NEW ISSUE | **Moody's "Aa3"**
Full Book-Entry | **Standard & Poor's "A+"**
Fitch "AA-"
(See "Ratings" herein)

In the opinion of Harris Beach PLLC, Bond Counsel to the Issuer, based on existing statutes, regulations, court decisions and administrative rulings, and assuming compliance with the tax covenants described herein, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the Series 2011 Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2011 Bonds is, however, included in the computation of "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that, based on existing statutes, interest on the Series 2011 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. See "TAX MATTERS" in this Official Statement.

$161,660,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2011

UNIVERSITY of ROCHESTER

$122,340,000
Series 2011A

$39,320,000
Series 2011B

Dated: Date of Delivery | **Due: July 1, as shown on inside cover**

The Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A (the "Series 2011A Bonds") and the Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B (the "Series 2011B Bonds" and, together with the Series 2011A Bonds, the "Series 2011 Bonds") will be issued pursuant to an Indenture of Trust, dated as of August 1, 2011 (the "Indenture"), by and between the Monroe County Industrial Development Corporation (the "Issuer") and Manufacturers and Traders Trust Company, as trustee (the "Trustee"), and are payable from and secured by (i) a pledge and assignment to the Trustee of certain payments to be made under a Loan Agreement, dated as of August 1, 2011 (the "Loan Agreement"), by and between the Issuer and University of Rochester (the "University"), and (ii) the funds and accounts (except the Rebate Fund) held by the Trustee under the Indenture. The Loan Agreement is a general obligation of the University and requires the University to pay, among other things, amounts sufficient to pay the principal, sinking fund installments and Redemption Price of and interest on the Series 2011 Bonds as such payments become due. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS" herein.

The Series 2011 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as described herein under the heading "THE SERIES 2011 BONDS — Redemption and Purchase in Lieu of Redemption Prior to Maturity."

The proceeds of the sale of the Series 2011A Bonds, together with other available funds of the University, will be used to (i) finance the University Facility, (ii) finance the payment of capitalized interest on a portion of the Series 2011A Bonds, (iii) redeem and repay all or a portion of the outstanding principal amount of the Dormitory Authority of the State of New York University of Rochester Revenue Bonds, Series 2001A, and (iv) pay certain costs of issuance of the Series 2011A Bonds. The proceeds of the sale of the Series 2011B Bonds, together with other available funds of the University, will be used to (i) finance the Hospital Facility and (ii) pay certain costs of issuance of the Series 2011B Bonds. See "THE PROJECT" herein.

The Series 2011 Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York, which will act as securities depository (as defined herein) for the Series 2011 Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple of $5,000 in excess thereof. Purchasers will not receive certificates representing their ownership interest in the Series 2011 Bonds. Interest on the Series 2011 Bonds will be payable on January 1, 2012, and semi-annually thereafter on July 1 and January 1 in each year until maturity.

The Series 2011 Bonds are special and limited obligations of the Issuer and do not constitute a debt or pledge of the faith and credit of the Issuer, the State of New York, or any taxing authority or political subdivision thereof, including Monroe County, New York, for the payment of the principal or Redemption Price thereof or interest thereon. The Issuer has no taxing authority.

The Series 2011 Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer, the receipt of the approving opinion as to the validity of the Series 2011 Bonds of Harris Beach PLLC, Rochester, New York, Bond Counsel, and certain conditions. Certain legal matters will be passed upon for the University by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach PLLC, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. It is anticipated that the Series 2011 Bonds will be available for delivery in New York, New York, or as may be agreed upon, on or about September 1, 2011.

J.P. Morgan | **Barclays Capital**

August 18, 2011

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

$122,340,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2011A

Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†	Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2012	$3,285,000	2.000%	0.300%	61075TBH0	2022	$4,250,000	5.000%	3.140%[1]	61075TBT4
2013	3,590,000	3.000	0.580	61075TBJ6	2023	4,445,000	5.000	3.340[1]	61075TBU1
2014	4,170,000	4.000	0.830	61075TBK3	2024	4,685,000	5.000	3.510[1]	61075TBV9
2015	4,705,000	5.000	1.030	61075TBL1	2025	4,920,000	5.000	3.640[1]	61075TBW7
2016	4,930,000	5.000	1.430	61075TBM9	2026	5,160,000	5.000	3.800[1]	61075TBX5
2017	5,180,000	5.000	1.800	61075TBN7	2027	5,060,000	5.000	3.910[1]	61075TBY3
2018	5,440,000	5.000	2.170	61075TBP2	2028	5,320,000	5.000	4.000[1]	61075TBZ0
2019	2,720,000	4.000	2.490	61075TCF3	2029	5,590,000	5.000	4.090[1]	61075TCA4
2019	3,000,000	5.000	2.490	61075TBQ0	2030	5,875,000	5.000	4.180[1]	61075TCB2
2020	4,020,000	5.000	2.760	61075TBR8	2031	6,165,000	5.000	4.270[1]	61075TCC0
2021	4,240,000	5.000	2.930	61075TBS6					

$11,250,000 5.000% Term Bonds Due July 1, 2036 Priced at 103.609% to Yield 4.540%[1] CUSIP Number 61075TCD8†

$14,340,000 5.000% Term Bonds Due July 1, 2041 Priced at 103.129% to Yield 4.600%[1] CUSIP Number 61075TCE6†

$39,320,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2011B

Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†	Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2012	$175,000	2.000%	0.350%	61075TCG1	2022	$1,085,000	4.000%	3.140%[1]	61075TCS5
2013	215,000	3.000	0.580	61075TCH9	2023	1,135,000	5.000	3.340[1]	61075TCT3
2014	215,000	3.000	0.830	61075TCJ5	2024	1,190,000	5.000	3.510[1]	61075TCU0
2015	945,000	4.000	1.030	61075TCK2	2025	1,245,000	5.000	3.640[1]	61075TCV8
2016	985,000	3.000	1.430	61075TCL0	2026	1,310,000	5.000	3.800[1]	61075TCW6
2017	1,010,000	5.000	1.800	61075TCM8	2027	1,235,000	5.000	3.910[1]	61075TCX4
2018	1,070,000	5.000	2.170	61075TCN6	2028	1,300,000	5.000	4.000[1]	61075TCY2
2019	950,000	4.000	2.490	61075TCP1	2029	1,365,000	4.000	4.110	61075TCZ9
2020	985,000	5.000	2.760	61075TCQ9	2030	1,420,000	4.000	4.200	61075TDA3
2021	1,035,000	5.000	2.930	61075TCR7	2031	1,470,000	4.000	4.290	61075TDB1

$6,565,000 4.500% Term Bonds Due July 1, 2035 Priced at 98.271% to Yield 4.620% CUSIP Number 61075TDD7†

$12,415,000 5.000% Term Bonds Due July 1, 2041 Priced at 103.129% to Yield 4.600%[1]CUSIP Number 61075TDC9†

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† Copyright, American Bankers Association. CUSIP (Committee on Uniform Securities Identification Procedures) data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. CUSIP numbers on the inside cover page of this Official Statement have been assigned by an independent company not affiliated with the Issuer, the University, the Underwriters or the Trustee, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Holders of the Series 2011 Bonds and no representation is made as to the correctness of the CUSIP numbers printed above. CUSIP numbers assigned to the Series 2011 Bonds may be changed during the term of the Series 2011 Bonds based on a number of factors including but not limited to the refunding or defeasance in whole or in part of such Series 2011 Bonds or the use of secondary market financial products applicable to all or a portion of the Series 2011 Bonds. None of the Issuer, the University, the Underwriters or the Trustee has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers printed above.

(1) Priced at the stated yield to the July 1, 2021 optional redemption date at a Redemption Price equal to 100% of the principal amount of Series 2011 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the redemption date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, IS NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE SERIES 2011 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesperson or other person has been authorized by the Issuer, the University or the Underwriters to give any information or to make any representations with respect to the Series 2011 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer, the University, The Depository Trust Company and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Issuer (except for the statements under the captions "INTRODUCTION – The Issuer," "THE ISSUER" and "LITIGATION – The Issuer" (only insofar as such information pertains to the Issuer)) or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Series 2011 Bonds are not and will not be registered under the Securities Act of 1933, as amended, or under any state securities laws, and the Indenture has not been and will not be qualified under the Trust Indenture Act of 1939 because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Note Regarding Forward Looking Statements

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, changes in economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the University or the Issuer. Such forward-looking statements speak only as of the date of this Official Statement. The University and the Issuer disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the University's or the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

OFFICIAL STATEMENT

of the

MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION

Relating to

$161,660,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2011

$122,340,000	**$39,320,000**
Series 2011A	**Series 2011B**

INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices attached hereto, is to provide information in connection with the issuance by the Monroe County Industrial Development Corporation (the "Issuer") of its $122,340,000 aggregate principal amount of Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A (the "Series 2011A Bonds") and $39,320,000 aggregate principal amount of Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B (the "Series 2011B Bonds" and, together with the Series 2011A Bonds, the "Series 2011 Bonds"). The following is a brief description of certain information concerning the Series 2011 Bonds, the Issuer and University of Rochester (the "University"). A more complete description of such information and additional information that may affect decisions to invest in the Series 2011 Bonds is contained throughout this Official Statement, which should be read in its entirety. Capitalized terms used in this Official Statement shall have the meanings specified in "APPENDIX C – Certain Definitions." Capitalized terms not otherwise defined in this Official Statement have the meanings provided in the specified documents.

Purpose of the Issue

The proceeds of the sale of the Series 2011A Bonds, together with other available funds of the University, will be used to (i) finance the University Facility, (ii) finance the payment of capitalized interest on a portion of the Series 2011A Bonds, (iii) redeem and repay all or a portion of the outstanding principal amount of the Dormitory Authority of the State of New York University of Rochester Revenue Bonds, Series 2001A, and (iv) pay certain costs of issuance of the Series 2011A Bonds. The proceeds of the sale of the Series 2011B Bonds, together with other available funds of the University, will be used to (i) finance the Hospital Facility and (ii) pay certain costs of issuance of the Series 2011B Bonds. See "THE PROJECT" herein.

Authorization of the Series 2011 Bonds

The Series 2011 Bonds are authorized to be issued pursuant to a resolution of the Issuer adopted on August 9, 2011 (the "Resolution"). The Series 2011 Bonds will be issued under an Indenture of Trust, dated as of August 1, 2011 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). See "THE SERIES 2011 BONDS" herein.

The Issuer

The Issuer is a not-for-profit corporation constituting a local development corporation duly organized and existing under the laws of the State of New York (the "State"). See "THE ISSUER" herein.

The University and the Hospital/Medical Center

The University is an independent, coeducational, nonsectarian, nonprofit institution of higher education and research chartered by the Board of Regents of the State. The University is located in Rochester, New York. The University Medical Center, an integrated division of the University, consists of Strong Memorial Hospital (the "Hospital") and four other divisions. The Hospital is the largest acute care general hospital in Rochester, New York and serves both as a regional/national tertiary care community hospital and a specialized referral center for a 14-county area. The Hospital is currently licensed to operate 749 beds. See "APPENDIX A – Certain Information Concerning the University and the Hospital/Medical Center" and "APPENDIX B – Consolidated Financial Statements of University of Rochester and Consolidated Entities and Report of Independent Auditors."

Limited Obligations of the Issuer

THE SERIES 2011 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER. THE ISSUER IS OBLIGATED TO PAY PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON THE SERIES 2011 BONDS SOLELY FROM THE TRUST ESTATE UNDER THE TERMS OF THE INDENTURE AND AVAILABLE FOR SUCH PAYMENT. THE SERIES 2011 BONDS ARE NOT A DEBT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING MONROE COUNTY, NEW YORK ("MONROE COUNTY"), AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING MONROE COUNTY, SHALL BE LIABLE THEREON. THE SERIES 2011 BONDS SHALL NOT BE PAYABLE FROM ANY OTHER FUNDS OF THE ISSUER. THE ISSUER HAS NO TAXING POWERS.

General

The Series 2011 Bonds will be issued as "book-entry-only" obligations to be held by The Depository Trust Company, as depository for the Series 2011 Bonds. See "THE SERIES 2011 BONDS – Book-Entry Only System" herein.

The Series 2011 Bonds will be equally and ratably secured as to principal, premium, if any, and interest by the Indenture. The Indenture constitutes a first lien on the Trust Estate (as defined in the Indenture).

The Series 2011 Bonds are special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2011 Bonds are payable solely from the revenues received by the Issuer pursuant to the Loan Agreement (other than with respect to the Unassigned Rights) and all funds and accounts (excluding the Rebate Fund) established by the Indenture. Pursuant to the Loan Agreement, dated as of August 1, 2011 (the "Loan Agreement"), by and between the University and the Issuer, the University is obligated to make payments equal to debt service on the Series 2011 Bonds. The aforementioned revenues consist of the payments required to be made by the University under the Loan Agreement with respect to the Series 2011 Bonds on account of the principal and Redemption Price of and interest on the Series 2011 Bonds.

To secure the Series 2011 Bonds, the Issuer will execute and deliver to the Trustee a Pledge and Assignment with an acknowledgement thereof by the University, dated as of August 1, 2011, from the Issuer to the Trustee (the "Assignment"), which Assignment will assign to the Trustee certain of the

Issuer's rights (except the Unassigned Rights) under the Loan Agreement. Pursuant to the Assignment, loan payments made by the University under the Loan Agreement are to be paid directly to the Trustee.

The purchase of the Series 2011 Bonds involves a degree of risk. Prospective purchasers should carefully consider the entire Official Statement, including the information under the caption "BONDHOLDERS' RISKS" herein.

The Series 2011 Bonds will be sold and delivered by the Issuer to the Underwriters on a negotiated basis pursuant to a bond purchase contract by and among the Issuer, the University and the Underwriters. See "UNDERWRITING" herein.

The following summaries are not comprehensive or definitive. All references to the Series 2011 Bonds, the Indenture, the Loan Agreement and the Assignment are qualified in their entirety by the definitive forms thereof. Copies of the documents are available for inspection at the principal corporate trust office of the Trustee currently located at One M&T Plaza, 7th Floor, Buffalo, New York 14203.

THE SERIES 2011 BONDS

Authorization

The Series 2011 Bonds are authorized to be issued pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York, as amended (the "Act"), the Issuer's Certificate of Incorporation, Resolution No. 288 of 2009 of the Monroe County Legislature and Resolution No. 100 of 2010 of the Monroe County Legislature and the Resolution.

General

The Series 2011 Bonds will mature on July 1 of the years and in the amounts shown on the inside cover page hereof. The Series 2011 Bonds will be dated the date of their delivery and will bear interest from such date. Interest on the Series 2011 Bonds will be payable on January 1, 2012, and semi-annually thereafter on each July 1 and January 1 at the rates per annum set forth on the inside cover page hereof. The Series 2011 Bonds shall be issued in book-entry form in denominations of $5,000 or any integral multiple of $5,000 in excess thereof.

The Series 2011 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as the securities depository (the "Securities Depository") for the Series 2011 Bonds. Purchasers will not receive certificates representing their interest in the Series 2011 Bonds. See "Book-Entry Only System" below.

Subject to the provisions of the Indenture, the principal of and premium, if any, on the Series 2011 Bonds shall be payable in lawful money of the United States of America at the Office of the Trustee, or of its successor in trust. Interest on Series 2011 Bonds due on any Bond Payment Date shall be payable to the Person in whose name such Bond is registered at the close of business on the Regular Record Date with respect to such Bond Payment Date, irrespective of any transfer or exchange of such Bond subsequent to such Regular Record Date and prior to such Bond Payment Date, unless the Issuer shall default in the payment of interest due on such Bond Payment Date. In the event of any such default, such defaulted interest shall be payable to the Person in whose name such bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest established by notice mailed by the Trustee to the Owners of Series 2011 Bonds not less than fifteen (15) days preceding such Special Record Date. Such notices shall be mailed to the Persons in whose name the Series 2011 Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. Payment of interest on the Series 2011 Bonds will be made by (i) check or draft mailed to the address of the Person in whose name such Series 2011 Bonds are registered, as such address appears on the registration books maintained by the Trustee, or (ii) at such other address furnished to the Trustee in writing by the Holder at least five (5) Business Days prior to the date of payment, or at the election of an Owner of at least $1,000,000 aggregate principal amount of Series 2011 Bonds, by bank wire transfer to a bank account maintained by such Owner in the United States of America designated in written instructions delivered to the Trustee at least five (5) Business Days prior to the date of such payment, which written instructions may relate to multiple Bond Payment Dates.

Redemption and Purchase in Lieu of Redemption Prior to Maturity

Optional Redemption. The Series 2011 Bonds maturing after July 1, 2021 are subject to redemption by the Issuer at the option of the University on or after July 1, 2021, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount of the Series 2011 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the Redemption Date, upon receipt of notice from the Issuer, or the University on behalf of the Issuer, directing such redemption, which notice shall be sent to the Trustee at least thirty (30) days prior to the Redemption Date or such fewer number of days as shall be acceptable to the Trustee and shall specify (i) the principal amount of Series 2011 Bonds so to be called for redemption, and (ii) the applicable Redemption Price.

Mandatory Sinking Fund Redemption Without Premium.

The Series 2011A Bonds maturing on July 1, 2036 are subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
2032	$2,035,000
2033	2,135,000
2034	2,245,000
2035	2,360,000
2036	2,475,000*

*Stated maturity.

The Series 2011A Bonds maturing on July 1, 2041 are subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
2037	$2,595,000
2038	2,725,000
2039	2,860,000
2040	3,005,000
2041	3,155,000*

*Stated maturity.

The Series 2011B Bonds maturing on July 1, 2035 shall be subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
2032	$1,535,000
2033	1,605,000
2034	1,675,000
2035	1,750,000*

*Stated maturity.

The Series 2011B Bonds maturing on July 1, 2041 shall be subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
2036	$1,825,000
2037	1,915,000
2038	2,010,000
2039	2,115,000
2040	2,220,000
2041	2,330,000*

*Stated maturity.

Special Redemption. The Series 2011 Bonds are subject to redemption prior to maturity at the option of the Issuer (exercised at the direction of the University), in whole or in part on any interest payment date, at a redemption price equal to 100% of the principal amount of Series 2011 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Facility to which such proceeds relate, and (ii) from unexpended proceeds of the Series 2011 Bonds upon the abandonment of all or a portion of the Facility to which such unexpended proceeds relate due to a legal or regulatory impediment.

Purchase in Lieu of Redemption. If the Series 2011 Bonds are called for redemption in whole or in part pursuant to the terms of the Indenture, the Series 2011 Bonds called for redemption may be purchased in lieu of redemption in accordance with the Indenture. Purchase in lieu of redemption shall be available for all of the Series 2011 Bonds called for redemption or for such lesser portion of such Series 2011 Bonds in denominations of $5,000 or any integral multiple in excess thereof. The University may direct the Trustee to purchase all or such lesser portion of the Series 2011 Bonds so called for redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all of the Series 2011 Bonds called for redemption are to be purchased or, if less than all of the Series 2011 Bonds called for redemption are to be purchased, identify those Series 2011 Bonds to be purchased; and (iii) be received by the Trustee no later than 12:00 noon, New York City time, one Business Day prior to the Redemption Date.

Notice of Redemption

When Series 2011 Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Series 2011 Bonds in the name of the Issuer stating: (1) the Series 2011 Bonds to be redeemed; (2) the Redemption Date; (3) that such Series 2011 Bonds will be redeemed at the Office of the Trustee; (4) that on the Redemption Date there shall become due and payable upon each Series 2011 Bond to be redeemed the Redemption Price thereof (except in the case of a mandatory sinking fund redemption of Series 2011 Bonds without premium, in which case the principal will be due and payable on the Redemption Date and the interest will be paid on such date as provided in Article II of the Indenture); and (5) that from and after the Redemption Date interest thereon shall cease to accrue. The Trustee shall mail a copy of such notice postage prepaid, not less than thirty (30) days nor more than sixty (60) days prior to the Redemption Date, to each Holder at the address of such Holder appearing on the registration books of the Issuer, maintained by the Trustee, as Bond Registrar. Such mailing shall not be a condition precedent to such redemption, and failure to so mail any such notice to any of such Holders shall not affect the validity of the proceedings for the redemption of the Series 2011 Bonds.

Partial Redemption of Series 2011 Bonds

Upon surrender of any Series 2011 Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder thereof a new Series 2011 Bond or Series 2011 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2011 Bond surrendered.

Selection of Bonds for Redemption

If less than all Series 2011 Bonds of a series are to be redeemed, the Series 2011 Bonds of such series to be called for redemption shall be selected by lot.

Book-Entry Only System

Unless otherwise noted, the description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2011 Bonds, payment of interest and other payments on the Series 2011 Bonds to DTC Participants or Beneficial Owners of the Series 2011 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2011 Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2011 Bonds is based solely on information furnished by DTC for inclusion in this Official Statement. Accordingly, the Issuer, the University, the Trustee and the Underwriters do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with

DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2011 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Series 2011 Bonds. For example, Beneficial Owners of Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds within a maturity of the Series 2011 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, Redemption Price and interest payments on the Series 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Issuer or the Underwriters, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to the Issuer and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, then the Series 2011 Bonds shall no longer be restricted to being registered in the name of DTC's nominee, but shall be registered in whatever name or names Holders transferring or exchanging Series 2011 Bonds shall designate, in accordance with the provisions of the Indenture.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2011 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

NONE OF THE ISSUER, THE UNIVERSITY, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC OR THE DIRECT OR INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL, REDEMPTION PRICE OR INTEREST ON THE SERIES 2011 BONDS; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2011 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2011 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS

OF THE SERIES 2011 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2011 BONDS.

