

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**

Consolidated Financial Statements

June 30, 2011 and 2010

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## 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, 2011 and 2010, 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 1(i) to the consolidated financial statements, the University changed the manner in which it classifies accumulated total investment returns within net assets as a result of the adoption of ASC 958, Not-for-Profit Entities (formerly FASB Staff Position No. 117-1).

*PricewaterhouseCoopers LLP*

October 20, 2011

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES  
Consolidated Balance Sheet  
As of June 30  
(dollars in thousands)**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 285,203	\$ 236,244
Operating investments, at market	209,393	213,121
Collateral held for securities lending	69,282	79,283
Accounts receivable, net	292,506	307,833
Inventories, prepaid expenses, and deferred charges	48,957	49,999
Contributions receivable, net	51,556	46,666
Notes receivable, net	48,006	48,163
Other assets	15,536	12,748
Investments held for long-term purposes	1,783,019	1,564,018
Property, plant, and equipment, net	1,453,775	1,401,038
Interest in net assets of foundation	13,743	12,370
Investments in perpetual trusts held by others	49,780	43,119
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Total assets	<b>\$ 4,320,756</b>	<b>\$ 4,014,602</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 305,494	\$ 295,987
Advanced receipt of sponsored research revenues	25,618	23,129
Deferred revenue	52,069	51,507
Third-party settlements payable, net	96,386	92,567
Securities lending liabilities	69,282	79,283
Accrued pension, post-retirement, and post-employment	308,073	283,562
Long-term debt	745,913	772,951
Asset retirement obligation	18,057	17,907
Refundable U.S. Government grants for student loans	16,004	15,942
	<hr/>	<hr/>
Total liabilities	1,636,896	1,632,835
Net Assets:		
Unrestricted	1,818,709	1,877,267
Temporarily restricted	506,216	179,572
Permanently restricted	358,935	324,928
	<hr/>	<hr/>
Total net assets	2,683,860	2,381,767
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Total liabilities and net assets	<b>\$ 4,320,756</b>	<b>\$ 4,014,602</b>
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See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2011**  
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 343,537	\$ -	\$ -	\$ 343,537
Less: scholarships and fellowships	(142,321)	-	-	(142,321)
Net tuition and fees	201,216	-	-	201,216
State and local appropriations	1,875	-	-	1,875
Grants and contracts	438,022	-	-	438,022
Gifts and pledges	19,618	17,781	24,455	61,854
Hospital and faculty practice patient care activities	1,783,587	-	-	1,783,587
Auxiliary enterprises	79,653	-	-	79,653
Interest income and appreciation of operating investments	13,538	-	-	13,538
Educational activities	29,894	-	-	29,894
Royalty income	42,318	-	-	42,318
Other sources	13,758	(28)	-	13,730
Long-term investment income and gains allocated to operations	87,717	-	-	87,717
Net assets released from restriction	47,659	(47,659)	-	-
Total operating revenues	<u>2,758,855</u>	<u>(29,906)</u>	<u>24,455</u>	<u>2,753,404</u>
Operating expenses:				
Salaries and wages	1,306,985	-	-	1,306,985
Fringe benefits	367,618	-	-	367,618
Total compensation	1,674,603	-	-	1,674,603
Supplies	344,487	-	-	344,487
Business and professional	195,798	-	-	195,798
Utilities	53,918	-	-	53,918
Maintenance and facilities costs	112,914	-	-	112,914
Depreciation	158,441	-	-	158,441
Interest	29,344	-	-	29,344
Other	81,732	-	-	81,732
Total operating expenses	<u>2,651,237</u>	<u>-</u>	<u>-</u>	<u>2,651,237</u>
Change in net assets from operating activities	<u>107,618</u>	<u>(29,906)</u>	<u>24,455</u>	<u>102,167</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	12,775	4,611	(126)	17,260
Net appreciation	140,635	115,119	7,273	263,027
Total long-term investment activities	<u>153,410</u>	<u>119,730</u>	<u>7,147</u>	<u>280,287</u>
Long-term investment income and gains allocated for operations	(87,717)	-	-	(87,717)
Other changes, net	7,909	(205)	3,157	10,861
Change in valuation of annuities	-	(2,753)	(752)	(3,505)
Change in net assets from non-operating activities	<u>73,602</u>	<u>116,772</u>	<u>9,552</u>	<u>199,926</u>
Change in net assets before cumulative effect of change in accounting principle	181,220	86,866	34,007	302,093
Cumulative effect of change in accounting principle	<u>(239,778)</u>	<u>239,778</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(58,558)</u>	<u>326,644</u>	<u>34,007</u>	<u>302,093</u>
Beginning net assets	<u>1,877,267</u>	<u>179,572</u>	<u>324,928</u>	<u>2,381,767</u>
Ending net assets	<u>\$ 1,818,709</u>	<u>\$ 506,216</u>	<u>\$ 358,935</u>	<u>\$ 2,683,860</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2010**  
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 321,252	\$ -	\$ -	\$ 321,252
Less: scholarships and fellowships	(132,222)	-	-	(132,222)
Net tuition and fees	189,030	-	-	189,030
State and local appropriations	1,737	-	-	1,737
Grants and contracts	419,643	-	-	419,643
Gifts and pledges	17,917	15,076	14,969	47,962
Hospital and faculty practice patient care activities	1,708,304	-	-	1,708,304
Auxiliary enterprises	77,248	-	-	77,248
Interest income and appreciation of operating investments	13,361	-	-	13,361
Educational activities	29,571	-	-	29,571
Royalty income	38,978	-	-	38,978
Other sources	13,876	28	-	13,904
Long-term investment income and gains allocated to operations	86,349	-	-	86,349
Net assets released from restriction	40,158	(40,158)	-	-
Total operating revenues	<u>2,636,172</u>	<u>(25,054)</u>	<u>14,969</u>	<u>2,626,087</u>
Operating expenses:				
Salaries and wages	1,241,914	-	-	1,241,914
Fringe benefits	353,387	-	-	353,387
Total compensation	1,595,301	-	-	1,595,301
Supplies	336,317	-	-	336,317
Business and professional	193,573	-	-	193,573
Utilities	52,075	-	-	52,075
Maintenance and facilities costs	105,186	-	-	105,186
Depreciation	141,957	-	-	141,957
Interest	28,053	-	-	28,053
Other	65,661	-	-	65,661
Total operating expenses	<u>2,518,123</u>	<u>-</u>	<u>-</u>	<u>2,518,123</u>
Change in net assets from operating activities	<u>118,049</u>	<u>(25,054)</u>	<u>14,969</u>	<u>107,964</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	12,471	83	(76)	12,478
Net appreciation	114,127	28,387	149	142,663
Total long-term investment activities	126,598	28,470	73	155,141
Long-term investment income and gains allocated for operations	(86,349)	-	-	(86,349)
Loss on extinguishment of debt	(2,014)	-	-	(2,014)
Other changes, net	(3,378)	122	1,709	(1,547)
Change in valuation of annuities	-	(2,632)	(34)	(2,666)
Change in net assets from non-operating activities	<u>34,857</u>	<u>25,960</u>	<u>1,748</u>	<u>62,565</u>
Change in net assets	152,906	906	16,717	170,529
Beginning net assets	1,724,361	178,666	308,211	2,211,238
Ending net assets	<u>\$ 1,877,267</u>	<u>\$ 179,572</u>	<u>\$ 324,928</u>	<u>\$ 2,381,767</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Cash Flows**  
**Years Ended June 30**  
(dollars in thousands)

