities of these instruments.

Contributions Receivable

Contributions receivable are recorded at their net present value. See note 1(h) for accounting policies related to contributions receivable.

Investment

Investments are reported at fair values. See note 1(i) for accounting policies for determination of fair value of investments.

Notes Receivable

A reasonable estimate of the fair value of notes receivable from students under federal government financial assistance programs could not be made because the notes are not salable and can only be assigned to the federal government or its designees. The fair value of notes receivable from students under University loan programs approximates carrying value.

Long-Term Debt

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total long term debt, excluding capital leases, was $641,305 and $632,620 at June 30, 2008 and 2007, respectively.

(13) Lines and Letters of Credit

The University has a total of $32,260 in letters of credit. Of this total, $30,972 is for the University's self-insured workers' compensation program, $500 is for the University's commercial general liability policy deductible and $533 is for the repayment of obligations to the Urban Development Corporation and $255 is for the Town of Brighton.

During fiscal year 2008, the University entered into an agreement with Northern Trust Company for a maximum line of credit of $25 million. Under this agreement, $25 million was outstanding at June 30, 2008.

The University has an additional $25 million committed 364 day revolving credit agreement with JPMorgan Chase Bank for emergency purposes. Of this total, $1,616 and $1,860 was outstanding at June 30, 2008 and 2007, respectively.

The University has a liquidity facility in place for DASNY Series 2006A-1 and 2006B-1 in the amount of $111,180 with Wachovia Bank, NA. Of this total, $38,490 was outstanding at June 30, 2008, and no amounts were outstanding as of June 30, 2007.

(14) Commitments and Contingencies

In the ordinary course of operations, the University is named as a defendant in various lawsuits, or events occur which could lead to litigation, claims, or assessments. Although the outcome of such matters cannot be predicted with certainty, management believes that insurance coverage is sufficient to cover current or potential claims, or that the final outcomes of such matters will not have a material adverse effect on the consolidated financial position.

At June 30, 2008, the University has entered into construction contracts and commitments aggregating $457,032 ($429,877 at June 30, 2007) of which $389,998 ($320,701 at June 30, 2007) had been incurred.

(15) Leases

Future minimum payments by year and in the aggregate, under non-cancelable operating leases, with initial or remaining terms of one year or more are as follows:

	UNIVERSITY	RELATED ENTITIES
2009	$ 21,739	$ 3,077
2010	21,819	2,626
2011	19,541	2,557
2012	17,817	2,441
2013	16,316	2,397
Thereafter	75,277	11,634
Total minimum lease payments	$ 172,509	$ 24,732

(16) Scholarships, Grants, and Fellowships

The University awarded a total of $108,378 and $97,948 in scholarships, grants and fellowships during fiscal years 2008 and 2007, respectively. In addition, the University awarded $16,520 and $14,374, respectively, of scholarships, grants and fellowships as compensation to the recipients. Of this amount, $17,748 and $14,528, respectively, of the total scholarships, grants and fellowships awarded were specifically funded by federal, state or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(17) Functional Expenses

The University also records expenses according to major classes of programs or functions. Functional expenses for the years ended June 30 consisted of the following:

	2008	2007
Instruction	$ 292,979	$ 277,872
Research	291,640	264,597
Public service	8,690	9,371
Libraries and other academic support	49,492	48,037
Student services	41,251	37,326
Institutional support	74,657	61,637
Hospital and faculty practice patient care	1,504,387	1,407,494
Auxiliary enterprises	75,639	70,746
Total functional expenses	$ 2,338,735	$ 2,177,080

(18) Subsequent Events

Subsequent to year end the University restructured the bond agreements for DASNY Series 2003A, B, and C and DASNY Series 2006A-1 and B-1. A University related entity (Highland Hospital and affiliates) also restructured the DASNY Series 1994B bond agreement. These bonds were restructured so that a more favorable interest rate could be obtained in current market conditions. The terms related to the repayment of principal on these bonds did not change.

Additionally, each of these series now have a corresponding letter-of-credit available at varying financial institutions, individually in amounts totaling the outstanding debt service of each bond. The liquidity facility in place for DASNY Series 2006A-1 and 2006B-1 as of June 30, 2008, was replaced by the before mentioned letter-of-credit.