Additional Bonds

In accordance with the Indenture, the Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2011 Bonds for any of the following purposes: (1) to pay the cost of completing the Facility (or completing an addition thereto in accordance with the Indenture) or to reimburse expenditures of the University for any such costs; (2) to pay the cost of Capital Additions or to reimburse expenditures of the University for any such cost; (3) to pay the cost of refunding through redemption of any Outstanding Bonds issued under this Indenture and subject to such redemption; or (4) to pay the cost of any additional project approved by the Issuer.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the University during each 12-month period ending June 30 of the years shown for the payment of the principal of and interest on the Series 2011 Bonds, debt service on other outstanding indebtedness of the University and the total debt service on all indebtedness of the University, including the Series 2011 Bonds.

	Series 2011 Bonds				
12-Month Period Ending June 30,	Principal Payments	Interest Payments	Total Debt Service on Series 2011 Bonds	Debt Service on Other Outstanding Indebtedness(1)	Total Debt Service(1)
2012	$3,460,000	$6,420,854	$ 9,880,854	$ 57,792,206	$ 67,673,060
2013	3,805,000	7,635,825	11,440,825	55,015,270	66,456,095
2014	4,385,000	7,521,675	11,906,675	54,148,245	66,054,920
2015	5,650,000	7,348,425	12,998,425	63,347,973	76,346,398
2016	5,915,000	7,075,375	12,990,375	58,722,133	71,712,508
2017	6,190,000	6,799,325	12,989,325	52,346,058	65,335,383
2018	6,510,000	6,489,825	12,999,825	110,746,915	123,746,740
2019	6,670,000	6,164,325	12,834,325	57,984,270	70,818,595
2020	5,005,000	5,867,525	10,872,525	59,715,416	70,587,941
2021	5,275,000	5,617,275	10,892,275	59,713,020	70,605,295
2022	5,335,000	5,353,525	10,688,525	52,781,832	63,470,357
2023	5,580,000	5,097,625	10,677,625	47,578,909	58,256,534
2024	5,875,000	4,818,625	10,693,625	43,573,829	54,267,454
2025	6,165,000	4,524,875	10,689,875	40,071,273	50,761,148
2026	6,470,000	4,216,625	10,686,625	33,363,953	44,050,578
2027	6,295,000	3,893,125	10,188,125	30,354,805	40,542,930
2028	6,620,000	3,578,375	10,198,375	22,567,329	32,765,704
2029	6,955,000	3,247,375	10,202,375	22,510,951	32,713,326
2030	7,295,000	2,913,275	10,208,275	22,468,255	32,676,530
2031	7,635,000	2,562,725	10,197,725	22,178,582	32,376,307
2032	3,570,000	2,195,675	5,765,675	21,010,024	26,775,699
2033	3,740,000	2,024,850	5,764,850	20,142,062	25,906,912
2034	3,920,000	1,845,875	5,765,875	17,875,165	23,641,040
2035	4,110,000	1,658,250	5,768,250	17,881,520	23,649,770
2036	4,300,000	1,461,500	5,761,500	17,874,706	23,636,206
2037	4,510,000	1,246,500	5,756,500	17,874,034	23,630,534
2038	4,735,000	1,021,000	5,756,000	17,862,482	23,618,482
2039	4,975,000	784,250	5,759,250	17,873,782	23,633,032
2040	5,225,000	535,500	5,760,500	–	5,760,500
2041	5,485,000	274,250	5,759,250	–	5,759,250

(1) Certain University indebtedness is assumed to bear interest at its fixed swap rate. Figures do not include debt service on the Dormitory Authority of the State of New York University of Rochester Revenue Bonds, Series 2001A expected to be refunded with a portion of the proceeds of the Series 2011A Bonds.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS

Payment of the Series 2011 Bonds

The Series 2011 Bonds will be special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2011 Bonds are payable solely from the revenues received by the Issuer pursuant to the Loan Agreement (other than with respect to the Unassigned Rights) and all funds and accounts (excluding the Rebate Fund) established by the Indenture. Pursuant to the Loan Agreement between the University and the Issuer, the University is obligated to make payments equal to debt service on the Series 2011 Bonds. The aforementioned revenues consist of the payments required to be made by the University under the Loan Agreement with respect to the Series 2011 Bonds on account of the principal, Redemption Price of and interest on the Series 2011 Bonds. Pursuant to the Assignment, loan payments made by the University under the Loan Agreement are to be paid directly to the Trustee.

Security for the Series 2011 Bonds

The Series 2011 Bonds will be secured by (1) all moneys and securities held from time to time by the Trustee for the Owners of the Series 2011 Bonds pursuant to the Indenture, including all Series 2011 Bond proceeds prior to disbursement pursuant to the terms of such Indenture (excluding monies held in the Rebate Fund), and (2) the Loan Agreement, as assigned to the Trustee (except the Unassigned Rights) pursuant to the terms of the Assignment.

To secure the Series 2011 Bonds, the Issuer will execute and deliver to the Trustee the Assignment with an acknowledgement thereof by the University from the Issuer to the Trustee, which Assignment will assign to the Trustee certain of the Issuer's rights (except the Unassigned Rights) under the Loan Agreement. Pursuant to the Assignment, loan payments made by the University under the Loan Agreement are to be paid directly to the Trustee. See "APPENDIX E – Summary of Certain Provisions of the Loan Agreement and Pledge and Assignment."

THE ISSUER

The Issuer is a not-for-profit corporation constituting a local development corporation duly organized and existing under Section 1411 of the Not-for-Profit Corporation Law of the State, as amended (the "Act"), having an office for the transaction of business at 50 W. Main Street, Suite 8100, Rochester, New York 14614. The Issuer has the authority and power to own, lease and sell personal and real property for the purposes of, among other things, acquiring, constructing and equipping certain projects exclusively in furtherance of the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, instructing or training individuals to improve or develop their capabilities for such jobs, by encouraging the development of, or retention of, an industry in the community or area, and lessening the burdens of government and acting in the public interest. The Act further authorizes the Issuer to issue its bonds and to loan the proceeds thereof for the purpose of carrying out any of its corporate purposes and, as security for the payment of the principal and redemption price of and interest on any such bonds so issued and any agreements made in connection therewith, to pledge certain revenues and receipts to secure the payment of such bonds and interest thereon.

The Issuer has no power of taxation.

The Series 2011 Bonds are special and limited obligations of the Issuer, payable solely as provided in the Indenture.

THE SERIES 2011 BONDS ARE NEITHER A GENERAL OBLIGATION OF THE ISSUER, NOR A DEBT OR INDEBTEDNESS OF MONROE COUNTY OR THE STATE AND NEITHER MONROE COUNTY NOR THE STATE WILL BE LIABLE THEREON.

THE PROJECT

The University Project

The proceeds of the sale of the Series 2011A Bonds will be used to: (A) finance (i) the University improvements (collectively, the "University Improvements") consisting of: (a) the improvements to the main campus located at Wilson Boulevard (the "River Campus") consisting of: (1) the renovation, equipping and modernization of the Danforth Dining Center; (2) the construction and equipping of an approximately 18,000 square-foot new five-story building to house the University's Digital Media Center and Fabrication Lab, together with ancillary and related site improvements, and the renovation, equipping and modernization of engineering laboratories; (3) the renovation, equipping and modernization of undergraduate laboratories and classroom space throughout the River Campus; (4) the renovation, equipping and modernization of the aquatics center and the Fieldhouse indoor track and the replacement of the Fauver Stadium field lighting; (5) the renovation, equipping and modernization of various office, administrative and laboratory facilities; (6) the construction and equipping of an approximately 53,000 square-foot new five-story 148-bed undergraduate residence hall, together with ancillary and related site improvements; (7) the renovation, equipping and modernization of and/or life/fire safety upgrades to various undergraduate and graduate residential facilities (including the south campus located in part at 300 and 400 Kendrick Road (the "South Campus")); (8) the renovation, equipping and modernization of Anderson and Wilder residence halls; (9) the deferred maintenance and renovation to buildings and facilities throughout the River Campus and (10) the construction and equipping of an approximately 65,000 square-foot new four-story building (to be known as the Raymond F. LeChase Hall) to house the University's Warner School of Education, together with ancillary and related site improvements; (b) the improvements to the central utilities plant located at 390 Elmwood Avenue (the "Central Utilities Plant") consisting of the renovation, equipping and modernization of the Central Utilities Plant and the chilled water plant located near the SON (defined below) building, including the expansion of the chiller capacity; (c) the improvements to the data center located at 350 Science Parkway (the "Data Center") consisting of the renovation, equipping and modernization of the Data Center including information technology infrastructure and equipment improvements and similar infrastructure and equipment improvements at the Hospital, the School of Medicine and Dentistry (the "SMD") and the School of Nursing (the "SON"), each located at 601 Elmwood Avenue (collectively, the "Medical Center Campus"); (d) the improvements to the Eastman School of Music located at 26 Gibbs Street (the "ESM") and the Eastman Commons-Student Living Center located at 100 Gibbs Street (the "Eastman Commons" and, together with the ESM, the "ESM Campus") consisting of the deferred maintenance and renovation to buildings and facilities throughout the ESM Campus; (e) the SON improvements consisting of the renovation, equipping and modernization of various SON office, administrative and classroom facilities at Helen Wood Hall; (f) the Medical Center Campus infrastructure improvements consisting of the renovation, equipping and modernization of the Medical Center Campus storm sewer infrastructure connecting to Crittenden Boulevard including force main and detention tank improvements; (g) the SMD improvements consisting of the renovation, equipping and modernization of various SMD office, administrative and laboratory facilities; (h) a portion of the Cancer Center Vertical Expansion improvements (collectively, the "Cancer Center Vertical Expansion Facility Improvements") consisting of the construction and equipping of an approximately 95,000 square foot three and one-half story addition to the existing James P. Wilmot Cancer Center, together with ancillary and related site improvements and (i) the renovation, equipping and modernization of various buildings and facilities throughout the River Campus, the South Campus, the ESM Campus and the Medical Center Campus, and (ii) the acquisition and installation in and around the University Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "University Equipment" and, together with the University Improvements, the "University Facility"); (B) refund all or a portion of the Dormitory Authority of the State of New York ("DASNY") University of Rochester Revenue Bonds, Series 2001A issued for the benefit of the University, the proceeds of which were applied in part (i) to refund bonds previously issued by DASNY for the benefit of the University, the proceeds of which were used to finance the renovation and equipping on the River Campus of the Lovejoy, Dewey and Lattimore residence halls and the Administration Building, finance major repairs of buildings and improvements of building infrastructure at ESM and refinance the construction of the Eastman Commons and (ii) to refinance certain indebtedness of the University, the proceeds of which were used to finance the construction and equipping of Hill Court residence halls located on the River Campus and the construction and equipping of the Graduate Living Center located on the South Campus; (C) fund capitalized interest; and (D) pay certain costs and expenses incidental to the issuance of the Series 2011A Bonds.

The Hospital Project

The proceeds of the sale of the Series 2011B Bonds will be used to: (A) finance (i) the construction and equipping of the portion of the Cancer Center Vertical Expansion Facility Improvements to be occupied by the Hospital, and the relocation of the Hospital's existing Bone Marrow Transplant Unit to a portion of the new sixth floor of the James P. Wilmot Cancer Center (collectively with the Cancer Center Vertical Expansion Facility Improvements, the "Cancer Center Facility Improvements"); (ii) the renovation, equipping and modernization of the Angiography Laboratory including the replacement of certain existing angiographic equipment (the "Angiography Lab Facility Improvements"); (iii) the replacement of the OR Air Handler equipment and related improvements (collectively with the Cancer Center Facility Improvements and the Angiography Lab Facility Improvements, the "Hospital Improvements") and (iv) the acquisition and installation in and around the Hospital Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively the "Hospital Equipment" and, together with the University Equipment, the "Equipment") (the Hospital Equipment and the Hospital Improvements collectively referred to as the "Hospital Facility" and collectively with the University Facility, the "Facility"); and (B) pay certain costs and expenses incidental to the issuance of the Series 2011B Bonds.

SOURCES AND USES OF BOND PROCEEDS

Proceeds of the Series 2011 Bonds are to be applied as follows:

	Series 2011A Bonds	Series 2011B Bonds
Sources of Funds:		
Par Amount of the Series 2011 Bonds	$122,340,000	$39,320,000
Original Issue Premium (Discount)	12,036,628	2,051,306
Total Sources of Funds	$134,376,628	$41,371,306
Uses of Funds:		
Deposit to the Project Fund	$129,733,293	$40,900,000
Deposit to Capitalized Interest Account of the Project Fund (1)	3,237,190	–
Estimated Costs of Issuance (2)	1,406,145	471,306
Total Uses of Funds	$134,376,628	$41,371,306

(1) Capitalized interest is expected to pay a portion of the interest payments of the Series 2011A Bonds prior to the completion date of the University Facility.

(2) Includes Issuer's fee, Underwriters' discount, printing costs, Trustee fees, rating agencies' fees, legal fees and other miscellaneous costs of issuance.

BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2011 Bonds. Such discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2011 Bonds should analyze carefully the information contained in this Official Statement, including the appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement. For risks relating to the Hospital, see "APPENDIX A – Certain Information Concerning the University and the Hospital/Medical Center – Factors Affecting the Hospital's Revenues."

General

The Series 2011 Bonds are payable from payments to be made by the University under the Loan Agreement. The ability of the University to comply with its obligations under the Loan Agreement depends primarily upon the ability of the University to continue to attract sufficient tuition-paying students to its educational programs, to obtain sufficient revenues from related activities and to maintain sufficient creditworthiness. The University expects that revenues derived from its ongoing operations, together with other available resources, will at all times be sufficient to make the required payments on the Loan Agreement and the University will covenant under the Loan Agreement to make all such payments when due. There are certain risks, however, which might prevent the University from obtaining sufficient revenues from tuition and other sources to meet all of its obligations, including its obligations under the Loan Agreement. Purchasers of the Series 2011 Bonds should bear in mind that the occurrence of any number of events could adversely affect the ability of the University to generate such revenues. Future economic, demographic and other conditions, including the demand for educational services, the ability of the University to provide the services required by students, economic developments in the Rochester, New York area and competition from other educational institutions, together with changes in costs, may adversely affect revenues and expenses and, consequently, the ability of the University to provide for payments. The future financial condition of the University could also be adversely affected by, among other things, legislation and regulatory actions, and a number of other conditions which are unpredictable.

Financial Assistance

The amount of available financial assistance is a significant factor in the decision of many students to attend a particular college or university. Approximately 90% of the University's undergraduate students receive some form of financial assistance from the University. The level of financial assistance is directly affected by funding levels of federal, state and other financial aid programs. Any significant reduction in the level of financial assistance offered to prospective students could reduce the number of students enrolling at the University.

Investment Income

The University's investment program for endowment and similar funds operates under an investment policy statement and guidelines established by the Board, which delegates direct oversight for the investment program to the Investment Committee of the Board. The consolidated endowment pool is managed by external money managers appointed for the purpose by the Investment Committee. Although the unrestricted portion of the University's endowment funds and the payout therefrom are available for debt service payments on the Series 2011 Bonds, no assurance can be given that unforeseen developments in the securities markets will not have an adverse effect on the market value of those investments and the income generated therefrom.

Fund Raising

The University raises funds to finance its operations and capital development programs from a variety of benefactors. Although it plans to continue those efforts in the future, there can be no assurance that those efforts will be successful. Such efforts may be adversely affected by a number of factors, including general economic conditions and tax law changes affecting the deductibility of charitable contributions.

Government Funding

The University receives funding from the federal government to support its programs for research and training and, as a health care provider, receives payments from federal as well as state agencies. These sources of funding and the governmental programs that support them have been and will continue to be subject to modification and revision due to state and federal policy decisions, legislative action and government funding limitations. The financial condition of the University could be adversely affected by these actions and the ability of the University to maintain its creditworthiness will be based on its ability to successfully manage the outcome of any such actions.

Risks as Employer

The University is a major employer, combining a complex mix of tenured and untenured full-time faculty, part-time faculty, technical and clerical support staff and other types of workers in a single operation. As with all large employers, the University bears a wide variety of risks in connection with its employees. These risks include discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees or between employees and students) and other risks that may flow from the relationships between employer and employee or between students and employees. Certain of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance.

Changes in Law

Changes in law may impose new or added financial or other burdens on the operations of the University. Developments may include: (i) legislative or regulatory requirements for maintaining status as an organization exempt from taxation as described in Section 501(c)(3) of the Code; or (ii) challenges to State and local exemptions from real property tax and other taxes. It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations will not materially adversely affect the operations and financial condition of the University by requiring it to pay income or real property taxes (or other *ad valorem* taxes).

Tax-Exempt Status Change

Loss of tax-exempt status by the University could result in loss of tax exemption of interest on the Series 2011 Bonds and defaults in covenants regarding the Series 2011 Bonds and other related tax-exempt debt would likely be triggered. However, loss of tax-exempt status by the University would not cause a mandatory redemption or acceleration on the Series 2011 Bonds nor would it cause a change in the interest rates on the Series 2011 Bonds. The maintenance by the University of its Section 501(c)(3) tax-exempt status depends, in part, upon compliance with general rules in the Code and related United States Treasury regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals.

Additional Bonds

Additional Bonds may be issued under the Indenture and secured on a parity with the Series 2011 Bonds. See “APPENDIX D – Summary of Certain Provisions of the Indenture.”

Additional Indebtedness

No security interest in any revenues or other assets of the University has been granted by the University to the Issuer under the Loan Agreement. However, the University has granted security interests in certain assets of the University to secure certain of the University’s outstanding indebtedness other than the Series 2011 Bonds. See “APPENDIX A – Certain Information Concerning the University and the Hospital/Medical Center – University Indebtedness and Swaps” for a description of such indebtedness.

The University may issue, incur or assume additional indebtedness without limitation. Any such indebtedness may be secured by a lien and pledge of revenues of the University without granting to the Issuer any security interest in any revenues to secure the University’s obligations under the Loan Agreement. In the event of a default under any debt instrument secured by such pledged revenues, the holder or trustee under such debt instrument will have the right to collect a portion or all of such pledged revenues, and apply the revenues so collected to the payment of amounts due under such debt instrument. Any revenues so collected and applied will not be available for satisfying any of the University’s obligations under the Loan Agreement.

Certain Matters Relating to Enforceability of the Indenture and Loan Agreement

The obligation of the University to make payments on the Loan Agreement will be limited as the obligations of debtors typically are affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors’ rights. The University may file for the reduction of its debts in a proceeding under the federal Bankruptcy Code, which could include provisions modifying, eliminating or altering the rights of creditors generally, or any class of them, secured or unsecured. If the University should file a plan of reorganization (“Plan”), when confirmed by the court, such Plan binds all creditors who had notice or knowledge of the Plan and discharges all claims against the debtor provided for in the Plan. No Plan may be confirmed unless certain conditions are met, among which are that the Plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the Plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the Plan are cast in its favor. Even if the Plan is not so accepted, it may be confirmed if the court finds that the Plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, there exists common law authority and authority under State statutes for the ability of the State courts to terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the State Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Secondary Market for the Series 2011 Bonds

There can be no assurance that there will be a secondary market for purchase or sale of the Series 2011 Bonds. From time to time there may be no market for the Series 2011 Bonds depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the University’s capabilities and the financial condition and results of operations of the University.

CONTINUING DISCLOSURE OBLIGATIONS

The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Series 2011 Bonds and the Issuer will not provide any such information. In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “Commission”), the University has undertaken all responsibilities for any continuing disclosure to Bondholders as provided below, and the Issuer shall have no liability with respect to such disclosures.

The University has covenanted for the benefit of Bondholders to provide certain financial information and operating data relating to the University by not later than 120 days after the close of its fiscal year in each year commencing June 30, 2011 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed with the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”) or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events, and the circumstances under which changes to this continued disclosure undertaking may be made, are contained in the Continuing Disclosure Agreement, a copy of which may be obtained from the University upon written request. This undertaking has been made in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Requests for information in connection with this undertaking should be directed to University of Rochester, Wallis Hall, Room 208, Box 270023, Rochester, New York 14627, Attention: Senior Vice President for Administration and Finance and Chief Financial Officer.

TAX MATTERS

Federal Income Taxes

In the opinion of Harris Beach PLLC, Bond Counsel to the Issuer, and subject to the limitations set forth below, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. Furthermore, Bond Counsel is of the opinion that interest in the Series 2011 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2011 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Corporate purchasers of the Series 2011 Bonds should consult with their tax advisors regarding the computation of any alternative minimum tax liability.