<b>Cash flows from operating activities:</b>	<b>2011</b>	<b>2010</b>
Change in net assets	\$ 302,093	\$ 170,529
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	158,441	141,957
Net appreciation on long-term investment activities	(263,027)	(142,663)
Gifts of property, plant, equipment and other	(1,308)	(989)
Bond discount amortization	(762)	(732)
Loss on the extinguishment of debt	-	2,014
Provision for bad debts	25,718	25,369
Contributed securities	(10,504)	(7,687)
Loss on disposals of property, plant, and equipment	2,389	3,411
(Increases) / decreases in:		
Operating investments	(7,840)	(26,855)
Accounts receivable, net	(10,391)	(56,294)
Inventories, prepaid expenses, and deferred charges	259	(3,253)
Contributions receivable, net	(5,376)	8,507
Other assets	(2,788)	(1,267)
Increases / (decreases) in:		
Accounts payable and accrued expenses	7,531	30,125
Advanced receipt of sponsored research revenues	2,489	(3,061)
Deferred revenues	562	201
Third-party settlements payable, net	3,819	30,386
Accrued pension, post-retirement, and post-employment	24,511	25,549
Contributions for long-term investments, net	(24,636)	(32,061)
Net cash provided by operating activities	<u>201,180</u>	<u>163,186</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(206,424)	(186,776)
Purchases of investments	(621,295)	(728,662)
Proceeds from the sale of investments	676,585	731,206
(Increase) in investments in perpetual trusts held by others	(95)	(87)
(Increase) / decrease in notes receivable, net	157	(28,597)
Net cash used in investing activities	<u>(151,072)</u>	<u>(212,916)</u>
<b>Cash flows from financing activities:</b>		
Net borrowings / (repayments) on lines-of-credit	772	(6,534)
Principal repayments of long-term debt	(26,618)	(58,621)
Proceeds from issuance of long-term debt	-	185,456
Deferred financing costs	(1)	(1,793)
Increase / (decrease) in refundable U.S. Government grants for student loans	62	(42)
Contributions for long-term investments, net	24,636	32,061
Net cash (used in) / provided by financing activities	<u>(1,149)</u>	<u>150,527</u>
<b>Net increase in cash and cash equivalents</b>	<b>48,959</b>	<b>100,797</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>236,244</b>	<b>135,447</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 285,203</b>	<b>\$ 236,244</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest on long-term debt	<u>\$ 28,740</u>	<u>\$ 32,780</u>
<b>Non-cash investing and financing activities:</b>		
Increase in construction related payables	\$ 4,407	\$ 4,245
Assets acquired under capital leases	\$ 342	\$ 3,677

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2011 and 2010  
(dollars in thousands)

### **(1) Summary of Significant Accounting Policies**

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#### **(a) General**

The University of Rochester (the University) is a private nonprofit institution 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 Schools of Arts, Sciences and Engineering, including the Hajim School of Engineering and Applied Sciences, 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 Institute for Oral Health, Health Sciences, and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health System, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Crittenden Boulevard Housing Company, Inc., Excell Partners, Inc., Rochester BioVenture Center, Inc., High Tech Rochester, Inc., UR Investment, LLC, eXtensible Catalog Organization, LLC, University of Rochester Real Estate Corporation, UR Equity Holdings, Inc., and the Meliora Real Estate Corporation. 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 The 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 finalizing its activities.

The University is the sole corporate member of Crittenden Boulevard Housing Company, Inc, which was formed to provide affordable housing facilities for graduate students and staff of the University.

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.

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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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.

The University is 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.

The University is the sole member of University of Rochester Investment, LLC, which was formed for the purpose of holding certain University investments.

The University is the sole member of eXtensible Catalog Organization, LLC, which was formed to support the charitable and educational activities of the University through development of open-source library catalog software.

In December 2009, the University entered into a financing arrangement for the renovation of the Eastman Theatre enhanced by qualified investors in the New Markets Tax Credit (NMTC) program of the United States Treasury. The use of NMTCs is a program of the Community Development Financial Institutions Fund, a bureau of the United States Treasury. This transaction required the formation of a wholly-owned special purpose corporation known as the University of Rochester Real Estate Corporation.

In July 2010, UR Equity Holdings, Inc., a for-profit corporation, was formed for the purpose of holding the University's equity interests in startup companies.

In May 2011, the University became the sole corporate member of Meliora Real Estate

Corporation, which was formed to support the charitable activities of the University of Rochester by providing financial and operational support to the University through the acquisition, holding and sale of real estate donated to the University and Affiliates.

### (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. In accordance with the guidance provided in the New York Prudent Management of Institutional Funds Act (NYPMIFA), the University's Board of Trustees, with consideration of the actions, reports, information, advice and counsel provided by its duly constituted committees and appointed officers of the University, has instructed the University to adopt a methodology designed to avoid spending below the historical dollar value of donor-restricted (true) endowment funds, absent explicit donor direction to the contrary. As a result, the University classifies as permanently restricted net assets the original gift value of true endowments plus any subsequent gifts and accumulations made in accordance with the directions of the applicable gift instruments. The portion of true endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets in accordance with accounting standards.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

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(dollars in thousands)

actions of the University and/or the passage of time. Investment income and gains and losses on permanently restricted net assets are reported as temporarily restricted until appropriated for expenditure in accordance with donor-imposed stipulations. Under NYPMIFA, the appropriation and spending of such income is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i). When a donor restriction expires, that is, when a stipulated time restriction ends or spending 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 trustee 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.
- 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.

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) 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 the majority of 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.

### **(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.

**UNIVERSITY OF ROCHESTER  
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Notes to Consolidated Financial Statements

June 30, 2011 and 2010  
(dollars in thousands)

**(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. Included also are internal operating funds invested in the University's long term investment pool however, they may be liquidated upon demand at any time.

**(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 the gift. Contributions to be received after one year are discounted, at a range of 3.0% to 5.5%, 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 as described further in note 12.

The Board of Trustees interprets NYPMIFA to allow for the spending of income and gains on investments of permanently restricted net assets in a manner that is prudent, considering such factors as the duration and preservation of the endowment fund, the purposes of the institution and the endowment fund, general economic conditions including the potential effect of inflation or deflation, the expected total return of the fund, other resources of the University, the needs of the University and the fund to make distributions and preserve capital, and the University's investment policy.

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. Although NYPMIFA does not preclude the University from spending below the original gift value of permanently restricted funds, the University's policy is to spend no more than a stated percentage of fair value of its investment portfolio over time. Accordingly, during fiscal year 2011, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.9% (5.8% during fiscal year 2010) 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

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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excess in its net assets held for endowment and similar purposes.

The University, in compliance with NYPMIFA, notified available donors who had established endowments prior to September 17, 2010 of the new law, and offered these donors the option of requiring the University to maintain historical dollar value for their endowment funds. A minority of donors requested this option; for those who did, the University has designed procedures to ensure that the University maintains historical dollar value.

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 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 participates in securities lending activities. Investments that have been loaned to another institution are included in investments held for long-term purposes on the consolidated balance sheet. Cash received as collateral on the securities lending transactions is reported as collateral held for securities lending on the consolidated balance sheet. Since 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 4 to 40 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:

	<u>Years</u>
Building	40
Building and leasehold improvements	20
Land improvements	20
Equipment	4 to 15
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 museum 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, 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 2011 and 2010, the fair values for split interest agreements are \$81,119 and \$69,947, respectively. Generally, contribution revenues are recognized at the dates the agreements are established

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and liabilities are recorded 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. The carrying value of the assets is adjusted for changes in the fair value of the trust assets for both split interest agreements and perpetual trusts.