As a part of restructuring DASNY Series 2003A, B, and C the University obtained a bridge loan amounting to $85,700 to temporarily purchase the related bonds in July and August 2008. This bridge loan was subsequently repaid in full and the bonds resold during September 2008.

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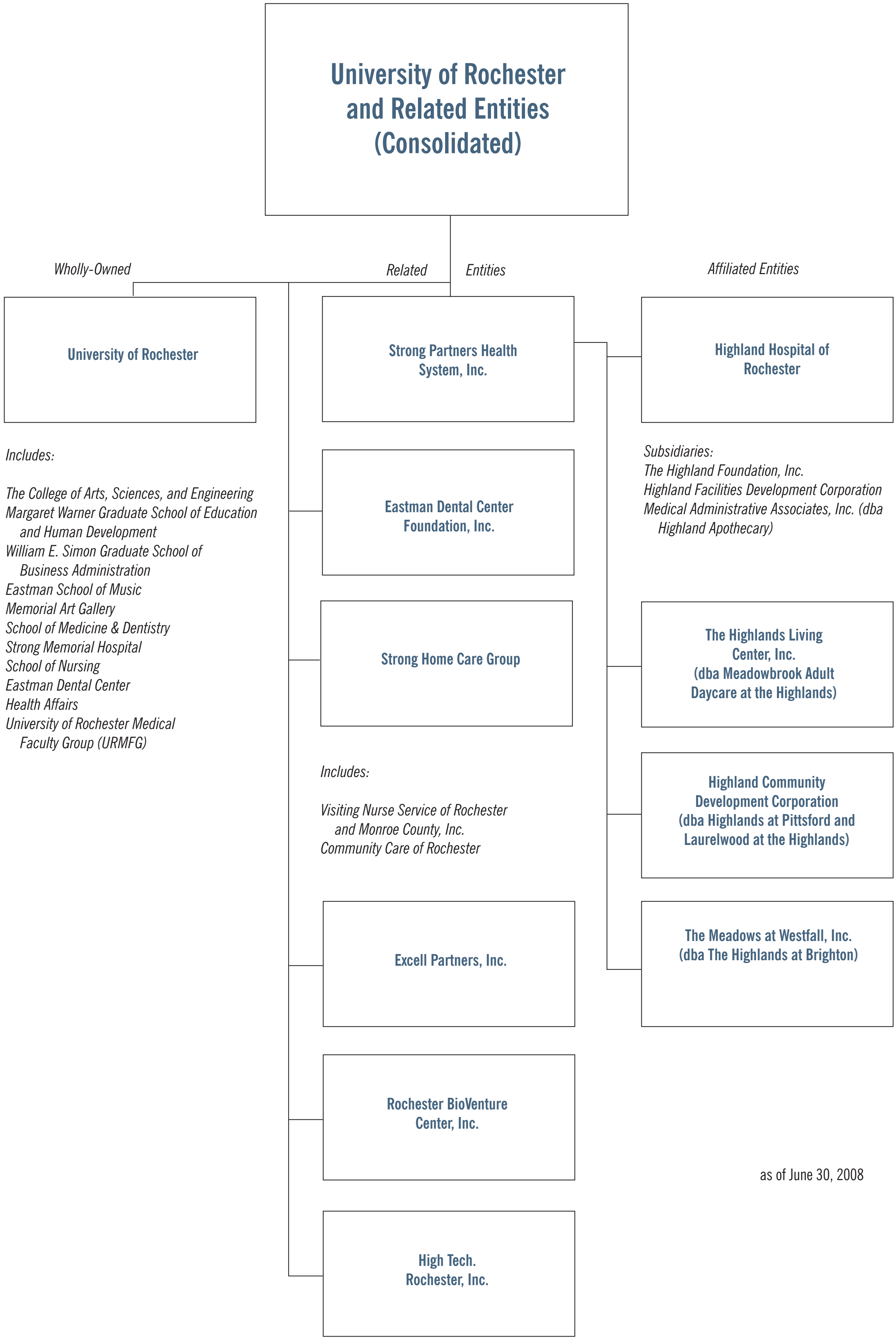
Current as of November 1, 2008.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as of June 30, 2008

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