The difference between the principal amount of the Series 2011B Bonds maturing July 1 in the years 2029, 2030, 2031 and 2035 (the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

All of the Series 2011A Bonds and the Series 2011B Bonds maturing July 1 in the years 2012 through and including 2028, and in the year 2041 (collectively, the "Premium Bonds") are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

The Code establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2011 Bonds in order that interest on the Series 2011 Bonds be and remain excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. These continuing requirements include certain restrictions and prohibitions on the use of the proceeds of the Series 2011 Bonds and the Project, restrictions on the investment of proceeds and other amounts and the rebate to the United States of certain earnings in respect of such investments. Failure to comply with such continuing requirements may cause the interest on the Series 2011 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2011 Bonds, irrespective of the date on which such noncompliance occurs. In the Indenture, the Loan Agreement, the Tax Compliance Agreement, and accompanying documents, the Issuer and the University have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinion of Bond Counsel described in the preceding paragraph is made in reliance upon, and assumes continuing compliance with, such covenants and procedures and the continuing accuracy, in all material respects, of such representations and certifications.

Bond Counsel expresses no opinion regarding any other federal income tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2011 Bonds. The proposed form of opinion of Bond Counsel is attached to hereto as APPENDIX F.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2011 Bonds should be aware that the accrual or receipt of interest on the Series 2011 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of such other federal income tax consequences of acquiring or holding the Series 2011 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2011 Bonds, (ii) interest on the Series 2011 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2011 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2011 Bonds. In addition, the Code denies the interest deduction for indebtedness incurred or continued by a taxpayer, including, without limitation, banks, thrift companies, and certain other financial companies to purchase or carry tax-exempt obligations, such as the Series 2011 Bonds. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2011 Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Compliance Agreement, and other relevant documents may be changed, and certain actions may be taken or omitted subsequent to the date of issue, under the circumstances and subject to the terms and conditions set forth in such documents or certificates, upon the advice or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any tax consequences with respect to the Series 2011 Bonds, or the interest thereon, if such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Harris Beach PLLC.

State Income Taxes

In the opinion of Bond Counsel, under existing statutes, interest on the Series 2011 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof.

However, noncompliance with any of the federal income tax requirements set forth above resulting in the interest on the Series 2011 Bonds being included in gross income for federal tax purposes would also cause such interest to be subject to personal income taxes imposed by the State of New York or any political subdivision thereof.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2011 Bonds.

Interest on the Series 2011 Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion as to the tax treatment of the Series 2011 Bonds under the laws of such other state or local jurisdictions. Each purchaser of the Series 2011 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2011 Bonds in a particular jurisdiction other than the State of New York.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or omitted) or any events occurring (or not occurring) after the date of issuance of the Series 2011 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011 Bonds.

No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2011 Bonds to be subject to federal or State income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the Series 2011 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2011 Bonds or of obligations which present similar tax issues, will not affect the market price or marketability of the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds should consult their own tax advisors regarding the foregoing matters.

All quotations from and summaries and explanations of provisions of law do not purport to be complete, and reference is made to such laws for full and complete statements of their provisions.

ALL PROSPECTIVE PURCHASERS OF THE SERIES 2011 BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE SERIES 2011 BONDS.

INDEPENDENT ACCOUNTANTS

The financial statements for the University as of and for the years ended June 30, 2010 and 2009, set forth in APPENDIX B of this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as set forth in their report thereon appearing in APPENDIX B of this Official Statement.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings have assigned ratings of "Aa3," "A+" and "AA-," respectively, to the Series 2011 Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the respective rating agency. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the Series 2011 Bonds.

LITIGATION

The Issuer

There is not now pending nor, to the knowledge of the Issuer threatened, any litigation questioning or affecting the validity of the Series 2011 Bonds or the proceedings or authority under which the Series 2011 Bonds were issued. Neither the creation, organization or existence of the Issuer nor the title of any of the present members or other officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to its knowledge, threatened which in any manner questions the right of the Issuer to execute and deliver the Indenture or the Loan Agreement.

The University

There is not now pending nor, to the knowledge of the University, threatened any litigation restraining or enjoining the execution or delivery of the Financing Documents to which the University is a party or questioning or affecting the validity of such documents or the proceedings or authority under which such documents were authorized or delivered. Neither the creation, organization or existence of the University nor the title of any of the present members or other officers of the University to their respective offices is being contested. There is no litigation pending or, to its knowledge, threatened which in any manner questions the right of the University to enter into the Financing Documents to which the University is a party or which would have a material adverse effect on the ability of the University to meet its obligations under the Loan Agreement.

LEGAL MATTERS

All legal matters incident to the authorization and validity of the Series 2011 Bonds are subject to the approval of Harris Beach PLLC, Bond Counsel, whose approving opinion will be delivered with the issuance of Series 2011 Bonds. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach, PLLC, Rochester, New York. Certain legal matters will be passed upon for the University by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York.

UNDERWRITING

J.P. Morgan Securities LLC ("JPMS") and Barclays Capital Inc. (together, the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the Series 2011A Bonds from the Issuer at an aggregate purchase price of $133,783,678 (which is equal to the aggregate principal amount of the Series 2011A Bonds, less an Underwriters' discount in the amount of $592,950, plus aggregate premium in the amount of $12,036,628) and the Series 2011B Bonds from the Issuer at an aggregate purchase price of $41,165,319 (which is equal to the aggregate principal amount of the Series 2011B Bonds, less an Underwriters' discount in the amount of $205,988, plus aggregate premium in the amount of $2,051,306), and to make an initial public offering of the Series 2011 Bonds at prices that are not in excess of the initial public offering prices corresponding to the yields set forth on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2011 Bonds if any of the Series 2011 Bonds are purchased. The Series 2011 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2011 Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) at prices lower than the initial public offering prices as set forth on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

JPMS, one of the Underwriters of the Series 2011 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and

Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the initial public offering prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Series 2011 Bonds from JPMS at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2011 Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have from time to time performed, and may in the future perform, various investment banking services for the University, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the University.

MISCELLANEOUS

All the summaries of the provisions of the Series 2011 Bonds, the Indenture, the Loan Agreement, the Assignment and the Continuing Disclosure Agreement set forth herein and all other summaries and references to such other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and are made subject to all of the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or of all such provisions of such documents.

All estimates and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Neither this Official Statement nor any statement which may have been made orally or in writing with regard to the Series 2011 Bonds is to be construed as a contract with the holders of the Series 2011 Bonds.

The information set forth in this Official Statement, including the information set forth in the appendices, should not be construed as representing all the conditions affecting the Issuer, the University or the Series 2011 Bonds.

The Issuer has not assisted in the preparation of this Official Statement, except for the statements under the captions "INTRODUCTION – The Issuer", "THE ISSUER" and "LITIGATION – The Issuer" herein and, except for those sections, the Issuer is not responsible for any statements made in this Official Statement. Except for the authorization, execution, and delivery of documents to which it is a party that are required to effect the issuance of the Series 2011 Bonds, and Issuer assumes no responsibility for the disclosures set forth in this Official Statement.

The Issuer and the University have authorized the execution and distribution of this Official Statement.

MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION

By: /s/ Judith A. Seil
Title: Executive Director

UNIVERSITY OF ROCHESTER

By: /s/ Ronald J. Paprocki
Title: Senior Vice President for Administration and Finance and Chief Financial Officer

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE UNIVERSITY AND THE HOSPITAL/MEDICAL CENTER

THE UNIVERSITY

General

The University of Rochester, founded in 1850, is an independent, nonprofit institution of higher education, research, and health care located in Rochester, New York. It is a coeducational, nonsectarian university, accredited and incorporated under the authority of the Board of Regents of the State. The University also includes, among other operating divisions or entities, Strong Memorial Hospital ("Hospital"), which is a part of the University Medical Center described below. The University is governed by a Board of Trustees and derives its income from tuition, fees, patient care revenues, endowment, grants from private foundations and government and from gifts from friends, alumni, corporations, and other private philanthropies.

One of only 62 universities in the United States and Canada invited for membership in the Association of American Universities, the University comprises seven schools and colleges. In recognition of its broad range of education from the undergraduate through the doctoral level, its research programs across disciplines, and its clinical care settings, the University is considered a Research I institution, according to the original classification system of the Carnegie Foundation for the Advancement of Teaching. The University is accredited by the Middle States Association of Colleges and Schools, and its various professional and graduate programs are separately accredited by their respective professional associations, including the Accreditation Board of Engineering and Technology, the National League for Nursing, the National Association of Schools of Music, the American Medical Association, the American Psychological Association, and the American Assembly of Collegiate Schools of Business. The Margaret Warner Graduate School of Education and Human Development is accredited by the New York State Education Department.

The University's academic programs—including the humanities, the social sciences, natural sciences and the professional fields of engineering, education, management, music, medicine, and nursing—are well-regarded among institutions of higher education. The University was one of only 25 schools named a "New Ivy" in the 2007 *Kaplan/Newsweek* "How to Get into College Guide", and ranked 21st among U.S. universities in the global rankings issued by the *Times of London*. The *US News & World Report* ranked the University 37th overall among national universities and its graduate programs in business (27th), medicine (15th for primary care; 31st for research), nursing (40th), and engineering (37th) are ranked among the top 50. The University's doctoral program in Optics was ranked #1 by the National Research Council, and programs in music, political science, economics, and others are also nationally ranked. The University employs about 1,326 full-time tenure-track faculty, and its 2011 employment total of 20,143 full-time equivalents makes it the top employer in the Rochester region. The University's faculty and alumni have included eight Nobel Prize winners and twelve Pulitzer Prize winners. In the 2009-10 fiscal year, the University generated about $420 million including American Recovery and Reinvestment Act funds in research activity. In addition to its regular academic sessions, which include two regular semesters and special summer sessions, each school offers courses for part-time students.

The University's seven academic units plus its Memorial Art Gallery are located on five campuses. The largest is the River Campus, overlooking the Genesee River and housing four of the University's schools and colleges: Arts, Sciences and Engineering, comprised of the School of Arts and Sciences, the Edmund A. Hajim School of Engineering and Applied Sciences, and the undergraduate College; the Margaret Warner Graduate School of Education and Human Development; and the William E. Simon Graduate School of Business Administration. In addition to the academic buildings housing these units, the River Campus includes twenty-two residential and dining halls, five athletic facilities, the Interfaith Chapel, and administrative support buildings.

The University Medical Center (also referred to as the "Medical Center"), adjoining the River Campus, houses the School of Medicine and Dentistry, the School of Nursing, the Eastman Dental Center, the James P. Wilmot Cancer Center, and Strong Memorial Hospital, which is described in more detail in this "APPENDIX A" During the past decade, the creation of the Aab Institute for Biomedical Research, several interdisciplinary research centers, and construction of the Robert B. Goergen Hall for Biomedical Engineering and Optics, the ambulatory surgical center, and biomedical research facilities have been accompanied by an increase in the number of faculty and a growth in sponsored research.

The Eastman School of Music, located in downtown Rochester, has its own academic and auxiliary service buildings which contain special facilities for the instruction, research, practice and performance of music. Its historic and recently renovated Kodak Hall at Eastman Theatre, as well as, Kilbourn Hall, are used for performance by Eastman School groups and by the community's major orchestras and visiting artists. The East Wing, dedicated in 2010 houses a state-of-the-art recital hall, faculty teaching studios, an orchestra-sized rehearsal hall, and a high-tech recording control room. A 16-story residence hall provides on-campus housing for approximately 370 students.

The Memorial Art Gallery, which is owned and operated by the University, houses a permanent collection of paintings by American and European masters, as well as sculpture and decorative arts, and offers arts and crafts classes for adults and children. It is in the midst of a two-year project to create a public sculpture park on its grounds.

The University's library system contains more than 3.8 million printed volumes and subscribes to approximately 41,000 current periodicals and other serial publications. The system includes Rush Rhees Library, serving the River Campus; the Edward G. Miner Library, serving the Medical Center; and the Sibley Music Library, one of the largest academic music libraries in the western hemisphere, serving the Eastman School of Music. The University is a member of the Association of Research Libraries.

Other special facilities and programs include the Center for Optoelectronics and Imaging, a 120,000 square foot research facility; the C.E.K. Mees Observatory, located south of Rochester; the specialized laboratories and shops of the Institute of Optics; and the Laboratory for Laser Energetics. Established in 1970 as a center for the investigation of the interaction of intense radiation with matter, the University's Laboratory for Laser Energetics has among its missions to conduct implosion and basic physics experiments in support of the National Inertial Confinement Fusion Program, develop new laser and material technologies, and operate the National Laser Users' Facility. The Omega Enhanced Performance Project, an $89 million upgrade, completed in May 2008 and is intended to ensure the long-term viability of the laboratory, allow for advances in fusion research, and permit exploration of new and exciting physics. The William E. Simon Graduate School of Business Administration, which operates the Bradley Policy Research Center, offers cooperative programs with The University of Bern in Switzerland.

Certain statements that relate to the University in this "APPENDIX A" are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the University. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the University to be materially different from any expected future results or performance. Such factors include items described in this "APPENDIX A"

Governance

The University's Board of Trustees (the "Board") consists of not more than 50 persons, as from time to time determined by the Board. Each is selected to serve a term of five years, renewable for an additional five years. Regular meetings of the Board are held during the week preceding the annual Commencement and at other times during each year in the fall and winter, as determined by the Board.

The current members of the Board are as follows:

Richard T. Aab
Chairman
Ovation Payroll

Mark S. Ain *
Chairman
Kronos, Inc.

Ernest A. Bates, M.D
Chairman and CEO
American Shared Hospital Services

Naomi M. Bergman
President
Bright House Networks

Laurence H. Bloch *
Private Investor

John H. Bruning
Retired President/CEO
Corning Tropel Corporation

William M. Carpenter *
Managing Director
WMC Ventures

Arunas A. Chesonis
Chairman and CEO
PAETEC Holding Corp.

Launcelot F. Drummond
Executive Vice President
Fiserv, Inc.

Bernard T. Ferrari, M.D. *
Chairman
Ferrari Consultancy

David Flaum
CEO
Flaum Management Company, Inc.

Barry W. Florescue *
Chairman of the Board
Century Financial Group, Inc.

Roger B. Friedlander *
University alumnus

Robert B. Goergen
Chairman
Blyth, Inc.

Gwen M. Greene *
Vice President
J.P. Morgan Securities, Inc.

Paul F. Griner, M.D.
Professor of Medicine Emeritus
University of Rochester School of Medicine

Edmund A. Hajim *
Chairman and CEO
Diker Management, LLC

Richard B. Handler *
Chairman, CEO and President
Jefferies & Company, Inc.

Alan F. Hilfiker
Partner
Garlick, Hilfiker & Swift, LLP

Michael E. Jones
Senior Vice President and Senior Portfolio Manager
Federated Clover Investment Advisors

Karp, Carol D.
VP, Global Regulatory Affairs &
Risk Management
Janssen AI R&D, LLC

Robert J. Keegan *
Operating Partner
Friedman, Fleischer & Lower

John M. Kelly
Corporate Vice President
Xerox Corporation

Laurence Kessler
CEO
Kessler Group, Inc. & Kessler Family LLC

Louis G. Lange, M.D. *
General Partner
Asset Management Company

R. Wayne LeChase
Chairman
LeChase Construction Services, LLC

Nancy A. Lieberman
Partner
Skadden, Arps, Slate, Meagher & Flom, LLP

Gail Ann Lione
Retired President
The Harley-Davidson Foundation, Inc.

Cathy E. Minehan *
Managing Director
Arlington Advisory Partners, LLC

Nathan F. Moser
University alumnus

Kathleen A. Murray
Managing Director
McMorran Strategists, LLC

Philip A. Pizzo, M.D. *
Dean of the School of Medicine and The Carl & Elizabeth Naumann Professor
Stanford University

Francis L. Price
CEO
Interact Performance Systems

Elena Prokupets
Former Founder, President, CEO & Chairman of the Board
Lenel Systems International, Inc.
Retired in 2006

Thomas S. Richards
Mayor
City of Rochester

Michael S. Rosen
CEO
Context Capital Management, LLC

Richard E. Sands
Chairman
Constellation Brands Inc.

Joel Seligman *
President
University of Rochester

Thomas R. Sloan *
Chairman
Bank of North Carolina

Hugo F. Sonnenschein *
President Emeritus and Adam Smith Distinguished Service Professor
University of Chicago

Kathy N. Waller
VP and Controller
The Coca-Cola Company

Daniel R. Wegman
CEO
Wegmans Food Markets, Inc.

Ralph R. Whitney, Jr. *
Chairman Emeritus
Hammond, Kennedy, Whitney & Co., Inc.

Janice M. Willett
Manuscript Editor
The Boston Consulting Group

Carl C. Williams *
Retired Senior VP and CIO
Principal Financial Group

Thomas C. Wilmot
Chairman
Wilmorite, Inc.

Nathaniel Wisch, M.D.
Hematologist - Oncologist
Clinical Professor of Medicine
Mount Sinai School of Medicine

G. Robert Witmer, Jr. *
Senior Counsel
Nixon Peabody LLP **†**

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* Member of the Executive Committee.
† The firm of Nixon Peabody LLP serves as counsel to the University.

The Board has thirteen Board Committees: Academic Affairs, Audit and Risk Assessment, Compliance and Compensation, Development, Executive, Facilities, Financial Planning, Health Affairs, Investment, Nominations and Board Practices, Personnel, Research and Innovation and Student Affairs. Between meetings of the Board, the Executive Committee exercises the powers of the Board in all matters except those specifically requiring action of the full Board pursuant to the Bylaws, e.g., the granting of degrees, removals from office, election of trustees, the Chairman of the Board, or the President, and the amendment, alteration or repeal of the Bylaws.

The Board has delegated certain authority and responsibility for managing two divisions of the University, Strong Memorial Hospital and Eastman Dental Center, to the Medical Center Board, subject to powers expressly retained by the Board. The Medical Center Board currently has 50 voting members. This includes the President, the Provost, the Senior Vice President for Health Sciences at the University and Chief Executive Officer of the Medical Center and Strong Health, the Medical Center Vice President and Chief Medical Officer, the Medical Center Vice President and Chief Operating Officer, the Medical Center Vice President and Chief Financial Officer, the President and Chief Executive Officer of the Hospital, the Dean of the School of Medicine and Dentistry, the Dean of the School of Nursing, the Director of the University of Rochester Medical Faculty Group, the Director of the Eastman Dental Center, Associate Director for Clinical Services for Eastman Dental Center, two Department Chairs of clinical departments from the School of Medicine and Dentistry, one member of the community-based faculty from the Medical Staff, several University Trustees, and individuals from the community, all of whom are appointed by the Board. A representative of the Friends of Strong (the Hospital's volunteer organization) serves as an ex-officio, non-voting member. The Medical Center Board operates under by-laws approved by the Board and reports regularly to the Trustees concerning the operation of the Hospital and Eastman Dental Center. Express approval of the Board is required before action is taken by the Medical Center Board which would (1) result in a call upon the financial resources of the University not dedicated for the support of the Hospital or the Eastman Dental Center, (2) have a major impact on University academic programs, or (3) convene policies of the University established by the Board.

Administration

The University is administered on a day-to-day basis by the President and his administrative staff. The principal officers of the University as of July 1, 2011 are:

Joel Seligman, President and Chief Executive Officer. Mr. Seligman became the tenth president of the University of Rochester on July 1, 2005. A 1971 magna cum laude graduate of the University of California at Los Angeles and a cum laude graduate of Harvard University School of Law in 1974, he served on the law faculty of Northeastern University (1977–1983), George Washington University (1983–1986), and the University of Michigan (1986–1995). He was named dean of the University of Arizona College of Law (and Samuel M. Fegtly Professor of Law) in 1995, and, in 1999, became dean of the Washington University School of Law (and Ethan A. H. Shepley University Professor), where he is credited with helping lead a strategic plan that raised the law school's national and international profile. One of the nation's leading experts on securities law, Seligman is the coauthor, with the late Louis Loss and with Troy Paredes, of the 11-volume *Securities Regulation*, the leading treatise in the field, and author of *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporate Finance*. He also is the author or coauthor of 20 books and more than 40 articles on legal issues related to securities and corporations. He has served as reporter for the National Conference of Commissioners on Uniform State Laws, Revision of Uniform Securities Act; as chair of the Securities and Exchange Commission Advisory Committee on Market Information; and as a member of the American Institute of Certified Public Accountants Professional Ethics Executive Committee. He also was a member of the board of the National Association of Securities Dealers. He is currently a member of the board of the Financial Industry Regulatory Authority (FINRA), the Eastman Kodak Company and the Upstate New York Regional Advisory Board of the Federal Reserve Bank of New York. In the Greater Rochester community, he serves on the boards of the George Eastman House, Greater Rochester Enterprise (GRE), and Rochester Business Alliance.