### **(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 re-loaned after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying consolidated balance sheet.

### **(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 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. Indirect 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

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subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2005.

### 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 (NYS) through December 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 percentage 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. Furthermore, effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate payment rates utilizing All Payor Revised DRG's (APR-DRGs). APR-DRGs used revised SIWs to adjust each APR-DRG for patient activity. Similar type outpatient reforms were implemented effective December 1, 2008 by connecting outpatient payments to Ambulatory Payment Groups (APGs) which use outpatient SIWs based on types of service and resource consumption.

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 provide additional funds through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the DOH. Through December 31, 2008, these additional payments were used to fund a pool for graduate medical education (GME) expenses. Beginning January 1, 2009, the GME pool was consolidated into the indigent care pool.

Revenue from Blue Cross and Preferred Care accounted for approximately 27% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 26% and 10%, respectively, for the year ended June 30, 2010.

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 17%, respectively, of the Hospital's net patient revenue for the fiscal year ended June 30, 2011, and 31% and 17%, respectively, for the year ended June 30, 2010. 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

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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 2011 and 2010, the Hospital recognized approximately \$17,300 and \$(2,500) 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 \$16,000 and \$14,600 related to fiscal years 2011 and 2010, 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, 2011, over 1,007 full-time faculty in 18 clinical departments and two clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 881,233 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 36,353 hospital admissions, as well as participated in the coverage of the emergency department handling over 98,758 visits. Payments for these services are derived primarily from third-party insurers including Managed Care companies

(22.6%), Medicare (21.8%), Blue Shield (22.4%), Medicaid (10.6%), commercial (8.4%), other (5.1%), and self-pay (9.1%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 440 University medical students and 776 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 assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Management's assumptions are primarily related to the appropriate discount rate for the purposes of fair value calculations, allowances for doubtful accounts, self-insured risks, and third-party payor contractual adjustments and allowances. Actual results may differ from those estimates.

### **(r) Investment in Net Assets of Foundation**

The University accounts for its interest in the net assets of the James P. Wilmot Foundation, Inc. (Foundation) in accordance with not-for-profit guidance. The guidance 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 accounting guidance, 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 asset retirement and environmental obligations guidance. This guidance

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primarily affects the way the University accounts for asbestos-related removal costs. The University accrues for asset retirement obligations in the period 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 sheet. The change in the fair value of the derivative instruments is included in the net depreciation/appreciation in the

statements 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.

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**(2) Net Assets**

Unrestricted net assets consist of the following at June 30:

	<b>2011</b>	<b>2010</b>
Designated:		
University divisions	\$ 1,035,335	\$ 1,153,801
Highland Hospital and affiliates	112,615	101,124
Eastman Dental Center Foundation	21,226	18,685
Other related entities	(20,146)	(23,032)
Total designated	1,149,030	1,250,578
Net investment in property, plant, and equipment	618,085	556,631
Undesignated	51,594	70,058
Total unrestricted net assets	\$ 1,818,709	\$ 1,877,267

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

	<b>2011</b>	<b>2010</b>
Accumulated appreciation on permanently restricted net assets subject to board appropriation and/or purpose restrictions	\$ 410,780	\$ 94,100
Interest in net assets of foundation	13,743	12,370
Related entities	897	1,235
Other gifts and income subject to:		
Purpose restrictions	14,872	12,643
Time restrictions:		
Contributions receivable	35,642	33,681
Split-interest agreements	30,282	25,543
Total temporarily restricted net assets	\$ 506,216	\$ 179,572

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

	<b>2011</b>	<b>2010</b>
Perpetual endowment funds	\$ 286,849	\$ 263,528
Interests in perpetual trusts held by others	49,780	43,119
Split-interest agreements	2,758	2,371
Perpetual loan funds	3,634	2,925
Contributions receivable	15,914	12,985
Total permanently restricted net assets	\$ 358,935	\$ 324,928

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Endowment net assets consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds:				
True endowments	\$ -	\$ 409,603	\$ 286,849	\$ 696,452
Term endowments	-	1,177	-	1,177
	<u>-</u>	<u>410,780</u>	<u>286,849</u>	<u>697,629</u>
Funds functioning as endowment (quasi)	<u>861,660</u>	<u>-</u>	<u>-</u>	<u>861,660</u>
Total endowment funds	<u>\$ 861,660</u>	<u>\$ 410,780</u>	<u>\$ 286,849</u>	<u>\$ 1,559,289</u>

Rollforward of endowment net assets from July 1, 2010 to June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 988,403	\$ 94,100	\$ 263,528	\$ 1,346,031
NYPMIFA adjustment	(239,778)	239,778	-	-
Investment return:				
Investment income, net of fees	9,643	7,718	-	17,361
Net appreciation	136,375	104,636	-	241,011
Total investment return	<u>146,018</u>	<u>112,354</u>	<u>-</u>	<u>258,372</u>
New gifts	1,512	487	19,201	21,200
Amounts appropriated for expenditure	(48,502)	(34,946)	-	(83,448)
Other changes and reclassifications	14,007	(993)	4,120	17,134
Endowment net assets, June 30, 2011	<u>\$ 861,660</u>	<u>\$ 410,780</u>	<u>\$ 286,849</u>	<u>\$ 1,559,289</u>

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Endowment net assets consist of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds:				
True endowments	\$ 201,523	\$ 93,045	\$ 263,528	\$ 558,096
Term endowments	-	1,055	-	1,055
	<u>201,523</u>	<u>94,100</u>	<u>263,528</u>	<u>559,151</u>
Funds functioning as endowment (quasi)	<u>786,880</u>	<u>-</u>	<u>-</u>	<u>786,880</u>
Total endowment funds	<u>\$ 988,403</u>	<u>\$ 94,100</u>	<u>\$ 263,528</u>	<u>\$ 1,346,031</u>

Rollforward of endowment net assets from July 1, 2009 to June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 929,034	\$ 86,337	\$ 248,614	\$ 1,263,985
Investment return:				
Investment income, net of fees	9,727	1,436	-	11,163
Net appreciation	119,053	21,875	-	140,928
Total investment return	<u>128,780</u>	<u>23,311</u>	<u>-</u>	<u>152,091</u>
New gifts	1,097	234	14,629	15,960
Amounts appropriated for expenditure	(72,446)	(10,595)	-	(83,041)
Other changes and reclassifications	1,938	(5,187)	285	(2,964)
Endowment net assets, June 30, 2010	<u>\$ 988,403</u>	<u>\$ 94,100</u>	<u>\$ 263,528</u>	<u>\$ 1,346,031</u>

**(3) Accounts Receivable**

Accounts receivable at June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient care and related activities, net of allowances for doubtful accounts of \$31,897 and \$34,862	\$ 150,648	\$ 169,561
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of \$598 and \$836	42,835	42,834
Medical resident FICA refund claim (including interest), net of allowance of \$16,818 and \$16,818	31,520	31,520
Student receivables, net of allowances for doubtful accounts of \$1,811 and \$2,067	6,100	7,512
Royalties and other	<u>61,403</u>	<u>56,406</u>
Total accounts receivable	<u>\$ 292,506</u>	<u>\$ 307,833</u>

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**(4) Contributions**

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

	<b>2011</b>	<b>2010</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,181	\$ 4,629
One year to five years	43,802	42,731
More than five years	25,991	10,757
Subtotal	72,974	58,117
Less unamortized discount and allowance for uncollectible amounts	(21,418)	(11,451)
Total contributions receivable, net	\$ 51,556	\$ 46,666

At June 30, 2011, the University had also received \$39,976 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 \$34,897 and \$31,046, for University relations and development for the years ended June 30, 2011 and 2010, respectively.

**(5) Notes Receivable**

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

	<b>2011</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 17,002	\$ 904	\$ 16,098
Institutional student loans	4,032	606	3,426
Other note receivable	28,482	-	28,482
Total	\$ 49,516	\$ 1,510	\$ 48,006

	<b>2010</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 17,340	\$ 904	\$ 16,436
Institutional student loans	3,818	606	3,212
Other note receivable	28,515	-	28,515
Total	\$ 49,673	\$ 1,510	\$ 48,163

Student loan programs are funded by donor contributions, other institutional sources and governmental programs, primarily the Federal Perkins Loan Program. The amounts received from the federal government's portion of the Perkins program are ultimately refundable to the federal government and are reported as a liability on the University's consolidated balance sheet as Refundable U.S. Government grants for student loans.

Credit worthiness is not a factor when granting a student a loan from institutional or federal resources; it is based on financial need. However, once the loan is in repayment status, the University monitors the aging of the student loans receivable.

Student loans are often subject to unique restrictions and conditions and, therefore, it is not practical to determine fair values. 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.

The other note receivable represents a \$28,482 note receivable of the University of Rochester Real Estate Corporation (wholly-owned by the University) for a loan to the Chase NMTC Eastman Theatre Investment Fund LLC (a non-consolidated entity) which matures in December, 2049. The University receives interest only, at 1% during the first ninety months of the term. For the remainder of the term, the note shall bear interest at 1.7%, compounding annually, with a minimum of 1.0% principal payable

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annually, with all principal and any unpaid interest due on the maturity date. Refer to Note 8 (p) for further information.

**(6) Investments Held for Long-Term Purposes**

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

	<b>2011</b>	<b>2010</b>
Endowment and similar purposes	\$ 1,640,407	\$ 1,415,977
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	13,907	15,190
Other	48,730	74,372
Total property, plant and equipment purposes	62,637	89,562
Other purposes	79,975	58,479
Total investments held for long-term purposes	\$ 1,783,019	\$ 1,564,018

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 endowment and similar funds within each pool based on the percent ownership of each fund to the pool. Income, realized and unrealized gains and losses are distributed based on the percent ownership of the pooled assets measured at fair value.

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

	<b>2011</b>		
	<b>Fair Value</b>	<b>Cost</b>	<b>Net Gains/ (Losses)</b>
End of year	\$ 1,640,407	\$ 1,480,017	\$ 160,390
Beginning of year	\$ 1,415,977	\$ 1,428,432	\$ (12,455)
Unrealized appreciation, net			172,845
Realized net gains for year			80,060
Net increase for year			\$ 252,905
	<b>2010</b>		
	<b>Fair Value</b>	<b>Cost</b>	<b>Net Gains/ (Losses)</b>
End of year	\$ 1,415,977	\$ 1,428,432	\$ (12,455)
Beginning of year	\$ 1,320,628	\$ 1,401,040	\$ (80,412)
Unrealized appreciation, net			67,957
Realized net gains for year			78,733
Net increase for year			\$ 146,690

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. However, the University was not directly engaged in any of the above mentioned derivative transactions as of June 30, 2011 and 2010.

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.

The University lends 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

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period of lending. The collateral minimum requirement is 100% for securities on loan.

Investment fees were \$32,427 and \$30,655 for the years ended June 30, 2011 and 2010, respectively.

**(7) Property, Plant, and Equipment**

As of June 30, 2011 and 2010, the University's investment in property, plant and equipment is as follows:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 1,934,740	\$ 1,813,667
Land improvements	42,805	42,054
Completed projects under leasehold agreements	9,086	8,738
Equipment owned	806,659	773,609
Library books	<u>142,372</u>	<u>134,181</u>
Subtotal	2,935,662	2,772,249
Less accumulated depreciation	<u>1,676,285</u>	<u>1,549,084</u>
Subtotal	1,259,377	1,223,165
Land	7,860	7,860
Museum collections	30,431	30,160
Construction in progress	<u>156,107</u>	<u>139,853</u>
Total property, plant and equipment, net	<u>\$ 1,453,775</u>	<u>\$ 1,401,038</u>

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**(8) Long-term Debt**

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

	<u>2011</u>	<u>2010</u>
Obligations under capital lease agreements, 3.414% to 7.85% (a)	\$ 15,889	\$ 20,509
Urban Development Corporation loan (b)	1,667	1,833
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of \$21 in 2011 and \$23 in 2010) (c)	8,579	8,577
Bond Payable – COMIDA, 10.00% (d)	598	627
Bond payable – DHCR Series 1973A, 6.26% (e)	1,325	-
Bond payable – DHCR Series 1979A, 8.40% (f)	300	-
Bond payable – DASNY Series 1994B, 5.50% (g)	9,170	9,610
Bond payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of \$67 in 2011 and \$75 in 2010) (h)	13,952	15,365
Bond payable – DASNY Series 2003A, B, and C, 3.97% (i)	114,904	123,050
Bond payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of \$353 in 2011 and \$368 in 2010) (j)	26,283	26,968
Bond payable – COMIDA, 3.125% to 5.450% (net of unamortized premium of \$661 in 2011 and \$761 in 2010) (k)	30,511	33,601
Bond payable – DASNY Series 2006 A-1 and B-1, 3.919% (l)	111,180	111,180
Bond payable – DASNY Series 2007A-1, A-2, B, and C, 4.00% to 5.00% (net of unamortized premium of \$7,121 in 2011 and \$7,371 in 2010) (m)	240,315	241,215
Bond payable – DASNY Series 2009A, B, C, D, and E, 2.50% to 5.00% (net of unamortized premium of \$2,678 in 2011 and \$3,087 in 2010) (n)	106,523	115,702
Bond payable – DASNY Series 2010, 2.00% to 5.20% (net of unamortized discount of \$65 in 2011 and \$68 in 2010) (o)	10,935	10,932
Notes payable, 0.74% to 2.73% (p)	53,782	53,782
Total long-term debt	<u>\$ 745,913</u>	<u>\$ 772,951</u>

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.

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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 sub-lease from the State 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) 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.

**(d) 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.

**(e) Bonds Payable – DHCR Series 1973A**

Pursuant to an agreement with a University related entity (Crittenden Boulevard Housing Company, Inc.) and the New York State Division of Housing and Community Renewal (DHCR) dated September

1973, DHCR issued and sold \$7,065 of Series A bonds. The related entity is repaying the indebtedness at an average rate of 6.26%, maturing November 2013.

**(f) Bonds Payable – DHCR Series 1979A**

Pursuant to an agreement with a University related entity (Crittenden Boulevard Housing Company, Inc.) and the New York State Division of Housing and Community Renewal (DHCR) dated April 1979, DHCR issued and sold \$7,670 of Series 1979A bonds. The related entity is repaying the indebtedness at an average rate of 8.4%, maturing November 2018.

**(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.

During fiscal year 2009, the Series 1994B bonds were remarketed and converted from a fixed interest rate to a variable interest rate determined by the bond agent. The terms related to principal repayment did not change. A loss on debt extinguishment due to bond restructuring of \$717 was recognized.