Ralph W. Kuncl, Provost and Executive Vice President. Dr. Kuncl was first appointed to these positions on August 1, 2007. He is responsible for overseeing the academic integrity of the entire institution, as well as University-wide initiatives in technology transfer, diversity, multidisciplinarity, and sustainability. Those who report to the Provost include the Deans, Directors, and Vice Presidents of the various schools and organizations within the University including the School of Arts and Sciences, the Hajim School of Engineering and Applied Sciences, the Eastman School of Music, the Simon School of Business, the Warner Graduate School of Education, University Information Technology, University Libraries, Faculty Development and Diversity, the Center for Entrepreneurship, the Memorial Art Gallery, and the federally designated Laboratory for Laser Energetics. Dr. Kuncl is a national leader in the neurosciences, having distinguished himself at Johns Hopkins University, where he was previously professor of neurology, pathology, and cellular and molecular medicine at the School of Medicine for two decades. While there, his lab discovered the glutamate transporter defect in the disease commonly known as ALS or Lou Gehrig's Disease. The discovery changed the field and helped lead to the first effective treatment for the disease. He has authored over 150 scholarly publications and was named recipient of the Distinguished Service Award of the University of Chicago. In a recent achievement, he orchestrated a public/private alliance between the University of Rochester and a major international corporation, which when funded by the State of NY, will create what will ultimately be the world's largest center of high performance computing devoted to health sciences. National leadership in higher education includes his decade-long guidance as an early formative member on the National Executive Board of The Reinvention Center (creates initiatives in the reform of undergraduate education at leading research universities), as director on the Board of Directors of the Tuition Plan Consortium (manages a corpus of > $200 million in the only private-college 529 plan in the US), as member of the AAU Chief Academic Officers, and formerly on the Assembly of the Consortium on Financing Higher Education. He is a graduate of Occidental College in Los Angeles and earned his Ph.D. and M.D. degrees from the University of Chicago.

Ronald J. Paprocki, Senior Vice President for Administration and Finance and Chief Financial Officer. As Chief Financial Officer, Mr. Paprocki is responsible for the University's financial operations as well as for budgeting, planning, and the treasury function. He oversees the University Office of Budgets and Planning, Finance Office (including the offices of Controller, Accounts Payable, Financial Reporting and Analysis, Payroll and Employee Record Center, and Sponsored Programs Accounting), Internal Audit Office, and Treasury Management. He is in charge of the University's administrative and support operations including Environmental Health and Safety, Facilities and Services, Campus Planning, Design and Construction, Auxiliary Operations, Human Resources, and Purchasing and Supply Chain. Mr. Paprocki has played a key role in the University's strategic planning and campus master plan activities. In addition to in-depth experience in the financial arena, his diverse service at the University has provided him with an intimate knowledge of the University's programs as well as broad experience in administrative support and student service areas. He joined the central administration in 1986 after serving as chief administrative officer for the College of Arts and Science. Mr. Paprocki is a Phi Beta Kappa graduate of the University of Rochester. He also holds an MBA from the University's William E. Simon Graduate School of Business Administration. He has participated in accreditation reviews and visiting committees of a number of private research universities. He has served on various community boards and committees.

Dr. Bradford C. Berk, Senior Vice President for Health Sciences at the University of Rochester and Chief Executive Officer of the Medical Center and Strong Health. Dr. Berk received his M.D. and Ph.D. degrees from the University of Rochester. He has served on the faculties of Harvard Medical School, Emory University, and the University of Washington. Dr. Berk was previously Chairman of Medicine (1999-2006) and Chief of the Cardiology Unit (1998-2003) at the University of Rochester. He was appointed CEO in 2006 after a national search. In addition he was Director of the Aab Cardiovascular Research Institute. Dr. Berk is a fellow of the American Heart Association and the American College of Cardiology, and a member of the Association of American Physicians. Dr. Berk is past-president of the North American Vascular Biology Organization (NAVBO). He is on the editorial boards of *Atherosclerosis, Thrombosis and Vascular Biology* (ATVB) *Circulation* and *Circulation Research,* and the *Journal of Clinical Investigation*. He serves on the Empire State Stem Cell Board Funding Committee and the National Heart, Lung and Blood Institute (NHLBI), Stem Cell Clinical Trial Network and Gene and Cell-Based Therapies Data and Safety Monitoring Board (DSMB). Dr. Berk has published widely – more than 250 articles, chapters, and books.

Sue S. Stewart, Esq., Senior Vice President and General Counsel. Ms. Stewart, appointed in 2003, is a well-known specialist in legal affairs for educational institutions and other non-profit organizations. A graduate of Wellesley College and Georgetown Law School, she retired from Nixon Peabody LLP in 2001 after 33 years with the firm, the last three as managing partner of the Rochester office. For many years the primary outside counsel for the University as well as several other educational institutions, her practice concentrated on such legal issues relating to educational institutions as corporate structure and governance, tax-exempt status, fundraising, student affairs, academic affairs, employee relations, risk management, intellectual property, finance, and medical-school affairs. She has served on a number of community organization boards, and her many awards include the 1999 Athena Award from the Greater Rochester Metro Chamber of Commerce, the 2001 Distinguished Volunteer Service Award from the United Neighborhood Centers of Greater Rochester, the 2003 Alexis de Tocqueville Award from

United Way of Greater Rochester, the 2003 Fifty Over 50 Award from *Rochester Business Journal*, the 2005 Rochester's Influential Woman Award from *Rochester Business Journal,* and the 2010 *Daily Record's* Top Counsel Award.

Douglas W. Phillips, Senior Vice President for Institutional Resources. Mr. Phillips, working with the Board's Investment Committee and the staff of the Investment Office, oversees the University's investments. He was previously Treasurer of Williams College, where he was employed from 1986 until leaving to join the University in October 2000. Prior to 1986, he spent five years as the manager of investment administration for Princeton University and two years as a financial analyst with Management Planning, Inc. in Princeton. Mr. Phillips holds a Bachelor of Arts degree from Rutgers University and an MBA from Rensselaer Polytechnic Institute. In July, 2010 he received NACUBO's Rodney Adams Award for outstanding management of endowments. Mr. Phillips served as Chairman of the Investment Committee of the Medical Center Insurance Company (an offshore medical malpractice captive insurer) and as a Trustee of the Endowment Fund of the American Red Cross. He currently serves on the Investment Committee of the Rotary Foundation of Rotary International and the Investment Advisory Committee of the New York State Common Retirement Fund, as well as serving on several not-for-profit boards in Rochester.

James D. Thompson, Senior Vice President and Chief Advancement Officer. Before joining the University in September 2005, Mr. Thompson was associate vice chancellor for development at Washington University in St. Louis, where he played a pivotal role in the university's $1.551 billion campaign. Before joining Washington University, Mr. Thompson served as senior director of university development for Syracuse University with supervisory responsibilities for major and special gifts and regional programs. He played a key leadership role in the successful $160,000,000 Campaign for Syracuse. He also served in a number of key development positions at Lindenwood University, his alma mater, including executive director of Institutional Development and College Relations and served as a member of the executive management team. He has taught classes on university development, major gifts and the capital gift cycle. He has also consulted with select clients on improving board involvement, major gifts and campaign management.

Peter Lennie, Senior Vice President and Robert L. and Mary L. Sproull Dean of the Faculty of Arts, Sciences and Engineering. Dr. Lennie is responsible for all the Arts, Sciences and Engineering departments and programs, and for all aspects of undergraduate affairs on the River Campus, including admissions, athletics, and residential life. He has held his present position since July 2006. From 1998 until then he was Dean for Science at New York University, and had general responsibility for the science departments at the Washington Square campus. From 1982 to 1998 he was a faculty member at the University of Rochester, latterly as founding chair of the Department of Brain and Cognitive Sciences. Dr. Lennie is a neuroscientist whose work focuses on the functional organization of the visual system. He graduated with a bachelor of science degree from the University of Hull, England, and holds a Ph.D. from the University of Cambridge, England.

Paul Burgett, Vice President and Senior Advisor to the President. Mr. Burgett joined the University in 1981 as the Dean of Students at Eastman School of Music, became Vice President and University Dean of Students in 1987, Vice President and General Secretary in 2001 and assumed his current, part time position in 2011. He also holds an appointment as adjunct professor of music in the music department of the College of Arts and Sciences and teaches courses in the history of jazz and the music of Black Americans. Prior to joining the University, Mr. Burgett was the Executive Director of Hochstein Memorial Music School from 1970 to 1972, music teacher in the Greece Central School District from 1973 to 1977, and Assistant Professor of Music at Nazareth College from 1976 to 1981. He received a Bachelor of Music (1968), Master of Arts (1972) and Ph.D. (1976) from the Eastman School of Music. Mr. Burgett has served on many community boards in Rochester.

David E. Lewis, Vice President for Information Technology and Chief Information Officer for the University. Mr. Lewis, who joined the University in 1997, provides University-wide leadership and governance for information technology. Mr. Lewis engages constituents University-wide to create integrated, secure, and dependable IT systems and practices that support efficient and cost-effective distribution of information across the University community. He is responsible for IT policy setting at the University and oversees the University's central IT organization and the Computational Research and Informatics Center. Mr. Lewis is a strong advocate for IT internship programs at the University and is the executive champion for African American Network, the University's affinity group for faculty and staff. He is also active in many national and regional higher education initiatives and represents the University on the board of NYSERNet. Mr. Lewis earned both his bachelor's degree in Organizational Development and his master's degree in Business Administration from Eastern Michigan University.

Robert L. McCrory, Vice President and Vice Provost, Chief Executive Officer and Director of the Laboratory for Laser Energetics. Professor McCrory received his B.Sc. in Physics (1968) and his Ph.D. in Applied Plasma Physics (1973) from Massachusetts Institute of Technology (MIT). After positions as Research Associate in the Department of Nuclear Engineering at MIT and Staff Member in the Theoretical and Theoretical Design Divisions at Los Alamos Scientific Laboratory, he joined the University of Rochester's Laboratory for Laser Energetics (UR/LLE) in 1976.

Dr. McCrory has made numerous contributions to inertial fusion and was awarded the 1995 Edward Teller Medal for his pioneering research and leadership in the use of lasers for controlled thermonuclear fusion. The Fusion Power Associates Board of Directors awarded Dr. McCrory the 1996 Leadership Award for his outstanding leadership qualities in accelerating the development of fusion. He has served on the Director's Advisory Committee for Lawrence Livermore National Laboratory and as a consultant to the Los Alamos National Laboratory. Prof. McCrory was elected a Fellow of the American Physical Society in 1985 for his many contributions to fundamental understanding of hydrodynamic instability and thermal transport in laser-driven plasmas. In 2004 he was elected to fellowship by the American Association for the Advancement of Science. He served on the National Academy of Sciences' Naval Studies Board Committee on Space Technology to advise US CINC on the military use of space, space architecture, and space policy for eight years.

Lamar Riley Murphy, General Secretary and Chief of Staff. Ms. Murphy joined the Office of the President at the University of Rochester in 2006. She serves as primary staff to the University Board of Trustees and principal aide to the president. Before coming to Rochester, Ms. Murphy held senior leadership positions in the graduate schools of the University of Illinois at Urbana-Champaign and The Ohio State University. She began her career with the Amethyst Corporation, a Chicago consulting group for which she performed both corporate administrative and client project-management roles. She then served as executive assistant to the president of the Illinois Institute of Technology, after which she was an independent management consultant. She earned her bachelor's degree from Tulane University and her master's and Ph.D. degrees from the University of Chicago.

William M. Murphy, Vice President for Communications. Mr. Murphy has been vice president for communications at the University of Rochester since March 2006. He is responsible for the University's communications efforts including media relations, periodicals, publications, graphic identity, and the Web. Mr. Murphy has held leadership positions in communications at Ohio State, Illinois, and the University of Chicago.

Dr. Mark B. Taubman, Dean of the School of Medicine and Dentistry, and University Vice President for Health Sciences. Dr. Taubman received his M.D. degree from New York University and completed his training in medicine and cardiology at the Brigham and Women's Hospital and Harvard Medical School. He has served on the faculties of Mt. Sinai School of Medicine in New York, Children's Hospital Medical Center and Harvard Medical School in Boston, Massachusetts. Dr. Taubman is on leave as the Charles E. Dewey Professor and Chairman of Medicine. He was previously Chief of the Cardiology Division (2003-2009) at the University of Rochester. In addition, he was Director of the Aab Cardiovascular Research Institute (2005-2007) and Director of the Center for Cellular and Molecular Cardiology (2003-2005). Dr. Taubman is a member of the American Heart Association, the American Society of Hypertension, North American Vascular Biology Organization, Association of Cardiology Professors, Association of University Cardiologists and Association of Professors of Medicine. Dr. Taubman is a Fellow, American College of Cardiology and Fellow, American College of Physicians. He is the former Editor-in-Chief, Arteriosclerosis, Thrombosis, and Vascular Biology. Dr. Taubman is an international authority in vascular biology with research interests in tissue factor biology and chemokines. Dr. Taubman has published widely – more than 120 articles, chapters, and books.

OPERATING INFORMATION

Student Enrollment

The following table shows enrollments at the University for the past five academic years.

ENROLLMENT SUMMARY

Fall Enrollment, Full-time and Part-time
Matriculated and Non-Matriculated Students

	Full-Time				Part-Time				
Academic Year	Under-graduate	Graduate and Professional	Non-Degree	Total	Under-graduate	Graduate and Professional	Non-Degree	Total	Grand Total
2006-07	4,599	2,807	108	7,514	133	788	592	1,513	9,027
2007-08	4,835	2,918	76	7,829	129	898	564	1,591	9,420
2008-09	5,058	3,049	102	8,209	120	933	570	1,623	9,832
2009-10	5,180	3,127	29	8,336	111	933	564	1,608	9,944
2010-11	5,319	3,180	21	8,520	113	930	548	1,591	10,111

The following table sets forth the full-time enrollment of matriculated undergraduate and graduate students for the 2010-11 academic year by division.

2010-11 Full-Time Enrollment
By Academic Division

Academic Division	Undergraduate	Graduate	Total
The College			
Arts and Sciences	4,313	679	4,992
School of Engineering and Applied Sciences *	336	407	743
Margaret Warner Graduate School of Education and Human Development	-	198	198
William E. Simon Graduate School of Business Administration	-	605	605
School of Medicine and Dentistry	-	891	891
School of Nursing	159	42	201
Eastman School of Music	511	358	869
Totals	5,319	3,180	8,499

*Juniors and Seniors.

Student Recruitment

The following table sets forth the number of undergraduate and graduate applications received for admission to full-time and matriculated part-time study in all schools at the University, the number of those applicants accepted, and the number of accepted applicants who enrolled for each of the past five years.

ADMISSIONS STATISTICS

Undergraduate

Academic Year	Applications	Admits	Percent Admits/ Applicants	New Enrollment	Percent New Enrollment/ Admits
2006-07	12,245	5,373	43.9%	1,233	22.9%
2007-08	12,768	5,086	39.8	1,188	23.4
2008-09	12,870	5,250	40.8	1,311	25.0
2009-10	13,062	4,968	38.0	1,210	24.4
2010-11	13,841	5,256	38.0	1,308	24.9

Graduate

Academic Year	Applications	Admits	Percent Admits/ Applicants	New Enrollment	Percent New Enrollment/ Admits
2006-07	11,647	2,211	18.9%	1,212	54.8%
2007-08	12,419	2,409	19.4	1,258	52.2
2008-09	12,914	2,654	20.6	1,415	53.3
2009-10	12,733	2,643	20.8	1,406	53.2
2010-11	14,295	2,654	18.6	1,357	51.1

Undergraduate applications for fall 2011 are 13,678 with approximately 4,900 accepted. The University expects an entering freshman class of approximately 1,162 students for the fall of 2011. The University has been steadily increasing undergraduate enrollment in the College over the past five years and has a strategic goal of reaching an enrollment target of 5,000 by fiscal year 2016. Undergraduate enrollment in the College in fiscal year 2011 was 4,649.

The University's student body is composed of students from every state in the United States and from approximately 90 foreign countries. Nearly 1,600 international students were enrolled as of the fall of 2010.

The mean SAT scores for entering freshmen at the University continue to be significantly higher than the mean scores for freshmen nationwide. The mean score for University freshmen in the fall of 2010 was 1,334 (not including the newer writing test). For purposes of comparison, qualitative University data relating to mean SAT scores and grade point averages are based on undergraduate matriculants in the College. For the past two years, approximately 95% of the University's freshmen have ranked in the top quarter of their high school graduating class.

The table below presents the composite mean SAT scores for the University's incoming freshman classes since 2006 as compared to the national average SAT scores for college-bound high school seniors over the same period. Data on applicants to the Eastman School are omitted because the significant criteria for admissions to that division are unique.

Composite Mean Scholastic Aptitude Test Scores
Freshman Class Entering Fall

	2006	2007	2008	2009	2010
University Freshmen:					
Reading	648	648	640	652	646
Math	667	675	675	677	688
Writing	627	636	643	640	650
National:					
Reading	503	502	502	501	501
Math	518	515	515	515	516
Writing	497	494	494	493	492

Student Charges

Tuition, room and board charges and activity fees at the University for the past four years and the upcoming academic year are listed below:

STUDENT CHARGES

	2007-08	2008-09	2009-10	2010-11	2011-12
Tuition	$34,380	$36,410	$37,870	$39,480	$41,040
Room	6,180	6,490	6,750	7,050	7,350
Board	4,420	4,320	4,450	4,590	4,770
Mandatory Fees	808	840	820	802	762
Total	$45,788	$48,060	$49,890	$51,922	$53,922
Mandatory Fees					
Health Fee	$ 576	$ 600	$ 576	$ 552	$ 504
Activity Fee	232	240	244	250	258
Total	$ 808	$ 840	$ 820	$ 802	$ 762

Student Financial Aid

In the academic year 2009-10, the University administered student aid funds totaling $159,946,000. Scholarship funds provided by the University from its own resources assisted approximately 90% of the undergraduates. University-administered programs for the last five academic years are outlined below:

SOURCES OF SCHOLARSHIP AND GRANT AID
(dollars in thousands)

Academic Year	University Scholarships	State Grants	Federal Grants	Other Awards	Total
2005-06	$ 90,313	$3,601	$2,749	$ 10,453	$ 107,116
2006-07	97,948	3,153	2,811	12,897	116,809
2007-08	108,378	3,027	3,237	14,440	129,082
2008-09	120,416	3,246	4,246	16,661	144,569
2009-10	132,222	3,014	6,100	18,610	159,946

The University benefits from a State program through which State aid (“Bundy Aid”) is allocated to independent colleges and universities in the State based on the number of academic degrees conferred during the previous year. During the 2010-11 academic year, the University received $1,062,907 from the program.

Further State and federal aid depends upon the annual appropriations by the State Legislature and Congress, and the ability of the State and the federal governments to pay the amounts appropriated. Neither the University nor the Authority can give any assurance that the various federal and State programs will be continued. The reduction or elimination of the programs could have a material adverse effect on the University.

Labor Relations

The faculty and staff at the University are provided with an extensive range of employee benefits, including basic hospital, surgical and medical insurance, major medical and dental plans, long-term disability coverage, group life insurance, travel-accident insurance, tuition for faculty, staff and dependents, and University health services, as well as the retirement plan outlined below.

The University has five separate bargaining units with three unions covering about 1,877 of its employees. 1199 SEIU, United Healthcare Workers East and SEIU, CLC, Local 200 United negotiate their contracts in concert with each other. One covers approximately 1,255 Hospital service employees and expires on September 22, 2012. The other covers approximately 278 River Campus service employees and expires on September 22, 2012. The Security Officers Association negotiates one contract covering approximately 88 security personnel. The current contract expires on November 5, 2011. The International Union of Operating Engineers ("IUOE") negotiates one contract covering the Medical Center facilities maintenance trades employees, River Campus maintenance trades employees and a separate bargaining unit covering employees in the University's central heating plant operation. IUOE's contract covers approximately 266 employees and expires in August 2011. The University has no notice of a future strike by unions covering its employees.

Faculty

The University's faculty includes fourteen fellows of the American Physical Society that have been appointed in the past seventeen years, fourteen fellows of the Optical Society of America, nine fellows of the American Academy of Arts and Sciences, six fellows of the National Academy of Science, (there are ten current faculty members who are NAS fellows) and four members of the American Academy of Nursing. Many others are members of the leading academic societies of their fields.

The University's faculty have received a total of 27 John S. Guggenheim Fellowships in the past 26 years. In the past 21 years senior Arts, Sciences and Engineering faculty have won eight National Endowment for the Humanities Fellowships, and junior Arts, Sciences and Engineering faculty have been awarded 18 Alfred P. Sloan Research Fellowships and 33 NSF CAREER awards.

The faculty includes a recipient of the National Medal of Science, awarded by the President of the United States for distinguished contributions to knowledge in the sciences, a recipient of the Wolf Prize, one of the international science community's most highly regarded honors, two inductees of the National Women's Hall of Fame, a John D. and Catherine T. MacArthur Foundation Fellowship, better known as the "genius grant," a recipient of the Edwin Land Award of the Optical Society of America, a recipient of the Darwin-Wallace medal, given only once every 50 years for contributions to evolutionary biology; three Distinguished Fellows of the American Economic Association, an honor that goes only to two or three economists each year; two recipients of the American Physical Society's Panofsky Prize in Experimental Particle Physics and two recipients of the J.J. Sakurai Prize for Theoretical Particle Physics. The American Political Science Association annually awards a prize named in honor of Rochester's Richard F. Fenno Jr., professor emeritus of political science.

FACULTY PROFILE

Academic Year	Full-Time Tenure-Track Faculty	Part-Time Faculty	Total Faculty*	Percent of Tenure-Track Faculty Tenured
2006-07	1,258	673	1,931	42.5%
2007-08	1,315	698	2,013	41.4
2008-09	1,331	691	2,022	40.7
2009-10	1,323	685	2,008	42.5
2010-11	1,326	720	2,046	44.4

* Service track and Option A (Clinical) in the School of Medicine and Dentistry are non-tenure track and are not included.

ANNUAL FINANCIAL STATEMENT INFORMATION

Financial Reporting

The consolidated financial statements of the University are prepared on an accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America. They include the accounts of all of the integrated divisions of the University and its related entities, including Strong Partners Health System, Inc. ("SPHS") and its affiliates, Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Excell Partners, Inc., Rochester BioVenture Center, Inc., High Tech Rochester, Inc., eXtensible Catalog Organization, LLC, and the University of Rochester Real Estate Corporation. See "Related Entities" below. All significant interorganization balances and transactions have been eliminated.

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

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

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

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 trusted 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.

• Through fiscal year 2010, certain accumulated net investment gains earned on permanently restricted net assets have been included within unrestricted net assets.

• 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 with the exception of contributions for which imposed restrictions are met in the same fiscal year in which they are received. Such contributions are included in unrestricted revenues.

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

Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) that do not occur within the same period as revenue recognition are reported as reclassifications 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 acquired or placed in service.

Management's Discussion of Financial Performance

Results of Operations

Consolidated operating revenues increased by 6% over fiscal year 2009 to $2.63 billion for fiscal year 2010 and were driven primarily by tuition/fees, grants and contracts, and hospital and faculty practice patient care activities. Consolidated operating expenses increased by less than 3% to $2.52 billion with compensation and related fringe benefits representing over 63% of total expenses. The increase in expenses was driven by patient care volumes and sponsored research activity which were offset by other cost-reduction programs primarily in the Medical Center and a zero-increase salary pool for employees earning more than $40,000 annual salary. The University posted an increase to net assets from operations of $108 million.

Non-operating activities are comprised primarily of the University's investment activities (primarily of the long-term investment pool) and endowment spending. For the year ending June 30, 2010, the return on the long-term investment portfolio was a positive 12.1% compared to a negative 19.8% for the prior year and reflected the recovery of the capital markets. The fiscal year 2010 increase to net assets from non-operating activities was $63 million compared to negative $518 million for fiscal year 2009.

Financial Condition

Consolidated total assets increased by 11% from fiscal year 2009 to $4.01 billion at June 30, 2010. The increase of $132 million in consolidated cash position (consisting of cash and cash equivalents and operating investments) was the result of positive operating margins of the University's hospitals, reimbursement of capital expenditures drawn from bond funds, and the proceeds from the New Markets Tax Credit program. Long-term investments increased by $150 million to $1.56 billion at June 30, 2010 that was led by the 12.1% return of the portfolio. Property, plant and equipment increased to $1.4 billion with capital spending of $196 million. Consolidated liabilities totaled $1.63 billion representing an increase of 17% over last year. Total consolidated net assets increased to $2.382 billion as of June 30, 2010 or an increase of $171 million from the prior year end.

Statement of Cash Flows - The statement of cash flows divides cash flows into three categories - net cash provided by (or used in) operating activities, investing activities, and financing activities.

The University's and its related entities' operating activities in 2009-10 provided cash of $132.7 million. The net cash used in investing was $212.9 million and the net cash provided by financing activities was $150.5 million, leaving an overall net increase in cash of $70.3 million. Total cash and cash equivalents increased from $135.4 million to $205.7 million.

Subsequent Events

Subsequent to June 30, 2010, the date of the University's most recent audited financial statements, the University's net assets have increased from the level of $2.4 billion at June 30, 2010 to approximately $2.6 billion at the close of the quarter ended March 31, 2011 on a preliminary estimated basis. The increase is due to positive results from operations and the University's investment portfolio. The University's core operations continue to be favorable, and the patient care enterprise continues to generate positive margins. Academic divisions are achieving their budgetary goals and undergraduate deposits in the College for fall 2011 indicate that the enrollment target will be met or exceeded. The University expects to complete fiscal year 2011 with a positive operating margin.

The University's endowment performance, net of all fees, over the eleven months through May 31, 2011 was 18.2% (on a preliminary estimated basis). The portfolio was allocated 32.5% to public equities (16.4% domestic equity and 16.1% international equity), 21.8% to hedge funds, 15.1% to real assets, and 22% to private equity. Fixed income and short-term investments amounted to 8.6%. The preliminary estimated market value of endowment and similar funds as of March 31, 2011 was $1.55 billion.

As of March 31, 2011, the University had $545 million in cash and operating investments and substantial amounts of committed bank facilities for liquidity purposes on a preliminary basis.

The preliminary financial results presented above are subject to the completion of our financial closing procedures. Those procedures have not been completed. Accordingly, these results may change and those changes may be material.

The preliminary financial data included in this Official Statement has been prepared by, and is the responsibility of, the University's management. PricewaterhouseCoopers LLP has not audited, reviewed, compiled or performed any procedures with respect to the preliminary financial data presented above. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

Operating Budget

The University's annual operating budget for the following fiscal year is reviewed and approved by the Financial Planning Committee and approved by the Board in the spring of each year. Financial planning assumptions and projections for four additional fiscal years are also developed annually. As a result, the operating budget for any given year will have been developed by the administration within a five-year planning context with continuing refinements in the economic estimates and in the programmatic concerns that affect the final annual budget. The planning process includes projections of endowment growth, graduate and undergraduate enrollments in the various schools and colleges of the University, competitive trends that may have disparate effects among the academic units, salaries and benefits, government and private sponsorship of research, indirect cost recovery rates, gifts and operating and maintenance costs. Actual performance against the operating budget is monitored by the administration and is reported to the Board's Executive Committee on a regular basis.

Capital Budget

At its spring meeting, the Board of Trustees also approves a detailed capital budget for the following year along with a capital plan of potential projects for the subsequent two years. This permits the administration and the board to plan in advance for major projects, evaluate possible operating budget implications and assess the University's debt requirements and capacity.

The 2011-12 capital budget for the University's project total $378 million. This amount includes $134 million for the construction of a new Golisano Children's Hospital at Strong, for which a $20 million lead gift was recently announced. The capital budget also includes two major utility infrastructure projects to accommodate growth across the University as well as an undergraduate residence hall to accommodate increased undergraduate enrollment in the College of Arts, Sciences and Engineering.

During the capital budget planning process, the University also develops a capital plan for two additional years. A list of potential projects for fiscal year 2013 and 2014 totals $418 million. These projects will undergo further review and prioritization. Multi-year capital projections guide the University's planning of facilities and borrowing. Projects ultimately approved will be funded through a combination of gifts, operations and debt. The University maintains a disciplined process for its capital planning which is designed to keep future borrowings within the institution's debt capacity.

Summary of Financial Information

The following Summary of Activities summarizes the University's consolidated revenues and expenses and other changes for the last five fiscal years. This summary is derived from the audited consolidated financial statements of the University for such periods. It should be read in conjunction with the University's consolidated financial statements and the notes thereto, which statements were prepared in accordance with accounting principles generally accepted in the United States of America. See "APPENDIX B - CONSOLIDATED FINANCIAL STATEMENTS OF UNIVERSITY OF ROCHESTER AND CONSOLIDATED ENTITIES AND REPORT OF INDEPENDENT AUDITORS."

SUMMARY OF ACTIVITIES
Fiscal Years Ended June 30,

(dollars in thousands)	**2006**	**2007**	**2008**	**2009**	**2010**
Operating Revenue:					
Tuition and fees	$219,288	$242,121	$269,926	$300,480	$321,252
Less scholarships and fellowships	(90,313)	(97,948)	(108,378)	(120,416)	(132,222)
Net tuition and fees	128,975	144,173	161,548	180,064	189,030
State and local appropriations	1,812	1,954	1,796	1,843	1,737
Grants and contracts	359,097	362,156	366,278	385,136	419,643
Gifts and pledges	68,967	75,494	98,733	65,221	47,962
Hospital and faculty practice patient care	1,344,612	1,445,795	1,520,558	1,599,123	1,708,304
Auxiliary enterprises	60,907	65,030	69,155	73,730	77,248
Investment income on cash equivalents	13,975	23,731	12,192	(7,784)	13,361
Educational activities	27,270	25,749	24,040	29,023	29,571
Royalty income	44,278	61,429	64,921	42,975	38,978
Other sources	9,769	10,223	14,225	15,686	13,904
Long-term investment income and gains allocated allocated for operations	80,120	79,672	85,195	93,151	86,349
Total operating revenue	2,139,782	2,295,406	2,418,641	2,478,168	2,626,087
Operating expenses:					
Salaries and wages	993,178	1,058,157	1,143,813	1,209,480	1,244,373
Fringe benefits	259,091	280,837	302,858	320,057	353,387
Total compensation	1,252,269	1,338,994	1,446,671	1,529,537	1,597,760
Supplies	276,869	291,986	296,107	316,611	336,317
Business and professional	182,538	191,989	215,045	210,532	193,573
Utilities	42,614	51,573	55,043	55,060	52,075
Maintenance and facilities costs	77,045	81,710	89,950	98,313	105,186
Depreciation expense	114,091	114,796	127,622	136,648	141,957
Interest Expense	24,732	29,888	35,352	31,114	28,053
Other	68,745	76,144	72,945	70,559	63,202
Total operating expenses	2,038,903	2,177,080	2,338,735	2,448,374	2,518,123
Change in net assets from operating activities	100,879	118,326	79,906	29,794	107,964
Non-operating activities:					
Long-term investment activities:					
Investment income	24,146	26,997	21,664	16,345	12,478
Net appreciation (depreciation)	184,570	292,540	(42,738)	(396,492)	142,663
Total long-term investment activities	208,716	319,537	(21,074)	(380,147)	155,141
Long-term investment income and gains allocated for operations	(80,120)	(79,672)	(85,195)	(93,151)	(86,349)
Loss of extinguishment of debt	(2,638)	(1,018)	-	(6,714)	(2,014)
Other changes, net	8,737	(802)	(1,709)	(38,785)	(1,547)
Change in valuation of annuities	(1,080)	(2,048)	(6,268)	692	(2,666)
Change in net assets from non-operating activities	133,615	235,997	(114,246)	(518,105)	62,565
Change in net assets before cumulative effect of change in accounting principle	234,494	354,323	(34,340)	-	-
Cumulative effect of change in accounting principle	(16,763)	(34,052)	-	-	-
Change in net assets	217,731	320,271	(34,340)	(488,311)	170,529
Beginning net assets	2,195,887	2,413,618	2,733,889	2,699,549	2,211,238
Ending net assets	$2,413,618	$2,733,889	$2,699,549	$2,211,238	$2,381,767

Related Entities

The consolidated financial statements of the University include the accounts of certain related entities, including Strong Partners Health System, Inc. ("SPHS") and its affiliates, Eastman Dental Center Foundation, Inc., Strong Home Care Group and its subsidiaries, Excell Partners, Inc., Rochester BioVenture Center, Inc. High Tech Rochester, Inc., eXtensible Catalog Organization, LLC, and the University of Rochester Real Estate Corporation. See "APPENDIX B – CONSOLIDATED FINANCIAL STATEMENTS OF UNIVERSITY OF ROCHESTER AND CONSOLIDATED ENTITIES AND REPORT OF INDEPENDENT AUDITORS." None of these related entities are legally obligated to pay debt service on University obligations, including the Series 2011 Bonds. The combined operating activities of the University's related entities reflect approximately 14% of the consolidated revenues and expenses and the net assets of these related entities represent approximately 6% of the consolidated net assets.

The University is the sole member of SPHS, which controls Highland Hospital of Rochester ("Highland Hospital") and its affiliates. Highland Hospital and its affiliates have debt outstanding which has been included in the University's consolidated financial statements; however, under the terms of the affiliation agreement among Highland Hospital, SPHS and the University, the University has no legal obligation for the debt of Highland Hospital and its affiliates. For additional information about Highland Hospital and its affiliates, see "Affiliated Entities Part of Integrated Delivery System" in this "APPENDIX A."

SPHS also has affiliation agreements with The Highlands Living Center, Inc.; Highland Community Development Corp.; and The Meadows at Westfall, Inc. For additional information about these related entities, see "Affiliated Entities Part of Integrated Delivery System" in this "APPENDIX A."

The Eastman Dental Center 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 this foundation are used to support oral health, education, and research projects of 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. These entities provide visiting nurse services. For more information about Strong Home Care Group, see "Affiliated Entities Part of Integrated Delivery System" in this "APPENDIX A."

The University has guaranteed certain indebtedness of Strong Home Care Group.

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

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

The University is the sole corporate member of High Tech Rochester, Inc. 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 corporate 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 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.

University Retirement Plans

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 $66.6 million and $63.6 million in 2010 and 2009, respectively, which were vested for the benefit of the participants.

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 $15.4 million and $14.8 million for the years ended June 30, 2010 and 2009, respectively, which is recorded in fringe benefits expense on the Consolidated Statement of Activities.

Postretirement plan expense for the year ended June 30, 2010 includes the following components:

Net Periodic Postretirement Benefit Cost
Fiscal Year Ended June 30, 2010
(dollars in thousands)

Service cost – benefits earned	$ 2,562
Interest cost	7,636
Net Amortization	5,166
Net periodic postretirement benefit cost	$ 15,364

For measurement purposes, the rate of increase in health care costs is assumed to decrease from 10% in 2010 to 4.5% in 2016 and to remain at that level thereafter. A one percentage-point increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation as of June 30, 2010 by approximately $5.6 million and the aggregate service and interest components of net periodic postretirement benefit cost by approximately $682 thousand. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.25% at June 30, 2010 and 6.25% at June 30, 2009.

Grants and Contracts

The University has long been a center for programs of research and training. Federal grants and contracts provide most of the funds for sponsored programs, although additional amounts come from other government entities, industry and foundations. The following table shows the major sources of grant and contract program revenue for the last five fiscal years and a preliminary amount for the year ended June 30, 2011:

Total Grant and Contract Program Revenues
Fiscal Years Ended June 30,
(dollars in thousands)

	2006	2007	2008	2009	2010	Preliminary 2011
Health and Human Services	$166,388	$171,736	$181,303	$192,309	$215,623	$224,656
Department of Energy	80,384	73,277	62,212	67,278	60,449	67,048
National Science Foundation	10,436	10,224	10,661	11,122	12,877	14,953
Department of Defense	9,149	10,024	12,889	11,798	10,733	10,158
All other Federal	7,845	15,155	11,208	8,514	9,210	15,541
Total Federal	274,202	280,416	278,273	291,021	308,892	332,356
New York State	11,247	9,781	21,286	18,424	43,414	47,090
Local Government	2,972	2,664	2,775	2,888	3,805	3,433
All other sponsors	70,676	69,295	63,944	72,803	63,532	59,215
Grand Total	$359,097	$362,156	$366,278	$385,136	$419,643	$ 442,094

Gifts and Pledges

The following table shows gifts and pledges revenue by donor restriction category for the past five years:

Gifts and Pledges
Fiscal Years Ended June 30,
(dollars in thousands)

	2006	2007	2008	2009	2010
Unrestricted Net Assets	$45,885	$42,443	$33,646	$15,259	$17,917
Temporarily Restricted Net Assets	16,935	18,640	37,050	35,068	15,076
Permanently Restricted Net Assets	6,147	14,411	28,037	14,894	14,969
Total	$68,967	$75,494	$98,733	$65,221	$47,962

Long-Term Investments

The University's investments are reported at fair value and include assets of the University's endowment and similar funds and other investments held for operating purposes.

The University's investment program for endowment and similar funds operates under an investment policy statement and guidelines established by the Board, which delegates direct oversight for the investment program to the Investment Committee of the Board. The consolidated endowment pool, in which virtually all endowment funds are placed, is diversified among equities, fixed income, real estate and other investments, both in the United States and abroad, and is managed by external money managers appointed for the purpose by the Committee. The investment return on the University's investment portfolio was 12.1% in 2009-10, -19.8% in 2008-09, -0.1% in 2007-08, 19.4% in 2006-07, and 14.0% in 2005-06.

As of June 30, 2010, the market value of the University's endowment and similar funds was approximately $1.38 billion. The consolidated financial statements and notes thereto contained in APPENDIX B to this Official Statement show further details concerning the valuation of investments, the University's consolidated financial resources and uses of both operating and capital funds.

University Investments

The University's portfolio of endowment and similar funds is managed according to a total return plan. Both investment performance and endowment spending are subject to continuous review by the Board of Trustees. Endowment use is measured as a percentage of a five-year moving average. Each year, the Board approves the endowment spending rate as a part of the budgetary approval process. An ultimate spending target of 5.5% has been established. The pattern of spending over the past five years is as follows:

Endowment Support of Operations

Fiscal Year	Endowment Spending	As a Percentage of Five Year Moving Average of Endowment Market Value
2005-06	77,631,000	6.7
2006-07	77,341,000	6.6
2007-08	81,707,000	6.6
2008-09	89,973,000	6.6
2009-10	81,618,000	5.7
2010-11	83,288,000	5.8

University Indebtedness and Swaps

Non-Authority Indebtedness. Exclusive of various Dormitory Authority of the State of New York ("Authority") obligations and capital leases described below, the outstanding long term indebtedness of the University at June 30, 2010, amounted to $64,819,000 and consisted of the following:

1. The University entered into an agreement with the New York State Urban Development Corporation ("UDC") to partially fund the construction of the University's Center for Optoelectronics and Imaging (COI) with a loan of $5,000,000. The agreement requires the University to pay the loan principal plus the cost of issuance for the $6,320,000 bond issue by which the UDC financed the loan. Through June 30, 2010, the University repaid $3,167,000 leaving a balance outstanding of $1,833,000. The loan is secured by a mortgage on the property. Pursuant to an agreement authorized by statute, the State of New York leases the COI from the University for the 30-year life of the loan, paying as rent an amount sufficient to cover the University's obligations to the UDC. These rents have been assigned to the UDC as further security for the loan. Rental payments by the State are subject to annual appropriation by the State Legislature. The University retains possession of the property under a sub-lease back 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.

2. In November 2003, the University issued $8,600,000 of its Direct Note Obligations, Series 2003 to refinance drawings under the University's revolving line of credit with JPMorgan Chase Bank, the proceeds of which 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. A total of $8,577,000 is recognized on the University's consolidated balance sheet, as the notes are recorded net of an unamortized discount of $23,000 at June 30, 2010.

3. In January 2004, the University entered into an agreement for the 2004 Replacement Bond issued by the County of Monroe Industrial Development Agency ("COMIDA") in the amount of $698,000. Proceeds from the 2004 COMIDA Replacement Bond were used to purchase property at 10 Gibbs Street, Rochester, New York, which has become part of the Eastman School of Music Campus. A total of $627,000 is recognized on the University's consolidated balance sheet at June 30, 2010.

4. 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 $53,782,000 in new external consolidated debt and $28,482,000 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 $15,482,000 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 $38,300,000 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 $28,482,000 to an investment fund as a part of the setup of the community development entities. The external note receivable matures on December 18, 2049 A total of $53,782,000 is recognized on the University's consolidated balance sheet at June 30, 2010

Authority Indebtedness. The University's indebtedness to the Authority at June 30, 2010 amounted to $633,488,000, which consisted of the following:

1. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $22,920,000 of Series 2001A Bonds, of which $15,440,000 were outstanding as of June 30, 2010. A total of $15,365,000 is recognized on the University's consolidated balance sheet as such Series 2001A Bonds are recorded net of unamortized discount of $75,000 at June 30, 2010.

2. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $164,425,000 of Series 2003A, B, and C Bonds, of which $123,050,000 were outstanding as of June 30, 2010.

3. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $45,000,000 of Series 2004A Bonds, of which $26,600,000 were outstanding as of June 30, 2008. A total of $26,968,000 is recognized on the University's consolidated balance sheet as such Series 2004A Bonds are recorded net of unamortized premium of $368,000 at June 30, 2010.

4. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $111,180,000 of Series 2006A-1 and B-1 Bonds, of which $111,180,000 were outstanding as of June 30, 2010.

5. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $235,869,067 of Series 2007A-1, A-2, B and C Bonds, of which $233,844,000 were outstanding as of June 30, 2010. A total of $241,215,000 is recognized on the University's consolidated balance sheet as such Series 2007 Bonds are recorded net of unamortized premium of $7,371,000 at June 30, 2010.

6. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold $127,279,240 of Series 2009A, B, C, D, and E Bonds, of which $112,615,000 were outstanding as of June 30, 2010. A total of $115,702,000 is recognized on the University's consolidated balance sheet as such Series 2009 Bonds are recorded net of unamortized premium of $3,087,000 at June 30, 2010.

The Bonds described in paragraphs 1 through 6 above are on a parity with the Series 2011 Bonds.

Obligations Under Capital Leases:

The University's capital lease obligations amounted to $20,509,000 as of June 30, 2010.

Indebtedness Incurred Since June 30, 2010:

The University has entered into a capital lease with Banc of America Leasing and Capital, LLC for certain equipment for the University. The initial cost of the equipment subject to the lease was $164,677.