The bond issue is collateralized by an interest in certain buildings and equipment and an irrevocable direct pay letter of credit held by HSBC Bank which expires July 2012.

**(h) 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

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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.

### **(i) 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.

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 interest rate swaps with third parties. The University entered into interest rate swap agreements 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. The contractual relationship under this agreement will last until July 1, 2033.

During fiscal year 2009, the Series 2003A, B and C bonds were restructured and converted from an auction rate to a variable rate as determined by the remarketing agent. The terms related to principal repayment did not change. The bonds have a corresponding letter-of-credit available at varying financial institutions, individually in amounts totaling the outstanding debt service of each bond.

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

The University has a letter of credit in place for DASNY Series 2003A and 2003C in the amount of \$103,502 with JP Morgan Chase Bank, N.A which expires in March 2013. Of this total, no amounts were outstanding at June 30, 2011 and 2010.

The University has a letter of credit in place for DASNY Series 2003B in the amount of \$34,745 with HSBC Bank, N.A which expires in September 2013. Of this total, no amounts were outstanding at June 30, 2011 and 2010.

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### **(j) Bonds Payable – 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.

### **(k) 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.

### **(l) 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.

On March 16, 2006, the University executed 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 3.919%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2027.

During fiscal year 2009, the Series 2006A-1 and B-1 bonds were restructured and converted from an auction rate to a variable rate as determined by the remarketing agent. The terms related to principal repayment did not change. The bonds have a corresponding letter-of-credit available at varying financial institutions, individually in amounts totaling the outstanding debt service of each bond.

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

The University has a letter of credit in place in the amount of \$112,642 with Bank of America, N.A.

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which expires in September 2014. The letter of credit has a renewal option that can be exercised every three years. Of this total, no amounts were outstanding as of June 30, 2011 and 2010.

**(m) 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.

**(n) Bonds Payable – DASNY Series 2009A, B, C, D and E**

Pursuant to an agreement between the University and DASNY dated July 22, 2009, DASNY issued and sold \$117,279 of bonds known as the University of Rochester Revenue Bonds, Series 2009, consisting of \$54,469 Series 2009A bonds, \$34,460 Series 2009B bonds, \$11,135 Series 2009C bonds, \$3,625 Series 2009D bonds and \$13,590 Series 2009E bonds. The Series 2009 bonds were issued at a net premium of \$3,463 resulting in proceeds of \$120,742.

Series 2009A bonds were issued to finance (1) fire alarm replacements, sprinkler installations, and renovations in undergraduate halls; (2) renovations to laboratories and offices throughout the River Campus and Medical Center ; (3) renovation of Wilson Commons dining hall; (4) central utilities infrastructure improvements for the River Campus and Medical Center; (5) various deferred maintenance and renovation projects at the Eastman Campus and Medical Center; (6) a portion of the construction of the Clinical and Translational Science Building.

Series 2009B bonds were issued to refinance the remaining outstanding bonds for Series 1997A, Series 1998A, and Series 2000A.

Series 2009C bonds were issued to finance the relocation of certain electrical switchgear within the Medical Center.

Series 2009D bonds were issued to refinance the outstanding bonds for Series 1999B.

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Series 2009E bonds were issued to finance a portion of the construction of the Clinical and Translational Science Building.

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 - DASNY Series 2010**

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and DASNY dated June 25, 2010, DASNY issued and sold \$11,000 of bonds known as Highland Hospital Revenue Bonds, Series 2010. The Series 2010 bonds were issued at a net discount of \$68 resulting in proceeds of \$10,932.

Series 2010 bonds were issued to finance the following: (1) the creation of a twenty-two bed Neuromedicine Inpatient Unit; and (2) the enhancement and expansion of the space, equipment, and technology used for Perioperative Services.

**(p) Notes Payable – Eastman Theatre Renovation**

In December 2009, the University entered into a financing arrangement for the renovation of the Eastman Theatre enhanced by qualified investors in the New Markets Tax Credit program. This transaction resulted in \$53,782 in new external consolidated debt and \$28,482 in new external notes receivable to the University.

Several loans were created through the NMTC financing structure. The first is an ordinary bank loan from JPMorgan Chase for \$15,482 at a cost of LIBOR plus 2.5% for a seven-year term. After seven years, this loan is expected to be refinanced by tax-exempt bonds and amortized in equal payments over thirty years. The remaining loans are specialized NMTC notes payable totaling \$38,300 at a cost of 0.74% for forty years, maturing on December 18, 2049. The University is required to pay interest only on these promissory notes for the first seven years. The lenders of the notes payable are a group of Community Development Entities

that will receive significant tax credits as a result of this loan.

The University loaned \$28,482 to an investment fund as a part of the setup of the community development entities. The external note receivable matures on December 18, 2049. Refer to Note 5 for further information on the external notes receivable.

**(q) Required Principal Payments**

Required composite principal payments for long-term debt, net of unamortized discount or premium, for each of the years in the five-year period ending June 30, 2016 and thereafter are as follows:

<u>Maturity</u>	<u>Principal Portions of Lease Payments</u>	<u>Principal Payments of Debt</u>	<u>Total Principal Payments</u>
2012	\$ 4,020	\$ 25,780	\$ 29,800
2013	1,999	26,075	28,074
2014	783	27,855	28,638
2015	799	36,269	37,068
2016	734	33,991	34,725
Thereafter	<u>7,554</u>	<u>580,054</u>	<u>587,608</u>
Total	<u>\$ 15,889</u>	<u>\$ 730,024</u>	<u>\$ 745,913</u>

The University incurred \$29,344 and \$28,053 of interest expense for the years ended June 30, 2011 and 2010, respectively, net of interest capitalization of \$2,766 and \$3,870 for the years ended June 30, 2011 and 2010, respectively.

The University has letter of credit agreements with various financial institutions to purchase the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements are not remarketable and the agreements are not otherwise renewed, the principal amounts (including variable rate demand bonds not subject to a liquidity facility) would be \$29,800, \$111,753, \$149,478, \$11,363, \$11,025, and \$432,494 for the five year period ending June 30, 2016 and thereafter.

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### **(r) Fair Value of 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 \$708,943 and \$743,377 at June 30, 2011 and 2010, respectively.

### **(9) Benefits Plans**

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#### **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, 2011 were discounted by 3.50% and amounted to \$42,686 (3.25% and \$40,800 in 2010). These liabilities are offset by receivables for the expected insurance direct payments against these claims of \$8,882 at June 30, 2011 (\$7,920 at June 30, 2010). 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 sheet. The University has a standby letter of credit with JPMorgan 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 \$11,035 and \$12,056 as of June 30, 2011 and 2010, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

#### **Retirement Plan – University**

The University provides defined contribution retirement plans to its employees. The University of Rochester's Retirement Program offers four investment company options that are administered by each of the separate investment companies. Under these plans, the University made contributions of \$70,334 and \$66,560 in 2011 and 2010, 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 \$16,325 and \$15,364 for the years ended June 30, 2011 and 2010, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

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Benefit expense for this plan for the years ended June 30, 2011 and 2010 includes the following components:

	<b>2011</b>	<b>2010</b>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 143,377	\$ 125,596
Service cost	2,917	2,562
Interest cost	7,337	7,636
Estimated plan participant contributions	2,013	1,654
Actuarial (gain)/loss	(8,033)	14,436
Benefits paid	(9,244)	(8,507)
Amendments	3,160	-
	<u>\$ 141,527</u>	<u>\$ 143,377</u>
Benefit obligation at end of year	\$ <u>141,527</u>	\$ <u>143,377</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	7,231	6,853
Participant contributions	2,013	1,654
Benefits paid	(9,244)	(8,507)
	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets at end of year	\$ <u>-</u>	\$ <u>-</u>
<b>Components of accrued benefit:</b>		
Funded status	\$ (141,527)	\$ (143,377)
Unrecognized net actuarial loss	18,678	27,663
Unrecognized prior service cost	8,863	10,822
	<u>\$ (113,986)</u>	<u>\$ (104,892)</u>
Accrued benefits	\$ <u>(113,986)</u>	\$ <u>(104,892)</u>
<b>Amounts recognized in the consolidated balance sheets consist of:</b>		
Accrued post-retirement benefit cost	\$ (104,892)	\$ (96,381)
Net post-retirement benefit expense	(16,325)	(15,364)
Employer contributions	7,231	6,853
Accrued benefits	\$ (113,986)	\$ (104,892)
Amount recorded in unrestricted net assets	(27,541)	(38,485)
Net amount recognized in unrestricted net assets	<u>\$ (141,527)</u>	<u>\$ (143,377)</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 2,917	\$ 2,562
Interest cost	7,337	7,636
Amortization of prior service cost	6,071	5,166
	<u>\$ 16,325</u>	<u>\$ 15,364</u>
Net periodic benefit cost	\$ <u>16,325</u>	\$ <u>15,364</u>

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

	<b>Estimated Contributions / Benefit Payments</b>	<b>Estimated 28% Rx Subsidy Payments</b>
2012	\$ 8,896	\$ 1,018
2013	9,578	1,126
2014	10,143	1,156
2015	10,363	1,042
2016	10,491	1,063
2017 to 2021	53,721	2,428

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

	<b>2011</b>	<b>2010</b>
Discount rate for obligation	5.25%	5.25%
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%	10.00%
Health care cost trend rate – final	4.50%	4.50%

The rate increase in health care costs was assumed to decrease to 4.50% in 2017 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:

	<b>One Percentage Point Increase</b>	<b>One Percentage Point Decrease</b>
Effect on total of service and interest cost components	\$ 627	\$ (519)
Effect on post-retirement benefit obligation	\$ 4,932	\$ (4,227)

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.

Employers are required 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. In addition, employers are required to measure the funded status of the plan as of the consolidated balance sheet date.

**Post-employment Benefits – University**

Accrued post-employment benefits of the University amounted to \$65,393 and \$59,330 at June 30, 2011 and 2010, respectively.

**Self-insurance Plans – Related Entity (Highland Hospital and Affiliates)**

A related entity is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of \$5,864 is maintained as security for workers compensation claims. Included in accrued pension, post-retirement, and post-employment at June 30, 2011 and 2010 are accruals of approximately \$10,534 and \$9,252, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of \$1,767 and \$1,516 at June 30, 2011 and 2010, respectively. This liability has been discounted by 1.75% and 2.00% at June 30, 2011 and 2010, respectively.

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**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 \$6,590 and \$7,449 was incurred for the years ended December 31, 2010 and 2009, respectively, and is recorded in fringe benefits in the consolidated statement of activities. In addition, a pension related benefit other than net periodic pension cost of (\$4,635) and \$6,585 for the years ending December 31, 2010 and 2009, respectively, was recorded in other changes on the consolidated statement of activities.

Pension expense for this plan for the years ended December 31, 2010 and 2009 includes the following components (in thousands):

	<u>2010</u>	<u>2009</u>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 105,693	\$ 93,046
Service cost	4,739	3,903
Interest cost	6,235	5,596
Curtailment	(839)	-
Actuarial (gain)/loss	8,458	5,668
Benefits paid	(2,804)	(2,520)
Benefit obligation at end of year	<u>\$ 121,482</u>	<u>\$ 105,693</u>
	<u>2010</u>	<u>2009</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 73,648	\$ 56,161
Actual return on plan assets	7,657	14,547
Employer contribution	6,000	5,703
Benefits paid	(2,805)	(2,520)
Administrative expenses paid	(288)	(243)
Fair value of plan assets at end of year	<u>\$ 84,212</u>	<u>\$ 73,648</u>

	<u>2010</u>	<u>2009</u>
<b>Amounts recognized in the balance sheets consist of:</b>		
Accrued benefits	\$ (5,016)	\$ (3,867)
Amount recognized in unrestricted net assets	<u>(32,254)</u>	<u>(28,178)</u>
Funded Status	<u>\$ (37,270)</u>	<u>\$ (32,045)</u>

<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 4,739	\$ 3,903
Interest cost	6,235	5,597
Expected return on plan assets	(6,401)	(4,946)
Amortization (gain)/loss	<u>2,017</u>	<u>2,895</u>
Net periodic benefit cost	<u>\$ 6,590</u>	<u>\$ 7,449</u>

<b>Weighted-average assumptions as of December 31:</b>		
Discount rate for obligation	5.48%	5.97%
Discount rate for pension expense	5.97%	6.09%
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 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:

	<u>2010</u>	<u>2009</u>
<b>Weighted-average assumptions by asset categories:</b>		
Equity securities	54%	56%
Fixed income securities	40%	30%
Cash and other investments	6%	14%
	<u>100%</u>	<u>100%</u>

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Estimated future benefit payments for the years ending December 31:

2011	\$ 2,816
2012	3,130
2013	3,636
2014	4,053
2015	4,533
2016 to 2020	34,462
Total estimated future payments	<u>\$ 52,630</u>

The related entity expects to contribute \$6,750 to the plan in 2011 and contributed \$6,000 to the plan in 2010.

The plan's asset allocation policy states the assets should be allocated as follows:

	<u>Target Allocation</u>	<u>Range</u>
Domestic equity	25%	20-30%
International equity	25%	20-35%
Fixed income	20%	20-40%
Inflation protection assets	18%	5-30%
Hedge funds/absolute return	10%	5-15%
Cash and equivalents	2%	0-5%

In addition, the total equity commitment should not exceed 75% of assets.

The asset allocation ranges established by this investment policy represent a long-term perspective, and as such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

Inflows and disbursements should be allocated such that the assets are rebalanced toward the target allocation.

The plan assets are invested with an outside trustee for the sole benefit of the plan participants. Investments are managed to maximize total return while maintaining a prudent level of risk.

The following assets were recorded at fair value within the plan assets of the related entity as of December 31, 2010 and 2009, respectively. Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar and/or inputs other than quoted prices that are observable for the asset or liability. Level 3, which primarily consists of a mutual fund investing in publicly traded stock, bonds, short-term investments, preferred stocks, warrants, asset backed securities, and mortgage backed securities.