Swaps:

The University has entered into interest rate exchange agreements relating to the Series 2003 Bonds and the Series 2006 Bonds, in an aggregate notional amount equal to the principal amount of such Bonds. Pursuant to each agreement, the University is obligated to pay the applicable swap counterparty amounts based on a fixed interest rate and is to receive payment from the swap counterparty based on variable interest rates. Under certain circumstances the University may be required to post collateral to secure its obligations under the interest rate exchange agreements. In addition, each agreement may be terminated following the occurrence of certain events, at which time the University may be required to make a termination payment to the swap counterparty. Wells Fargo Bank, NA is the swap counterparty on the Series 2003A Bonds and the Series 2003B Bonds, Citibank, N.A. New York is the swap counterparty on the Series 2003C Bonds and Bank of America / Merrill Lynch Capital Services, Inc. is the swap counterparty on the Series 2006 Bonds. See note 8(l) and note 8(o) of the notes to the financial statements of the University included as APPENDIX B hereto for further information. The fixed interest rate on the Series 2006 Bonds interest rate exchange agreement was increased by 2 basis points effective September 10, 2008.

Potential Indebtedness:

The University has a $31.0 million standby letter of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities under the University's self-insured workers compensation program.

The University has $788,655 in standby letters of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities of other financial obligations.

The University has a $103.5 million letter of credit facility with JP Morgan Chase Bank, N.A. to cover potential liabilities under the Series 2003A Bonds and the Series 2003C Bonds of the Authority. Of this total, no amounts were outstanding as of June 30, 2011.

The University has a $34.7 million letter of credit facility with HSBC Bank, N.A. to cover potential liabilities under the Series 2003B Bonds of the Authority. Of this total, no amounts were outstanding as of June 30, 2011.

The University has a $112.6 million letter of credit facility with Bank of America, N.A. to cover potential liabilities under the Series 2006A-1 Bonds and the Series 2006B-1 Bonds of the Authority. Of this total, no amounts were outstanding as of June 30, 2011.

The University has a $75 million line of credit with JPMorgan Chase Bank, N.A. for short term emergency purposes. Of this total, no amounts were outstanding as of June 30, 2011.

The University has a $50 million line of credit with The Northern Trust Company for liquidity funding of the endowment. Of this total, no amounts were outstanding as of June 30, 2011.

The University has an additional $50 million line of credit with U. S. Bank, N. A., for short term emergency purposes. Of this total, $1 million is outstanding as of June 30, 2011.

Property, Plant and Equipment

The following table shows the University's investment in property, plant and equipment for the past five years:

Investment in Property, Plant and Equipment
As of June 30,
(dollars in thousands)

	2006	2007	2008	2009	2010
Land and improvements	$ 40,324	$ 41,410	$ 45,102	$ 49,093	$ 49,914
Buildings and improvements	1,315,450	1,411,805	1,643,486	1,763,417	1,813,666
Completed projects under leasehold agreements	46,454	4,315	5,246	6,998	8,738
Equipment owned	651,691	658,265	702,093	727,032	773,610
Museum collections	27,136	29,088	29,444	29,955	30,160
Construction in progress	157,537	246,559	142,223	103,888	139,853
Library books	102,829	109,961	117,638	125,673	134,181
	2,341,421	2,501,403	2,685,232	2,806,056	2,950,122
Less accumulated depreciation	1,237,530	1,298,200	1,369,892	1,456,786	1,549,084
Investment in property, plant and equipment, net	$1,103,891	$1,203,203	$1,315,340	$1,349,270	$1,401,038

The University presently carries, under blanket insurance policies, $1,000,000,000 in property and content coverage for University properties, including the Hospital but excluding land and building foundations.

LITIGATION AND LEGAL MATTERS

Various claims and actions are pending to which the University is a party. Insurance policies cover general liabilities in all University divisions and professional liability (medical malpractice) in Medical Center operations. The Medical Center's liability insurance is described in Note (11) to the consolidated financial statements presented in APPENDIX B to this Official Statement. No legal actions are pending or, to the best of the University's knowledge, threatened against it which, if determined adversely to it, could produce a material adverse effect on its financial condition or operations.

THE HOSPITAL/MEDICAL CENTER

General

The University Medical Center is a part of the University and consists of the following divisions: (1) Strong Memorial Hospital (the "Hospital"), (2) the School of Medicine and Dentistry, (3) the School of Nursing, (4) the University of Rochester Medical Faculty Group ("URMFG") and (5) the Eastman Dental Center. Since 1995, a major objective has been the integration of all components of the Medical Center (including the Hospital) into a cohesive, cost-effective administrative and financial entity. To that end, the following activities have been implemented: (1) Centralization of Medical Center Administration, including Medical Administration, Finance, Human Resources, Strategic Planning, Public Relations, Development, Legal and Facilities; (2) Development of a Medical Center Strategic Plan; (3) Creation of the Health Affairs Committee of the University Board of Trustees with certain advisory responsibilities; (4) Establishment of the University of Rochester Medical Faculty Group as a separate division within the Medical Center; and (5) Acquisition and Establishment of the Eastman Dental Center as a separate division within the Medical Center.

The Hospital is an integral part of the University's Medical Center and serves as the principal teaching hospital of the School of Medicine and Dentistry and the School of Nursing. The Hospital, with 40,432 discharges and 255,735 patient days in calendar year 2010, is the largest acute care general hospital in Rochester and serves both as a general regional/national tertiary care hospital and a specialized referral center for a 14-county area.

The Hospital currently serves as a regional center for the following services: Neonatal Intensive Care, Pediatric Intensive Care, Burn, Perinatology, Cancer Center (Oncology services), Liver Transplantation, Heart Transplantation, Bone Marrow Transplantation, Comprehensive Epilepsy Program, AIDS and Trauma.

Services and Programs

The Hospital offers a broad range of diagnostic and therapeutic services for adults and children on inpatient and outpatient bases. Its licensed bed complement is allocated among the following services:

Services	Number of Beds
Medical/Surgical	397
Intensive Care	55
Coronary Care	8
Burn Care	7
Pediatric	60
Maternity	45
Psychiatric	93
Rehabilitation	20
Pediatric Intensive Care Unit	12
Neonatal/ICU	52
Total	749

The Hospital has been authorized by the New York State Department of Health, through its Certificate of Need process, to operate and provide programs and services in specialized areas such as adult and pediatric cardiac catheterization, adult and pediatric open heart surgery, linear acceleration and magnetic resonance imaging, therapeutic and diagnostic nuclear medicine, therapeutic radiology, bone marrow transplantation, poison control, AIDS, lithotripsy, speech and language pathology, burns, cystoscopy, and kidney, liver, cardiac and pancreas transplantation, in addition to a host of outpatient services.

Excluding medical staff with part-time faculty appointments, the Hospital's staff of more than 7,000 tends to the broad spectrum of health care needs of patients in the greater Rochester area, and to the specialized needs of patients from the surrounding Finger Lakes area, West-Central New York, the rest of the State and the other areas of the United States.

The Hospital has developed programs such as the Durand Bone Marrow Transplantation Center, the Liver Transplantation Center, the Heart Transplantation Center, the Burn Center, a regional AIDS Center, a

Comprehensive Epilepsy Center, a Regional Trauma Unit, spinal cord injury, orthopedic reconstructive surgery, high risk obstetric units, and a renowned Cancer Center and Neonatal Intensive Care Unit.

The Hospital also offers needed services to area hospitals, especially those in the communities of Livingston, Wayne, Ontario, Steuben, Orleans, Wyoming, Chemung, Schuyler, Tompkins, Cayuga and Jefferson Counties. These include specialized cardiac, neurosurgery, pulmonary, oncology and high-risk obstetric assistance, as well as emergency and airlift care for serious trauma and burn patients who come for treatment only the Hospital can offer in the region.

With respect to its residency programs, the Hospital trains approximately 720 residents and fellows in 76 different fully accredited graduate medical and dental education programs, in sub-specialties which include: Anesthesiology, Dermatology, Emergency Medicine, Emergency Medicine – Pediatric, Family Medicine, General Dentistry, Internal Medicine, Medicine-Pediatrics, Neurological Surgery, Neurology, Neurology-Clinical Neurophysiology, Nuclear Medicine, Obstetrics-Gynecology, Ophthalmology, Oral and Maxillofacial Surgery, Orthopaedics, Pathology, Pathology-Neuropathology, Pediatrics, Pediatric Dentistry, Orthodontics, Periodontics, Physical Medicine-Rehabilitation, Prosthodontics, Psychiatry, Psychiatry-Child and Adolescent, Psychiatry-Geriatric, Radiation Oncology, Radiology, Surgery, Surgery-Cardiothoracic, Surgery-Critical Care, Surgery-Otolaryngology, Surgery-Plastic Surgery, Surgery-Vascular, Urology, Allergy and Immunology, Anesthesiology Critical Care, Anesthesiology Pain Management, Medicine-Cardiovascular Disease, Medicine-Cardiovascular Electrophysiology, Medicine-Critical Care, Medicine-Endocrinology, Medicine-Gastroenterology, Medicine-Geriatric Medicine, Medicine-Hematology/Oncology, Medicine-Infectious Disease, Medicine – Interventional Cardiology, Medicine-Nephrology, Medicine-Pulmonary Critical Care, Medicine-Rheumatology, Orthopaedics-Hand Surgery, Orthopaedics-Sports Medicine, Pathology-Cytopathology, Pediatrics – Adolescent Medicine, Pediatrics-Critical Care Medicine, Pediatrics-Cardiology, Pediatrics – Hematology Oncology, Pediatrics- Infectious Disease, Pediatrics-Nephrology, Pediatrics-Neonatology, Pediatrics-Pulmonology, Psychiatry-Forensic Psychiatry, Radiology-Muskuloskeletal, Radiology-Neuroradiology, Radiology-Pediatric, Radiology-Vascular/Interventional, Child Neurology, Maternal Fetal Medicine, Pediatric Gastroenterology, Pediatric Anesthesiology, Procedural Dermatology, Emergency Medicine-Sports, Vascular Neurology, Orthopaedic Surgery, Preventive Medicine, and Advanced Education in General Dentistry.

Service Area

The Hospital is the largest general hospital in the Finger Lakes Region, serving acutely ill patients at all levels including tertiary care. The Finger Lakes Region served by the Hospital consists of the City of Rochester and its suburbs, surrounded by a largely rural region with a combined population of 1.3 million people. In addition to its tertiary services, the Hospital provides a full range of primary and secondary medical, surgical, pediatric, obstetrical, and psychiatric care.

In calendar year 2010, the Hospital discharged 40,432 inpatients and cared for 1,222,547 outpatients and 97,690 Emergency Department patients. Some 64% of inpatients come from Monroe County, the primary service area, 29% from the secondary service area of surrounding counties including Livingston, Ontario, Wayne, Genesee, Orleans, Steuben, Seneca and Yates and the remaining 7% from other parts of the State and nation.

Strategic Plan

In 2007, the Medical Center developed a new strategic plan. The University Board of Trustees approved the adoption of this plan in the fall of 2008. The strategic plan's major strategy will be an intense focus on innovation and excellence to develop new therapies to improve health. A major component of the plan is to recruit and retain outstanding individuals with promising potential, provide them a collaborative environment with cutting edge technology, and produce high impact research in focused areas that is recognized globally. At the same time the Medical Center anticipated increasing its NIH funding and rank to number 25 by 2012. As of 2010, the Medical Center exceeded that goal and ranks 24th in NIH funding. The Medical Center embarks on its strategic plan with many strengths, including the long tradition of a collegial environment, a unique combination of researchers in basic and clinical science who have easy access to patients and their physicians interested in research, a robust clinical enterprise which helps to sustain its academic enterprise and opportunities to interact with River Campus faculty in brain and cognitive science, engineering, genetics, nanotechnology, and optics.

The Medical Center's plan is to use these strengths to create synergies around major disease areas. It will integrate science, education and clinical care by leveraging new and joint recruitments, shared cores and equipment, and new technologies. The areas of disease focus termed Integrated Disease Programs (IDPs) include cancer, cardiovascular disease, immunology and infectious disease, musculoskeletal disease and neuromedicine. In these areas the emphasis will be on translating basic discoveries to patient care and novel therapies.

The basic research that feeds these translational efforts must have continued support with new and enhanced cores and technologies. Therefore, the Medical Center plans to invest in exciting new research areas represented by four Innovative Scientific Programs (ISPs). Thus, it will emphasize cores and programs that amplify current resources and create new capabilities. These include:

ISPs

- Stem Cell & Regenerative Medicine
- Biomedical Imaging & Biomarkers
- Nanomedicine
- Genomics & Systems Biology

Cores

- Vivarium
- Small Animal Imaging
- Flow Cytometry
- Good Manufacturing Practices-GMP
- Enhanced BioSafety Level 3 (eBSL3)

These cores and programs support not only the integrated disease programs selected for emphasis but virtually all other research and clinical programs which are so important to the life of the Medical Center.

The Medical Center's major goals are:

1. To become one of the leading health care systems in the Northeast and to achieve national recognition for its signature programs that develop new therapies based on outstanding research.
2. To sustain an interdisciplinary environment that emphasizes fundamental discovery and fosters innovation through acquisition of new technologies.
3. To ensure translation of fundamental discovery into cutting edge patient therapies through the education of clinicians and scientists.
4. To grow clinical volume by recruiting outstanding health professionals and providing capacity for complex procedures where specialized expertise and high volume ensure the highest levels of patient safety and quality.
5. To maintain clinical margin and productivity that sustains growth in the clinical and academic missions of the Medical Center.
6. To engage the community through economic development (including technology transfer and research partnerships) and to promote community health through research programs that support community based interventions.

Governance

The University's Board of Trustees has delegated authority for governing the Hospital and the Eastman Dental Center to the Medical Center Board but has retained governing authority over the remaining components of the Medical Center. In addition to governance responsibilities for the Hospital and the Eastman Dental Center, the Medical Center Board advises the University Board of Trustees on all matters relating to the Medical Center's mission, plans, policies and operations. The Medical Center Board is responsible for establishing policy, assuring quality patient care, and providing for the institutional management and planning for the Hospital (SMH) and the Eastman Dental Center (EDC). However, the Board of Trustees must approve any action of the Medical Center Board which would (1) result in a call upon the financial resources of the University not dedicated for the support of the Hospital (SMH) or EDC, (2) have a major impact on University academic programs, or (3) contravene policies of the University established by the Board of Trustees.

The Medical Center Board currently has 50 voting members. New members are appointed by the Board of Trustees upon the recommendation of the existing Medical Center Board. At least five members must be or have been Trustees. In addition to the elected members, the following persons serve on the Medical Center Board as ex officio voting members: the University's President, the Provost, the Chair of the University Board of Trustees, the

Senior Vice President for Health Sciences at the University and Chief Executive Officer of the Medical Center and Strong Health, the Medical Center Vice President and Chief Medical Officer, the Medical Center Vice President and Chief Operating Officer, the Medical Center Vice President and Chief Financial Officer, the President and Chief Executive Officer of the Hospital, the Deans of the School of Medicine and Dentistry and School of Nursing, Director of the Eastman Dental Center, the Associate Director for Clinical Services of the Eastman Dental Center, the Director of the Medical Faculty Group, two Department Chairs of the clinical departments from the School of Medicine and Dentistry and one member of the community-based faculty from the Medical Staff. A representative of the Friends of Strong (the Hospital's volunteer organization) serves as an ex-officio non-voting member.

The Medical Center Board meets at least six times a year and has eight standing committees: Executive, Audit and Risk Assessment, Advancement, Finance, Facilities, Nominations and Board Practices, Compliance and Conflict of Interest Committee and Quality of Care. The Executive Committee meets four times a year.

The current elected members of the Medical Center Board are:

Richard T. Aab *
Chairman
Ovation Payroll

Michael J. Amalfi
Senior Vice President
Ultra Scan Corporation

Willem T. Appelo
President
Xerox Strategic Service Group

Kenneth D. Bell
Community Volunteer

Michael F. Buckley, Esq.
Harter Secrest & Emery LLP

Daniel J. Burns
Regional President
M&T Bank

Daniel J. Chessin
Co-President and CEO
Hahn Automotive Warehouse, Inc.

William Clark
President & CEO
Urban League of Rochester, NY, Inc.

Richard J. Collins, MD *
Community Volunteer

Elaine Del Monte
Community Volunteer

Joan L. Feinbloom
Community Volunteer

John T. Fitzgerald, Jr. Esq.
Nixon Peabody LLP †

David M. Flaum *
CEO
Flaum Management, Company, Inc.

Anne B. Francis, MD
Private Physician

Roger B. Friedlander *
Community Volunteer

Emerson U. Fullwood
Community Volunteer

George W. Hamlin, IV
President and CEO
The Canandaigua National Bank & Trust Company

Kevin J. Hobert
CEO
Carestream Health, Inc.

Susan R. Holliday
President and Publisher
Rochester Business Journal

Alan Illig, Esq.
Financial Specialist
Lifespan of Rochester

Dan Kerpelman
President and CEO
Bio-Optronics Group, LLC

Dennis Kessler
President
The Kessler Group

Diana R. Kurty, CPA
Principal
Lumina Partners

Robert N. Latella, Esq.
Of Counsel
Hiscock & Barclay, LLP

James P. Laurito
President
Central Hudson Gas & Electric Corporation

Joseph M. Lobozzo II
Community Volunteer

Robert C. Morgan
President & CEO
Morgan Management, LLC

Susan Parkes-McNally
Executive VP & Treasurer
O'Connell Electric Company

Thomas S. Richards *
Mayor
City of Rochester

William W. Richardson
Community Volunteer

Lori Van Dusen
Executive Director
Convergent Wealth Advisors

Julio Vasquez, Sr.
CEO & Chairman
Eugenio Maria de Hostos Charter School

Joseph R. Wilson
Senior Vice President
UBS Financial Services, Inc.

W. Keith Wilson
Executive VP and Chief Administrative Officer, HR
Constellation Brands, Inc.

Ronald L. Zarrella
Chairman Emeritus
Bausch & Lomb, Inc.

* Current or former University Trustee.

† The firm of Nixon Peabody LLP serves as counsel to the University.

Potential Conflicts of Interest

The Medical Center Board has adopted a policy designed to avoid any possible conflict between the personal interests of members of the Board, executive officers, faculty or staff of the Medical Center and the interests of the Medical Center and its various components. The purpose of the policy is to ensure that decisions about Medical Center business and the use or disposition of Medical Center property are made solely in terms of benefits to the Medical Center and are not influenced by any private profit or other benefit to Medical Center personnel who take part in the decision.

Medical Staff

With respect to the Medical Staff, as of July 21, 2011, there were 1,486 physicians and dentists grouped into four categories: Attending, Courtesy, Emeritus and Honorary. The Medical Staff is organized into 20 clinical departments representing over 100 medical specialties and sub-specialties. As of this date, approximately 92% of the Medical Staff were board certified and the average age was 51 years.

The following is a summary by clinical department of the Medical and Dental Staff, including number of physicians and dentists, average age, and the percentage who are board certified:

MEDICAL AND DENTAL STAFF COMPOSITION

as of July 21, 2011

Department	Number of Staff	Average Age	Number Board Certified
Anesthesiology	76	50	74
Dentistry	33	54	29
Dermatology	32	53	32
Emergency Medicine	55	48	51
Imaging Sciences	86	52	80
Medicine	376	50	347
Neurology	69	52	69
Neurosurgery	18	50	16
Obstetrics/Gynecology	84	50	73
Occupational and Environmental Medicine	2	47	2
Ophthalmology	49	53	46
Orthopaedics	42	52	39
Otolaryngology	18	53	17
Pathology/Lab Medicine	39	51	37
Pediatrics	312	50	286
Physical Medicine and Rehabilitation	4	53	4
Psychiatry	82	54	79
Radiation Oncology	14	56	12
Surgery	69	51	58
Urology	26	55	24
Total	1,486	51	1,375

Management

Dr. Bradford C. Berk, Senior Vice President for Health Sciences at the University of Rochester and Chief Executive Officer of the Medical Center and Strong Health. Dr. Berk received his M.D. and Ph.D. degrees from the University of Rochester. He has served on the faculties of Harvard Medical School, Emory University, and the University of Washington. Dr. Berk was previously Chairman of Medicine (1999-2006) and Chief of the Cardiology Unit (1998-2003) at the University of Rochester. He was appointed CEO in 2006 after a national search. In addition he was Director of the Aab Cardiovascular Research Institute. Dr. Berk is a fellow of the American

Heart Association and the American College of Cardiology, and a member of the Association of American Physicians. Dr. Berk is past-president of the North American Vascular Biology Organization (NAVBO). He is on the editorial boards of *Atherosclerosis, Thrombosis and Vascular Biology* (ATVB) *Circulation* and *Circulation Research,* and the *Journal of Clinical Investigation*. He serves on the Empire State Stem Cell Board Funding Committee and the National Heart, Lung and Blood Institute (NHLBI), Stem Cell Clinical Trial Network and Gene and Cell-Based Therapies Data and Safety Monitoring Board (DSMB). Dr. Berk has published widely – more than 250 articles, chapters, and books.

Michael C. Goonan, Vice President and Chief Financial Officer, University of Rochester Medical Center. Mr. Goonan assumed his current position in 1995. He joined the Hospital in 1984 and was appointed its Chief Financial Officer in 1990. From 1975 to 1984, Mr. Goonan was with the international public accounting firm, KPMG Peat Marwick, where he specialized in the healthcare field with particular emphasis on financial management, reimbursement, prospective reporting, and third-party cost reporting. Mr. Goonan received a Bachelor of Science degree in Accounting from St. John Fisher College in Rochester, New York. He is a member of the Advisory Committee of the Board of Directors of the Rochester Chapter of the American Red Cross and he is on the Board of Directors of the Crittenden Boulevard Housing, Inc. Mr. Goonan is a member of the Healthcare Financial Management Association. He also serves on the Board of the Medical Centre Insurance Company, Inc. Mr. Goonan is a Trustee of St. John Fisher College and is Chair of the Board. He also serves on the Board of the Catholic Family Center and serves on the Audit Committee.