The following assets were recorded at fair value within the plan assets of the related entity as of December 31

<b>Description</b>				<b>2010 Total Fair Value</b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Cash	\$ 1,411	\$ -	\$ -	\$ 1,411
Mutual fund – global balanced asset	41,135	-	-	41,135
Mutual fund – multi asset	-	41,666	-	41,666
	<u>\$ 42,546</u>	<u>\$ 41,666</u>	<u>\$ -</u>	<u>\$ 84,212</u>

<b>Description</b>				<b>2009 Total Fair Value</b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Cash	\$ 304	\$ -	\$ -	\$ 304
Mutual fund – global balanced asset	37,411	-	-	37,411
Mutual fund – multi asset	-	-	35,933	35,933
	<u>\$ 37,715</u>	<u>\$ -</u>	<u>\$ 35,933</u>	<u>\$ 73,648</u>

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**(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 influence 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:

	<u>2010</u>	<u>2009</u>
<b>Results of operations</b>		
Net earned premiums	\$ 210,377	\$ 265,352
Expenses	(244,235)	(283,751)
Investment income and realized gains on sales of marketable securities	<u>43,927</u>	<u>24,663</u>
Net income	10,069	6,264
Other comprehensive income	<u>58,824</u>	<u>144,387</u>
Comprehensive income	68,893	150,651
Net capital additions (withdrawals) by shareholders	<u>4,765</u>	<u>(216)</u>
Change in shareholders' equity	\$ <u>73,658</u>	\$ <u>150,435</u>
<b>Financial position</b>		
Total assets	\$ 2,423,247	\$ 2,144,835
Total liabilities	<u>2,194,579</u>	<u>1,989,825</u>
Shareholders' equity	\$ <u>228,668</u>	\$ <u>155,010</u>

**(11) Professional Liability Claims**

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 maximum coverage for the Medical Center is \$221,500 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 \$31,995 and \$34,224 as of June 30, 2011 and 2010, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheet.

**(12) Fair Value of Financial Instruments**

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure fair value. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of observable inputs to its valuation. Hierarchical levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Valuations are based on quoted prices that are readily and regularly available in active markets. Valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations are based on quoted prices in active markets for similar assets or liabilities, quoted

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prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

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The following tables present the financial instruments carried at fair value as of June 30 on the consolidated balance sheet based on the valuation hierarchy defined above:

	<b>Quoted Market Prices (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>2011 Total Fair Value</b>
<u>Assets</u>				
Cash and cash equivalents	\$ -	\$ 16,465	\$ -	\$ 16,465
Collateral held for securities lending	-	69,282	-	69,282
<b>Operating and long term investments:</b>				
Cash and cash equivalents	71,574	72,446	-	144,020
Debt securities				
Asset backed securities	-	19,347	-	19,347
Bank loans	-	692	-	692
Bond funds	68,576	-	1,608	70,184
Corporate bonds	-	71,526	107	71,633
Government bonds & securities	-	47,636	-	47,636
Non-government backed securities	-	633	-	633
Mortgage backed bonds	-	7,434	-	7,434
Other	7,633	23,188	-	30,821
Common, mutual fund & preferred stock				
Common stock	226,346	609	-	226,955
Equity exchange traded funds	135	-	-	135
Mutual funds (domestic)	17,593	21,843	-	39,436
Mutual funds (global)	5,312	-	-	5,312
Mutual funds (international)	49,147	190,019	-	239,166
Preferred stock	319	-	-	319
Real assets	323	-	262,627	262,950
Private equity	-	-	400,557	400,557
Hedge funds	-	99,001	294,549	393,550
Other	6,317	7,650	17,665	31,632
<b>Total operating and long term investments:</b>	<b>453,275</b>	<b>562,024</b>	<b>977,113</b>	<b>1,992,412</b>
Interest in net assets of foundation	-	-	13,743	13,743
Trusts held by others	-	-	49,780	49,780
<b>Total assets at fair value</b>	<b>\$ 453,275</b>	<b>\$ 647,771</b>	<b>\$ 1,040,636</b>	<b>\$ 2,141,682</b>
<u>Liabilities</u>				
Interest rate swap payable	-	24,984	-	24,984
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 24,984</b>	<b>\$ -</b>	<b>\$ 24,984</b>

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	<u>Quoted Market Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>2010 Total Fair Value</u>
<u>Assets</u>				
Cash and cash equivalents	\$ -	\$ 14,734	\$ -	\$ 14,734
Collateral held for securities lending	-	79,283	-	79,283
<b>Operating and long term investments:</b>				
Cash and cash equivalents	95,200	75,627	-	170,827
Debt securities				
Asset backed securities	-	14,780	-	14,780
Bank loans	-	577	-	577
Bond funds	57,939	-	1,595	59,534
Corporate bonds	-	64,948	126	65,074
Government bonds & securities	-	41,708	-	41,708
Non-government backed securities	-	987	-	987
Mortgage backed bonds	-	9,962	-	9,962
Other	5,706	24,654	24	30,384
Common, mutual fund & preferred stock				
Common stock	192,341	485	-	192,826
Equity exchange traded funds	93	-	-	93
Mutual funds (domestic)	-	34,606	-	34,606
Mutual funds (global)	-	181,531	-	181,531
Mutual funds (international)	35,700	-	-	35,700
Preferred stock	48	-	-	48
Real assets	323	-	206,707	207,030
Private equity	-	-	337,226	337,226
Hedge funds	-	100,969	270,736	371,705
Other	4,780	5,253	12,508	22,541
<b>Total operating and long term investments:</b>	<b>392,130</b>	<b>556,087</b>	<b>828,922</b>	<b>1,777,139</b>
Interest in net assets of foundation	-	-	12,370	12,370
Trusts held by others	-	-	43,119	43,119
<b>Total assets at fair value</b>	<b>\$ 392,130</b>	<b>\$ 650,104</b>	<b>\$ 884,411</b>	<b>\$ 1,926,645</b>
<u>Liabilities</u>				
Interest rate swap payable	-	28,339	-	28,339
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 28,339</b>	<b>\$ -</b>	<b>\$ 28,339</b>

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The valuation methodologies for assets and liabilities measured at fair value described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The University believes its valuation methods are appropriate and consistent with other market participants. However, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Fair value for Level 1 is based upon quoted market prices in active markets. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 3 consists primarily of the University's alternative investments (primarily limited partnership interests in absolute return, hedge funds, private equity, real estate, and natural resource funds) and represents the ownership interest in the net asset value (NAV) of the respective partnerships. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determined fair values. The fair values of the securities held by limited partnerships that do not have readily observable fair values are determined by the general partner and are based on historical cost, appraisals, and/or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, the costs of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

Interest in net assets of foundation are considered Level 3 assets as they represent the University's share of net assets as reported by the foundation.

Investments in perpetual trusts held by others are valued at the fair value of the assets contributed to the trusts, and are considered Level 3 assets.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The University's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

Fair value of interest rate swaps in the consolidated balance sheets:

	<b>Notional Amount</b>	<b>2011 Level 2 Fair Value</b>	<b>2010 Level 2 Fair Value</b>
Accounts payable	\$ 226,085	\$ 24,984	\$ 28,339

Effect of interest swaps on statements of activities:

	<b>2011 Unrealized Gain/(Loss)</b>	<b>2010 Unrealized Gain/(Loss)</b>
Non-operating net appreciation / (depreciation)	\$ 3,355	\$ (8,880)

Activity related to interest rate swaps affect unrestricted net assets, and in the consolidated statement of cash flows, are included in changes in accounts payable and accrued expenses in the operating activities section.

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The following tables are rollforwards of the consolidated balance sheet amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above.

	<u>Balance June 30, 2010</u>	<u>Realized Gains/(Losses)</u>	<u>Unrealized Gains/(Losses)</u>	<u>Purchases, Sales and Settlements, Net</u>	<u>Transfers In/(Out) of Level 3</u>	<u>Balance June 30, 2011</u>
Investments:						
Debt securities	\$ 1,745	\$ 12	\$ (9)	\$ (33)	\$ -	\$ 1,715
Private equity	337,226	(4,882)	35,596	32,617	-	400,557
Hedge funds	270,736	(2,031)	25,736	108	-	294,549
Real assets and other	219,215	(9,941)	34,860	36,155	3	280,292
Interest in net assets of a foundation	12,370	(566)	2,413	813	(1,287)	13,743
Investments of trusts held by others	43,119	(2,011)	8,577	95	-	49,780
Total fair value	<u>\$ 884,411</u>	<u>\$ (19,419)</u>	<u>\$ 107,173</u>	<u>\$ 69,755</u>	<u>\$ (1,284)</u>	<u>\$ 1,040,636</u>

	<u>Balance June 30, 2009</u>	<u>Realized Gains/(Losses)</u>	<u>Unrealized Gains/(Losses)</u>	<u>Purchases, Sales and Settlements, Net</u>	<u>Transfers In/(Out) of Level 3</u>	<u>Balance June 30, 2010</u>
Investments:						
Debt securities	\$ 731	\$ 22	\$ 21	\$ (394)	\$ 1,365	\$ 1,745
Private equity	266,346	(2,534)	39,700	33,714	-	337,226
Hedge funds	359,852	31,007	136	(19,330)	(100,929)	270,736
Real assets and other	207,931	14	(17,071)	27,693	648	219,215
Interest in net assets of a foundation	11,653	248	594	800	(925)	12,370
Investments of trusts held by others	40,691	689	1,652	87	-	43,119
Total fair value	<u>\$ 887,204</u>	<u>\$ 29,446</u>	<u>\$ 25,032</u>	<u>\$ 42,570</u>	<u>\$ (99,841)</u>	<u>\$ 884,411</u>

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All net realized and unrealized gains/(losses) in the table above are reflected in net appreciation of long-term investment activities in the accompanying statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2011.

The University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, natural resources, real estate, and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University's investments. Furthermore, investments which can be redeemed at NAV by the University on the measurement date or within 90 days are classified as Level 2. Investments which cannot be redeemed on the measurement date or within 90 days are classified as Level 3. The new guidance did not materially affect the University's consolidated financial statements.

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<u>Strategy</u>	<u>2011 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Hedge funds:				
Long/short	\$ 196,939	\$ -	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	196,611	-	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
Private equity:				
			<u>Remaining Fund Life</u>	<u>Drawdown Period</u>
Buyouts	267,250	65,527	1 to 10 years	1 to 7 years
Venture capital	79,250	24,460	1 to 12 years	1 to 6 years
Distressed	54,057	7,426	1 to 5 years	1 to 3 years
Real assets:				
Real estate	158,632	88,115	1 to 10 years	1 to 5 years
Natural resources	103,995	56,419	1 to 12 years	1 to 5 years
<b>Total alternative investments</b>	<b>\$ 1,056,734</b>	<b>\$ 241,947</b>		

<u>Strategy</u>	<u>2010 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Hedge funds:				
Long/short	\$ 174,413	\$ -	Quarterly, annually, 3 year rolling lock-ups	45 - 90 days
Multi-strategy	197,292	-	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
Private equity:				
			<u>Remaining Fund Life</u>	<u>Drawdown Period</u>
Buyouts	230,808	77,758	1 to 8 years	1 to 3 years
Venture capital	57,824	38,866	1 to 13 years	1 to 7 years
Distressed	48,594	17,658	1 to 5 years	1 to 3 years
Real assets:				
Real estate	115,347	108,350	1 to 10 years	1 to 3 years
Natural resources	91,360	62,805	1 to 12 years	1 to 5 years
<b>Total alternative investments</b>	<b>\$ 915,638</b>	<b>\$ 305,437</b>		

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**(13) Lines of Credit**

The University has a \$50,000 committed line of credit agreement with Northern Trust Company that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2011 and 2010, respectively.

The University has a \$75,000 committed line of credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2011 and 2010, respectively.

The University has a \$50,000 committed line of credit agreement with U.S. Bank, N.A. that is subject to annual credit review and renewal. Of this total, \$1,000 and \$0 were outstanding at June 30, 2011 and 2010, respectively.

The University has \$788 in standby letters of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities of other financial obligations.

The University had a \$25,000 line of credit agreement with First Niagara Bank which expired on July 13, 2010. Under this agreement, no amounts were outstanding at June 30, 2011 and 2010, respectively.

**(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, 2011, the University has entered into construction contracts and commitments aggregating \$603,405 (\$505,332 at June 30, 2010) of which

\$484,210 (\$423,544 at June 30, 2010) had been fulfilled.

**(15) Leases**

The University leases research laboratories, office space, and equipment under operating leases expiring through August 2023. Rental expense for the years ended June 30, 2011 and 2010 totaling \$33,799 and \$31,358, respectively, is included in the accompanying consolidated statements of activities.

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:

	<u>University</u>	<u>Related Entities</u>
2012	\$ 28,793	\$ 3,520
2013	26,412	2,856
2014	21,608	2,574
2015	16,302	2,480
2016	13,963	2,492
Thereafter	<u>41,259</u>	<u>6,449</u>
Total minimum lease payments	<u>\$ 148,337</u>	<u>\$ 20,371</u>

**(16) Scholarships, Grants, and Fellowships**

The University awarded a total of \$142,321 and \$132,222 in scholarships, grants, and fellowships during fiscal years 2011 and 2010, respectively. In addition, the University awarded \$21,317 and \$18,869, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, \$20,514 and \$21,058, 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.

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**(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:

	<u>2011</u>	<u>2010</u>
Instruction	\$ 300,191	\$ 286,736
Research	334,396	304,557
Public service	10,235	10,541
Libraries and other academic support	60,165	53,376
Student services	45,212	42,534
Institutional support	89,749	81,283
Hospital and faculty practice patient care	1,721,125	1,654,447
Auxiliary enterprises	<u>90,164</u>	<u>84,649</u>
 Total functional expenses	 <u>\$ 2,651,237</u>	 <u>\$ 2,518,123</u>

**(18) Subsequent Events**

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated September 1, 2011, MCIDC issued and sold \$161,660 of bonds known as the University of Rochester Tax-Exempt Revenue Bonds, Series 2011, consisting of \$122,340 Series 2011A bonds and \$39,320 Series 2011B bonds. The Series 2011 bonds were issued at a premium of \$14,088 resulting in proceeds of \$175,748.

Series 2011A bonds were issued to finance (1) the renovation of Danforth Dining Center; (2) the construction of a new building to house the University's Digital Media Center and Fabrication Lab; (3) renovations to laboratories and offices throughout the River Campus and Medical Center; (4) various renovations for Fauver Stadium; (5) various deferred maintenance and renovation projects at the Eastman School of Music and related

residential halls; (6) the construction of a new undergraduate residence hall; (7) the renovation of various undergraduate and graduate residential facilities; (8) construction of the Raymond F. LeChase Hall to house the University's Warner School of Education; (9) improvements and expansion of the central utilities plant; (10) renovation and modernization of the Medical Center storm sewer infrastructure, and (11) a portion of the Cancer Center Vertical Expansion improvements. A portion of Series 2011A was also used to refinance all of the outstanding bonds for Series 2001A.

Series 2011B bonds were issued to finance (1) a portion of the Cancer Center Vertical Expansion improvements; (2) the relocation of the Bone Marrow Transplant Unit; (3) the replacement of the air handler equipment within Strong Memorial Hospital, and (4) replacement of certain existing angiographic equipment.

The loan agreement and the obligation of the University to make payments under the loan agreement are general obligations of the University.

The University has performed an evaluation of subsequent events through October 20, 2011 the date on which the consolidated financial statements were issued.