Steven I. Goldstein, President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; President, Long-Term Care Division; President, Strong Partners, and Vice President, University of Rochester Medical Center. Mr. Goldstein joined Strong Memorial Hospital in September 1996 as Executive Director and Chief Operating Officer and assumed his present position in June 1997. Mr. Goldstein was Senior Vice President of The Greater Rochester Health System, Inc. from August 1995 to September 1996 and President and CEO of Rochester General Hospital from March 1993 to September 1996. From September 1982 to March 1993, he was Director and Chief Operating Officer of Rochester General Hospital. Mr. Goldstein received his Master of Hospital and Health Care Administration from the St. Louis University Graduate School of Hospital and Health Care Administration. Mr. Goldstein is a member of the Board of Trustees of the American Hospital Association (AHA) and the chair of AHA Regional Policy Board 2 where he previously served as a delegate. He is a past Chairman of the Board of Trustees of the Healthcare Associate of New York State (HANYS).

Raymond J. Mayewski, MD, FACP, Medical Director for Clinical Services at the Medical Center, Vice President and Chief Medical Officer for Strong Memorial Hospital and Highland Hospital, Senior Associate Dean for Clinical Affairs, and Acting Director of the University of Rochester Medical Faculty Group (URMFG). Dr. Mayewski received his Bachelor of Science (Honors) degree from Pennsylvania State University and Doctor of Medicine degree from Temple Medical School. After joining the Hospital in 1972 as an intern and then as Chief Resident in Medicine, Dr. Mayewski became a licensed physician in 1975 and was certified by the American Board Internal Medicine in 1975 and also certified by the American Board of Medicine Pulmonary Medicine subspecialty in 1978. He served as Associate Chairman for Clinical Affairs in the Department of Medicine from 1991 to 1995 and became a Dean's Professor of Medicine in 1994. He was appointed Medical Director for Clinical Services at the University of Rochester Medical Center and Chief Medical Officer for the Hospital in 1995 and was the founding director of the URMFG which he directed until 2004. Dr. Mayewski also directs the Grateful Patient Donors Philanthropic Program for Medical Center Advancement which begin in 2009, and is Dean's Professor of Medicine, an endowed professorship. He also established the Raymond J. Mayewski Professorship in General Internal Medicine, a fully endowed professorship, made possible through philanthropic patient gifts. He is a Fellow of the American College of Physicians and serves on numerous committees of other local State and national organizations. Dr. Mayewski serves on the Board of the University of Rochester Medical Center, as well as continuing to serve on executive committees at the University of Rochester Medical Center.

Kathy P. Parker, PhD, RN, FAAN, Dean of the School of Nursing. Dr. Parker was appointed the fourth dean of the University of Rochester School of Nursing in July 2008. Prior to coming to Rochester she served for five years as Edith F. Honeycutt Professor at the Nell Hodgson Woodruff School of Nursing, and co-director of the Emory Program in Sleep in Emory's Department of Neurology. Dr. Parker is a nationally recognized sleep disorders researcher with over 20 years of clinical practice experience. She earned her undergraduate degree from Columbia University, her master's in Nursing from Emory University, and her doctorate in Nursing from Georgia State University.

Leonard J. Shute, Senior Director for Finance and Chief Financial Officer, Strong Memorial Hospital. Mr. Shute joined the Hospital in 1991 as Director of Financial Operations and assumed his present position in 1995. From 1982 to 1991, Mr. Shute was the Vice President for Institutional Affairs for Blue Cross/Blue Shield of the Rochester Area. Prior to that, Mr. Shute was the Chief Financial Officer for Rochester Area Hospitals' Corporation. Mr. Shute received a Bachelor of Science degree in Accounting from St. John Fisher College. He is a current member and former regional board president of the Health Care Financial Management Association. Mr. Shute serves on the Finance Committee of the Hospital Association of New York State and on the Chief Financial Officer committee of the Rochester Regional Healthcare Association.

Peter G. Robinson Vice President and Chief Operating Officer, University of Rochester Medical Center. In January 2004, Mr. Robinson was appointed to the additional responsibility of Executive Director of Government and Community Relations for the University. He also has responsibility for the University's role in economic development. Mr. Robinson is a voting member of the New York State Public Health & Health Planning Council, the Chairman of the Board of High Technology of Rochester, Inc. (HTR), Excell Partners, Inc., New York State Biotechnology Association (NYBA), and Vice Chair for Greater Rochester Enterprise. He serves on the boards of several private and public community agencies. He earned his bachelor's degree from the City College of New York and Master's degrees from the New School for Social Research and Columbia University.

Dr. Mark B. Taubman, Dean of the School of Medicine and Dentistry, and University Vice President for Health Sciences. Dr. Taubman received his M.D. degree from New York University and completed his training in medicine and cardiology at the Brigham and Women's Hospital and Harvard Medical School. He has served on the faculties of Mt. Sinai School of Medicine in New York, Children's Hospital Medical Center and Harvard Medical School in Boston, Massachusetts. Dr. Taubman is on leave as the Charles E. Dewey Professor and Chairman of Medicine. He was previously Chief of the Cardiology Division (2003-2009) at the University of Rochester. In addition he was Director of the Aab Cardiovascular Research Institute (2005-2007) and Director of the Center for Cellular and Molecular Cardiology (2003-2005). Dr. Taubman is a member of the American Heart Association, the American Society of Hypertension, North American Vascular Biology Organization, Association of Cardiology Professors, Association of University Cardiologists and Association of Professors of Medicine. Dr. Taubman is a Fellow, American College of Cardiology and Fellow, American College of Physicians. He is the former Editor-in-Chief, Arteriosclerosis, Thrombosis, and Vascular Biology. Dr. Taubman is an international authority in vascular biology with research interests in tissue factor biology and chemokines. Dr. Taubman has published widely – more than 120 articles, chapters, and books.

Utilization

The following is a summary of discharges by major clinical departments for the fiscal year ended June 30, 2006 and calendar years 2007 through 2010. Due to New York State regulatory policy, the Hospital was required to convert its financial reporting to a calendar year effective December 31, 2007. The 2007 through 2010 calendar data is presented to be consistent with the Hospital's audited financial statements.

PERCENT OF HOSPITAL DISCHARGES*

	Year Ended June 30,	Calendar Year			
	2006	2007	2008	2009	2010
Medicine	34.2%	34.9%	36.9%	37.8%	36.9%
Surgery	25.4	27.1	25.6	24.5	25.4
Obstetrics and Gynecology	12.1	11.2	11.4	11.1	11.3
Pediatrics*	9.3	8.9	8.3	9.2	9.4
Orthopedics	5.9	5.7	5.4	5.4	5.3
Neurology	2.7	2.6	3.3	3.8	3.7
Clinical Research	0.6	0.3	0.0	0.0	0.0
Comprehensive Epilepsy Program	1.2	1.0	0.9	0.9	0.8
Psychiatry	7.3	7.1	7.1	6.1	6.2
Rehabilitation	1.3	1.2	1.1	1.2	1.0
	100.0%	100.0%	100.0%	100.0%	100.0%

* Excludes nursery discharges.

A summary of historical utilization data for the year ended June 30, 2006, along with calendar 2007 through 2010 data, is presented in the following table:

HOSPITAL UTILIZATION DATA

	Year Ended June 30,	Calendar Year			
	2006	2007	2008	2009	2010
Certified Bed	739	739	739	739	749
Discharges*	38,146	39,657	40,203	40,684	40,432
Patient Days*	250,247	255,030	257,434	249,005	255,735
Average Length of Stay (Days)	6.6	6.4	6.5	6.0	6.2
Emergency Room Visits	91,925	93,178	96,743	98,218	97,690
Outpatient Clinic Visits	308,489	299,516	307,226	313,560	313,278
Observation Cases	11,415	10,701	10,020	8,955	10,323
Ambulatory Surgery Visits	12,740	12,919	13,001	15,170	20,905
Faculty Practice Visits	795,812	812,985	849,558	872,121	876,889
Average % Occupancy†:					
Medicine & Surgery	100.4%	100.4%	101.2%	94.3%	96.8%
Obstetrics	78.3	67.9	75.1	68.6	69.8
Gynecology	85.7	94.5	105.2	90.5	94.5
Pediatrics	83.7	88.0	86.9	87.6	86.9
Psychiatry	91.0	85.4	89.3	82.3	79.3
Rehabilitation	91.5	91.7	89.9	88.2	87.7
	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes newborns.
†Based on beds in use.

Rochester Area Hospitals

The following table sets forth the number of acute beds, number of discharges, the occupancy rate and number of newborns for the Hospital and certain other hospitals located in and around the primary service area of the Hospital in calendar year 2010.

AREA HOSPITAL UTILIZATION DATA

	Acute Beds	2010 Discharges	2010 Occupancy %†	2010 Newborns
Strong Memorial Hospital	749	38,176	90.8%	2,768
Rochester General Hospital	528	30,172	85.2	2,184
Highland Hospital*	261	16,007	74.8	3,145
Unity Health System	289	16,303	93.0	1,380

* Affiliate of the Hospital.
† Based on licensed beds.
Source of information: Hospital Consortium of Greater Rochester and "Hospital Utilization Graphs" for December, 2010.

Sources of Revenue

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2010, the Hospital received approximately 76% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for the year ended June 30, 2006 and calendar years 2007 through 2010 are as follows:

SOURCES OF HOSPITAL'S PATIENT SERVICES REVENUE

	Year Ended June 30,	Calendar Year			
	2006	2007	2008	2009	2010
Blue Cross	27.6%	27.5%	27.2%	27.1%	28.7%
Medicare	31.8	32.4	33.4	30.4	31.8
Preferred Care	7.2	7.0	8.8	11.0	8.5
Medicaid	17.2	16.0	15.2	17.6	15.8
Commercial Insurance	8.8	10.0	9.2	7.5	9.3
Self-Pay and Other	7.4	7.1	6.2	6.4	5.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%

See "Management's Discussion of Financial Performance" below.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rate. 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 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 ("APC's"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2005.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996, as amended ("HCRA"), governs payments to hospitals in New York State through December 31, 2011. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. 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 (HMO's), Preferred Provider Organizations (PPO's) and other managed care plans, negotiate payments 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 New York State Department of Health (DOH) updated the data utilized to calculate 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 used to calculate payment rates utilizing All Payor Revised DRGs (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 SIWs based on types of service and resource consumption.

In addition, under HCRA, all non-Medicare payers 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 payer and apply to a broader array of health care services. Also, certain payers are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered-lives assessment directly to the New York State Department of Health. Through December 31, 2008, these additional payments were used to fund a pool for graduate medical education (GME) expenses. Effective January 1, 2009, the GME pool was consolidated into the indigent care pool. Also, as part of these reforms, Strong, as an Academic Medical Center, was provided an annual grant of $4.1 million to offset reduced GME payments.

Hospital Finances

The Hospital accounts for approximately 39% of the University's operating revenues and expenses. The table below presents the operating results of the Hospital for the fiscal year ending June 30, 2006 and for calendar years 2007 through 2010. Due to New York State regulatory policy, the Hospital was required to convert its financial reporting to a calendar year effective December 31, 2007.

Hospital Operating Results

(dollars in thousands)

	Year Ended June 30,	Calendar Year			
	2006	**2007**	**2008**	**2009**	**2010**
Operating Revenues:					
Net Patient Services Revenue	$787,782	$853,358	$905,593	$979,161	$1,034,991
Other Operating Revenue	21,611	21,766	22,157	24,337	30,952
Total Operating Revenue	809,393	875,124	927,750	1,003,498	1,065,943
Operating Expenses:					
Salaries, Wages & Fringe Benefits	398,716	435,431	474,789	488,212	524,015
Supplies and Other Expenses	327,466	352,413	369,596	402,885	428,259
Interest	6,072	5,393	8,289	6,830	6,523
Depreciation	32,733	35,343	40,434	44,392	47,141
Total Operating Expenses	764,987	828,580	893,108	942,319	1,005,938
Gain from Operations	44,406	46,544	34,642	61,179	60,005
Non-Operating Gains (Losses)	4,333	9,811	(22,909)	10,384	1,788
Revenues in Excess of Expenses	$ 58,739	$ 56,355	$ 11,733	$ 71,563	$ 61,793

Management's Discussion of Financial Performance

For calendar year 2010, the Hospital generated an operating margin of $60,005,000 or 5.6% on revenues of $1,065,943,000 over expenses of $1,005,938,000. Operating revenue growth of 6.2% was the result of increases in patient volumes and payment rates. Operating expense growth was attributed to increases in staff salaries and benefits as well as medical supplies and pharmaceuticals associated with the growth in patient volumes. Non-Operating Gains in 2010 were $1,788,000 which was mainly comprised of investment returns partially offset by unrealized losses on interest rate swap agreements. At December 31, 2010, the Hospital had 103 days cash on hand and 33 days in patient accounts receivable.

Affiliations, Mergers, Acquisitions and Divestitures

As with many healthcare systems, the Medical Center evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. Likewise, the Medical Center occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition or affiliation of operations or properties which may become a part of or affiliated with the Hospital and/or Medical Center, or about the potential sale of some of the operations and properties of the Medical Center. Any evaluation of potential merger and affiliation candidates will depend on whether such candidate will fulfill the requirements for the Medical Center to be able to provide a full continuity of care as part of an integrated delivery system.

Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Medical Center are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Medical Center may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Currently, the Medical Center is affiliated with other nonprofit and for-profit corporations. Such affiliates conduct operations that are of strategic importance to the Medical Center, including opportunities for medical students and residents to receive training in a variety of clinical settings. Their operations may subject the Medical Center to potential legal or financial liabilities, although in general, the Medical Center is not liable for the debts and legal obligations of the affiliates. In some cases, the Medical Center may fund the affiliates on a start-up or ongoing basis, although this funding, in relation to the overall operating budget of the Medical Center, historically has not materially affected the Medical Center's financial condition or operation, nor is it anticipated to do so in the future.

Factors Affecting the Hospital's Revenues

General

The revenue and expenses of the Hospital are affected by the changing healthcare environment. These changes are a result of efforts by the federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain healthcare costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees and capital expenditures. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Hospital to an extent that cannot be determined at this time.

The receipt of future revenues by the Hospital is subject to, among other factors, federal and state regulations and policies affecting the healthcare industry and the policies and practices of managed care providers, private insurers and other third party payors, and private purchasers of healthcare services. The effect on the Hospital of recently enacted statutes and recent regulatory changes, and of future statutes and regulations and changes in federal, state and private policies cannot be precisely determined at this time.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for healthcare services, including an anticipated continued decline in utilization of inpatient facilities, the capability of the management of the Hospital, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Hospital, increased use of health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") with discounted payment schedules, economic and demographic developments in the United States and in the service areas in which facilities of the Hospital are located, competition from other healthcare institutions, changes in interest rates which affect the investment results, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are among other factors which may adversely affect revenues and expenses.

Legislative, Regulatory, and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the federal and state governments. A substantial portion of revenue of healthcare providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. There is no reason to believe that substantial additional changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or that they will be sufficient to cover all existing costs.

Legislation is periodically introduced in Congress and in the State legislature that could result in limitations on the Hospital's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Hospital. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the healthcare industry, including proposals to promote competition in the healthcare industry, to contain healthcare costs, to prevent healthcare fraud, to provide national health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Hospital cannot be predicted.

Managed Care and Consumer Directed Health Plans

Managed care and consumer directed health plans, which include various payment methodologies and utilization controls, are increasingly being offered by traditional insurance companies and managed care organizations in the State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care and consumer directed health plans has increased, and these plans are expected to have a greater influence on the manner in which healthcare services are delivered and paid for in the future. Managed care programs and consumer directed health plans are expected to significantly reduce the utilization of healthcare services generally, and inpatient services in particular. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting institutional cash flows. The financial condition of the Hospital may be adversely affected by these trends.

Medicare and Medicaid Managed Care

Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is currently voluntary and enrollees may disenroll and reenroll in the traditional Medicare fee-for-service system at any time. Commercial insurers and HMOs typically offer managed care products for the Medicare population. The Balanced Budget Act of 1997 established Medicare+Choice, a program that allows healthcare providers (hospitals and physicians) to contract directly with the United States Centers for Medicare and Medicaid Services ("CMS"), formerly known as the United States Health Care Financing Administration ("HCFA"), to form networks for the purpose of directly serving and insuring Medicare beneficiaries through the assumption of financial risk. Definitions and requirements for these networks, which are referred to as Provider Sponsored Organizations ("PSOs"), were published by HCFA as an interim rule in the April 14, 1998 edition of the Federal Register and as a final rule in the June 29, 2000 edition of the Federal Register.

Medicare enrollees in managed care products have their healthcare managed and paid for by the applicable insurer, HMO or PSO (the "managed care plan"). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee; the payment amount generally includes either a per diem or DRG payment, plus a risk-sharing arrangement. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial considerations may contribute to reduced per patient revenues for the Hospital Medicare patients. Enrollment in Medicare managed care plans is expected to continue increasing and substantial numbers of Medicare beneficiaries are expected to enroll in such plans.

Federal Health Reform Law

The Medicare Modernization Act of 2003 changed the name of the Medicare+Choice program to the Medicare Advantage program. As of 2010, payments to Medicare Advantage plans accounted for approximately 22% of total Medicare spending. The payment policy for Medicare Advantage plans changed significantly since the program's origination; while the original goal was to cut costs and increase savings, the focus shifted to increased benefits for program beneficiaries, resulting in costs for Medicare Advantage plan beneficiaries that were higher than Medicare fee-for-service costs. The 2010 Federal Health Reform Law restructures payments to Medicare Advantage plans to bring them more in line with fee-for-service costs. Payments to Medicare Advantage plans will be updated, over a phase-in period of three to six years, by setting payments to different percentages of Medicare fee-for-service rates. Payments will be increased for areas with low fee-for-service rates, and reduced for areas with higher rates.

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. The management of the Hospital cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

The Hospital also participates in the federal and State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. Enrollment of Medicaid patients in managed care programs, payments to managed care organizations for care rendered to them, the financial risk assumed by the managed care organization and the resulting and potential financial and other risks to the Hospital are similar to those for Medicare managed care programs.

The State's program for mandatory Medicaid enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by HCFA in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. There remains the possibility that managed care providers will seek to reduce the compensation hospitals are currently receiving under the Medicaid program and direct that such enrollees use the services of only managed care provider approved hospitals.

State Medicaid Initiatives

The New York Medicaid Redesign Team, a task force created by the Governor of New York to reduce costs and increase quality and efficiency in the Medicaid program, set forth a proposal to reduce the profit component included in the plan rates from 3.0 % to 1.0% for the Medicaid and Family Health Plus managed care programs. A 1.0 % profit allocation may be inadequate to provide the managed care organizations with sufficient margins to cover unexpected costs or to maintain appropriate reserves.

Department of Health Regulations

The Hospital is subject to extensive regulations regarding quality of care and other aspects of Hospital operations by the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Hospital's ability to add services or beds and to modify existing services materially is also subject to Department of Health review and approval through the State's Certificate of Need ("CON") process. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Hospital's ability to make changes to its service offerings and respond to changes in the healthcare environment may be limited.

Other Governmental Regulation

The Hospital is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board and professional and industrial relations of staff and employees, applicable professional review organizations, the Joint Commission on Accreditation of Healthcare Organizations the (the "Joint Commission"), the various federal, state and local agencies created by the National Health Planning and Resources Development Act, the Occupational Safety Health Act, the act creating the Environmental Protection Agency, the Internal Revenue Service and other federal, state and local governmental agencies.

The Hospital, as are many other medical centers throughout the nation, is frequently subject to audits and other investigations by federal and state government agencies and private payors relating to various segments of its operations. The New York Office of the Medicaid Inspector General ("OMIG"), formed in 2006 has been particularly aggressive in recovering Medicaid overpayments from providers. The management of the Hospital does not believe that any current audits or investigations will result in a liability that would have a material adverse impact on the business, operations or financial condition of the Hospital.

Competition

The healthcare industry is in the process of rapid and fundamental change, triggered by the deregulation of the acute care hospital reimbursement system and the growing national strength of managed care plans. The growth of the managed care industry is being driven in part by increasing pressures from employers and other purchasers that are seeking to reduce their healthcare premium costs. In New York, integrated delivery systems are developing in order to provide adequate geographical coverage for major purchasers of healthcare and to provide a system through which potential cost savings may become available. These factors may further increase competitive pressures on acute care hospitals, including the Hospital.

The Hospital faces and will continue to face competition from other hospitals and integrated delivery systems. In addition, alternative modes of healthcare delivery offering lower priced services to the same population — such as ambulatory surgery centers, private laboratories, private radiology services, skilled and specialized nursing facilities, and home care — compete with the Hospital.

Management believes that sustained growth in patient volume, together with firm cost controls, and continued superior outcomes will be increasingly important as the healthcare environment becomes more competitive. There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Hospital will occur.

Private Third-Party Reimbursement

A significant portion of the patient service revenue of the Hospital is received from private entities, such as insurance companies that provide third-party reimbursement for patient care on the basis of negotiated payments or make payments based on the charges submitted by the Hospital. Renegotiations of such negotiated payments and changes in such reimbursement systems and methods may reduce this category of revenue or prevent the Hospital from receiving adequate reimbursement for its costs.

Accreditation

The Hospital is subject to periodic review by the Joint Commission and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. The Hospital has accreditation from Joint Commission through December 2013. The Hospital and its residency training programs are accredited by the Accreditation Council for Graduate Medical Education and the Commission on Dental Accreditation. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation, of any future changes in such laws, regulations and standards, or of certification or accreditation decisions.

Federal "Fraud And Abuse" Laws And Regulations

The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under a federal health care program, including without limitation Medicare or Medicaid. In addition to criminal penalties, including fines of up to $25,000 and five years imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the Medicare and Medicaid programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes, subject to certain limited exceptions, economic arrangements involving hospitals, physicians and other healthcare providers, including certain joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") contains provisions for enhanced enforcement, increases to the scope of the Anti-Kickback Law, additional sanctions for violations of such laws and other measures designed to protect the integrity of federal healthcare programs. HIPAA created a new program operated jointly by the Secretary of the United States Department of Health and Human Services ("HHS") and the Attorney General of the United States to coordinate federal, state and local law enforcement with respect to fraud and abuse. HIPAA also provides for minimum periods of exclusion from federal reimbursement or third-party payment programs as a penalty for fraudulent billing or similar fraudulent activities; allows intermediate sanctions; and expands the scope of civil monetary penalties applicable to any federal health care programs. In addition, HIPAA and the regulations promulgated thereunder implemented new federal privacy and security requirements.

HHS had published certain safe harbor regulations that describe certain arrangements that will be deemed not to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relations which many hospitals, physicians and other healthcare providers consider to be legitimate business arrangements not prohibited by the statute.

Further, various federal laws, including the federal False Claims Act, make it a criminal and/or civil violation to submit (or cause to be submitted) fraudulent (or recklessly incorrect) requests for reimbursement or payment from a federal program, including federal health care programs such as Medicare and Medicaid. Violations of these laws and regulations can lead to criminal actions, treble damages, disgorgement of proceeds fraudulently obtained and/or additional financial penalties ranging up to $11,000 per false claim. In the health care context, with thousands of claims submitted by hospitals each year, liabilities can be potentially enormous if fraudulent or recklessly inappropriate billing activities occur. Other federal and state laws also prohibit false, reckless or fraudulent billing to non-governmental third-party payors for medical services, and can impose civil and/or criminal penalties for such activities. A State false claims act has also been enacted and new healthcare fraud crimes have been defined in New York State law. OMIG has taken a very aggressive stance with regard to Medicaid fraud and Medicaid overpayment.

Management of the Hospital believes that their current practices are presently in compliance with the Anti-Kickback Law, applicable billing and reimbursement regulations, and HIPAA. The Hospital, through its compliance program, routinely monitors institutional billing practices with the goal of assuring compliance with applicable law. However, in light of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the Anti-Kickback Law and the confusing body of laws and guidelines relating to Medicare and Medicaid billing, there can be no assurance that the Hospital will not be found to have violated the Anti-Kickback Law, HIPAA and/or other billing laws and regulations and, if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Hospital.

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that is not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General of HHS (the "OIG") that they may create liability in connection with a wide variety of business transactions. In the case of the Anti-Kickback Law, limited "safe harbor" regulations provide defenses for a narrow scope of arrangements in case of prosecution or administrative enforcement action. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of such statute. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. In certain instances, private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health care programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or qui tam action could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, practice purchases, physician recruiting and retention programs; various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities; physician referral services; hospital-physician service or management contracts; and to space or equipment rentals between hospitals and physicians. The Hospital conducts limited activities of these general types or similar activities, which pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital is not aware of any current challenge or investigation concerning it with respect to such matters, there can be no assurance that one or more will not occur in the future.

Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act

The Federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits a physician (or an immediate family member of such physician) with a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services, and prohibits such entity from presenting or causing to be presented a claim for payment under a federal health care program including, without limitation, the Medicare or Medicaid program, for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, outpatient speech-language pathology services, radiology (including magnetic resonance imaging, computerized axial tomography and ultrasound) services, radiation therapy services and supplies, durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), prosthetics and orthotics and prosthetic devices and supplies, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services. Under the Stark Law, "physician" is defined to include a doctor of medicine or osteopathy legally authorized to practice medicine and surgery by the state in which he or she performs that function or action. The definition also includes a doctor of dental surgery or dental medicine, a doctor of podiatric medicine, a doctor of optometry, and a chiropractor.

The New York Health Care Practitioner Referral Law (the "State Provisions") is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray or imaging services, radiation therapy services, physical therapy services, or pharmacy services, if the referring practitioner (or an immediate family member) has a financial interest in the healthcare provider. Under the State Provisions, a "practitioner" is defined as a licensed or registered physician, dentist, podiatrist, chiropractor, nurse, midwife, physician assistant or special assistant, physical therapist or optometrist.

A "financial relationship," for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as "Stark") is defined as either an ownership or investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services.

The Stark provisions provide certain exceptions to these restrictions. If the physician has a financial relationship with an entity that provides one of the designated health services, the Stark prohibitions will apply unless one of the specified exceptions are available. Unlike the anti-kickback safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral is prohibited), failure to satisfy an exception to the Stark provisions means (i) that the referral itself is prohibited, and (ii) the entity receiving the referral is prohibited from seeking payment for such service. However, the mere existence of a financial relationship does not violate the Stark provisions. Stark is only violated if (i) a financial relationship exists, (ii) a referral for designated services is made, and (iii) no relevant exception is available. To the extent a relationship is found to exist, an applicable exception under Stark is necessary in order for the entity receiving the referral to accept such referral (for a designated service) and to bill for the designated service generated by such referral.

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the referral entity. The three categories of exceptions include: (i) exceptions to ownership arrangements, (ii) exceptions to compensation arrangements, and (iii) exceptions to both compensation and ownership arrangements.

If the financial relationship between a physician/practitioner and the Hospital cannot be made to fit within the exceptions, the Hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violations may result in civil and criminal penalties and exclusion from the Medicare and Medicaid programs. On January 9, 1998, HCFA issued proposed regulations and commentary interpreting the Stark Law. On January 4, 2001, HCFA (now CMS), issued "Phase I" of final Stark regulations. On March 26, 2004, CMS issued "Phase II" of final Stark regulations as an interim final rule with comment period. The Phase II regulations became effective on July 26, 2004. On October 11, 2005, CMS issued proposed regulations that would create an exception for non-monetary remuneration that is used solely to receive and transmit electronic prescription drug information, as well as exceptions for electronic health records software and directly related training services. These regulations were finalized and became effective in 2006.

Stark II Regulations

On September 5, 2007, CMS published "Phase III" of the Stark law regulations, in order to simplify the rules and provide additional guidance in response to comments from Stark Phase II. A significant change brought about by the Phase III regulations is the "stand in the shoes" provision, which treats compensation arrangements between a furnishing entity, such as a hospital, and physician group practices as if the arrangements were with the practice's referring physicians directly. Stark III also prohibits “per click,” or per unit-of-service rental fees for space and equipment leases.

There can be no assurance that a third party reviewing the existing activities of the Hospital would find such activities to be in full compliance with the Stark provisions and existing regulations or in full compliance with the new regulations.

HIPAA Privacy Regulations

When Congress enacted HIPAA, it required HHS to implement national standards to protect the privacy and security of individual health information. HHS published a set of privacy and security regulations, which became effective on April 14, 2001, governing the release of protected health information. The deadline for healthcare providers to be fully compliant with the privacy regulations was April 14, 2003. The regulations prohibit any covered entity, including hospitals and health systems, from using or disclosing an individual’s protected health information unless the use or disclosure is authorized by the individual (or his or her personal representative) or is specifically required or permitted under the privacy regulations. The privacy regulations impose a complex system of requirements for meeting this basic rule. The privacy regulations also provide for the imposition of both civil and criminal penalties for violations of the statute. Civil penalties can range up to $25,000 per violation. Criminal penalties include fines of up to $50,000 and imprisonment of up to 1 year. Criminal penalties increase substantially if the offense occurs under false pretenses or with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm.

HHS published a set of final security regulations on February 20, 2003, effective April 20, 2005 (although health plans with annual receipts of $5 million or less had until April 20, 2006 to comply). The security regulations specify a series of administrative, technical and physical security procedures for covered entities to use to assure the confidentiality of electronic protected health information. The standards are delineated into either required or addressable implementation specifications. The security regulations provide for the imposition of civil penalties of a $100 fine per person, per violation, not to exceed $25,000 in a calendar year.

HITECH

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted in 2009 to advance meaningful use of health information technology. Subtitle D of the HITECH Act addresses privacy and security of electronic health information. HITECH strengthens several HIPAA enforcement provisions by establishing categories of culpability for violations, and corresponding tiers of penalty amounts. Civil monetary penalties for such violations can now reach a maximum penalty amount of $1.5 million for all violations of an identical provision.

The administrative and financial burden of complying with the HIPAA privacy and security regulations is substantial. The Hospital believes its health information systems are now in compliance with the privacy and security regulations. The Hospital has appointed a privacy officer and security official to oversee the implementation of the privacy and security standards and teams work with the privacy officer and security official to ensure compliance.

Regulation of Patient Transfer

Federal laws prohibit hospitals from transferring a patient who is medically unstable or is in labor, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. The receiving hospital must agree to accept the transfer. Hospitals that violate the ban on inappropriate transfers may be expelled from the Medicare and/or Medicaid programs and are subject to fines of up to $50,000 per violation. Management of the Hospital believes that the Hospital is currently in compliance with these requirements.

Internal Revenue Code Limitations

The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the University’s ability to finance the future capital needs of the Hospital and could have other adverse effects on the University, which cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As part of a tax-exempt organization, the Hospital is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The Internal Revenue Service (“IRS”) has intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. The Hospital may enter into arrangements with physicians that are of the kind that the IRS has indicated that it will examine in connection with audits of tax-exempt hospitals.

Recent Congressional and IRS Activity

The Federal Health Reform Law imposes standards for tax exemption of charitable hospitals. The law requires that a tax exempt hospital complete a community needs assessment once every three years, and adopt a financial assistance policy. The law also provides that the IRS shall review the tax-exempt status of each hospital every three years. Sen. Charles Grassley, ranking member of the Senate Finance Committee, was largely responsible for the inclusion of the tax exemption standards in the health reform law. Senator Grassley has also requested that Congress estimate the cost of the nonprofit tax exemption, which will bring heightened scrutiny to tax exempt status of charitable hospitals.

Revocation of the tax-exempt status of the University under Section 501(c)(3) of the Code due to the Hospital could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2009 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. While management believes the Hospital's arrangements with private persons and entities are generally consistent with guidance by IRS and do not constitute private inurement, there can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

Code Section 4958 imposes intermediate sanction penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization has continued to function as a charity. The tax is imposed on the disqualified person receiving the excess benefit. An additional tax may be imposed on any officer, director, trustee or other person having similar powers or responsibilities who knowingly participated in the transaction willfully or without reasonable cause. "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that exceeds fair market value. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization's board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Intermediate sanction penalties can also be assessed in situations where the exempt organization, or an entity controlled by the organization, provides an economic benefit to a disqualified person without maintaining contemporaneous written substantiation of the organization's intent to treat the benefit as compensation. If the written contemporaneous substantiation requirements are not satisfied and unless the organization can establish that it provided the economic benefit in exchange for consideration other than the performance of services (i.e., a bona fide loan), the IRS shall deem such a transaction an "automatic" excess benefit transaction without regard to whether: (1) the economic benefit is reasonable; (2) any other compensation the disqualified person may have received is reasonable; or (3) the aggregate of the economic benefit and any other compensation the disqualified person may have received is reasonable. There is no defense to the assessment of automatic excess benefit penalties.

The imposition of excise tax based upon a finding that an exempt organization engaged in an excess benefit transaction could result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the Hospital or on the market for its debt obligations.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including, but not limited to, medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm from allegedly anticompetitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to abuse of market power. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the Hospital may, from time to time, be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources are dependent on a myriad of factors, which may change from time to time. If any provider with which the Hospital is or becomes affiliated is determined to have violated the antitrust laws, the Hospital may be subject to liability as a joint actor. Since 2008, the U.S. Department of Justice and the Federal Trade Commission have dramatically increased their antitrust enforcement activity.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

Environmental and Safety Matters

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern matters such as medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. Healthcare operators and employers such as the Hospital are subject to potentially material liability for costs of achieving and maintaining compliance, any penalties associated with regulatory non-compliance, as well as for costs of investigating and remedying the releases of any toxic or hazardous substances either on their properties or that have migrated from their property or have been improperly disposed of off-site and the harm to person or property that such releases or the use and management of such substances may cause.

Provider-Specific Taxes

The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 established standards that govern how states can impose and use provider-specific taxes. In general, states are allowed to impose broad-based, provider-specific taxes that are redistributive and do not contain "hold harmless" provisions. The law also limits Medicaid payment adjustments for hospitals that service a disproportionate number of low-income patients to 12% of each state's gross Medicaid expenditures.

Possible Staffing Shortages

In recent years, the hospital industry has suffered from an increasing scarcity of nurses and skilled technicians to staff its facilities. Factors underlying this industry trend include an increase in the proportion of the population that is elderly, an increase in the tendency to institutionalize senior citizens as opposed to providing nursing care in the home, a decrease in the number of persons entering the nursing profession and an increase in the number of nurses specializing in home health care. These factors may intensify in years to come, aggravating the shortage of skilled personnel. Nationally there is a shortage of registered nurses and licensed practical nurses. As competition for such employees intensifies, staffing shortages could have the effect of significantly increasing personnel costs and could have a material adverse effect on the financial results of the Hospital and on the ability of the Hospital to sustain minimum staffing levels necessary to maintain licensure, certification and accreditation. Although the Hospital has achieved adequate nurse and skilled technician staffing levels to date, it is uncertain whether qualified candidates will continue to be available to the Hospital in the future.

Malpractice Claims and General Liability Insurance

In recent years, the number of malpractice and general liability suits and the dollar amounts of recoveries has moderated nationwide, resulting in slower growth in malpractice insurance premiums. Insurance premiums may continue to rise in future years, which could have a negative effect on the financial condition of the Hospital. In recent years the hospital in conjunction with its captive insurance company, MCIC, has adopted a number of prudent safety initiatives which have effectively reduced premiums. Furthermore, malpractice and other actions alleging wrongful conduct and seeking punitive damages are occasionally filed against New York hospitals. Insurance may not provide coverage for judgments for punitive damages.

Affiliated Entities Part of Integrated Delivery System

The University is affiliated with other organizations (the "Affiliated Entities") that are not legally obligated for the payment of debt service on University obligations, including the Series 2009 Bonds. Likewise, the University is not responsible for the obligations of the Affiliated Entities unless it has agreed to do so. The Affiliated Entities are as follows:

Highland Hospital and Affiliates

In June 1997, Highland Hospital and affiliates and the University became affiliated through the restructuring of a corporation now known as Strong Partners Health System, Inc., of which the University is the sole member. This affiliation has enabled the hospitals to work together by providing a link between the University/Strong Memorial

Hospital and Highland Hospital and affiliates; Strong Partners Health System, Inc. also provides the legal structure to enable the Highland affiliates to act as an integrated system while protecting the rights of all of the affiliates.

A brief description of Highland Hospital and its affiliates follows:

Highland Hospital of Rochester

Highland Hospital of Rochester is a 261-bed not-for-profit acute care hospital located in Rochester, New York. The hospital's services include medical/surgical care, intensive care, maternity and emergency care. In addition, the hospital owns and operates 11 primary care clinics.

Highland Community Development Corporation

Highland Community Development Corporation ("HCDC") is a not-for-profit corporation which owns and operates The Highlands at Pittsford, a retirement community located in Pittsford, Monroe County, New York. The retirement community includes 130 independent living units, 60 enriched housing units, a community common area, a dining room, sitting areas and recreational areas. HCDC recently completed construction of 36 cottages and a community center on its campus.

The Highlands Living Center, Inc.

The Highlands Living Center, Inc. is a not-for-profit corporation which owns and operates a 122-bed skilled nursing facility and an adult day care health program for seniors in Pittsford, Monroe County, New York. The skilled nursing facility is adjacent to The Highlands at Pittsford.

Highland Facilities Development Corporation

Highland Facilities Development Corporation ("HFDC") is a not-for-profit corporation whose primary purpose is to provide services that are substantially related to the charitable purposes of Highland Hospital but do not involve the provision of health care services. HFDC owns and operates a medical office building and a parking garage on the hospital campus.

Medical Administrative Associates

Highland Hospital is the sole shareholder of Medical Administrative Associates, Inc., d/b/a Highland

Apothecary ("MAA"), which is a for-profit corporation which owns and operates a retail pharmacy in Rochester, New York.

Highland Hospital Foundation

Highland Hospital Foundation is a not-for-profit corporation controlled by Highland Hospital which solicits, receives and maintains funds for the support of Highland Hospital.

The Highlands at Brighton

The University created a not-for-profit corporation, The Meadows at Westfall, Inc. ("The Meadows"), of which the University was the sole member. On June 1, 1996, The Meadows became the operator of a 145-bed nursing home in Brighton, New York. The Meadows acquired only the assets and liabilities associated with the routine operation of the facility; liabilities associated with any pending or threatened litigation before June 1, 1996 were expressly excluded. In November of 1998, the membership of the Meadows of Westfall was changed so that Strong Partners Health System is the sole member and the nursing home was renamed as The Highlands at Brighton.

Visiting Nurse Service of Rochester and Monroe County and VNS Signature Care

The Medical Center affiliated with Visiting Nurse Foundation, Inc. in April 1999, which is now known as Strong Home Care Group ("SHCG"). SHCG is the largest provider of home care services in Monroe County with an excellent reputation for quality services. The University is the sole corporate member of SHCG which holds two care-providing organizations, specifically the Visiting Nurse Service of Rochester and Monroe County, Inc., which is a certified, home health agency, and Community Care of Rochester, currently doing business as VNS Signature Care, a licensed home care services agency. The SHCG board is comprised of community members and sufficient University appointees to give the University effective control of the organization.

Managed Care Organization

The University, through Strong Partners Health System, the Hospital, and University Medical Faculty Group, 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.

Debt of Affiliated Entities

The debt of the Affiliated Entities as of December 31, 2010, which is not an obligation of the University, is as follows:

Highland Hospital and HFDC

Total long-term indebtedness (excluding leases) amounted to $41,561,000. In addition, Highland Hospital has current and long-term lease obligations amounting to $1,923,000.

Highland Community Development Corporation

Total long-term indebtedness consists of a mortgage loan dated as of January 26, 1994 with the Authority with a principal balance of $8,700,000.

The Highlands Living Center

Total long-term indebtedness consists of a loan from Highland Community Development Corporation with a principal balance of $5,010,000.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF UNIVERSITY OF ROCHESTER AND CONSOLIDATED ENTITIES AND REPORT OF INDEPENDENT AUDITORS

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UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2010 and 2009

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2010 and 2009

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PricewaterhouseCoopers LLP
1100 Bausch & Lomb Place
Rochester NY 14604-2705
Telephone (585) 232 4000
Facsimile (585) 454 6594

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, 2010 and 2009, 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
October 15, 2010

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

Assets	2010	2009
Cash and cash equivalents	$ 205,721	$ 135,447
Operating investments, at market	243,644	182,153
Collateral held for securities lending	79,283	62,062
Accounts receivable, net	307,369	276,444
Inventories, prepaid expense and deferred charges	49,999	47,794
Contributions receivable, net	47,301	57,004
Notes receivable, net	48,163	19,566
Other assets	12,748	12,044
Investments held for long-term purposes	1,563,847	1,414,464
Property, plant and equipment, net	1,401,038	1,349,270
Interest in net assets of foundation	12,370	11,653
Investments in perpetual trusts held by others	43,119	40,691
Total assets	$ 4,014,602	$ 3,608,592
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 295,987	$ 259,230
Advanced receipt of sponsored research revenues	23,129	26,190
Deferred revenue	51,507	51,306
Third-party settlements payable, net	92,567	62,181
Securities lending liabilities	79,283	63,390
Accrued pension, post-retirement, and post-employment	283,562	258,013
Long-term debt	772,951	643,734
Asset retirement obligation	17,907	17,326
Refundable U.S. Government grants for student loans	15,942	15,984
Total liabilities	1,632,835	1,397,354
Net Assets:		
Unrestricted	1,877,267	1,724,361
Temporarily restricted	179,572	178,666
Permanently restricted	324,928	308,211
Total net assets	2,381,767	2,211,238
Total liabilities and net assets	$ 4,014,602	$ 3,608,592

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)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	2,636,172	(25,054)	14,969	2,626,087
Operating expenses:				
Salaries and wages	1,244,373	-	-	1,244,373
Fringe benefits	353,387	-	-	353,387
Total compensation	1,597,760	-	-	1,597,760
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	63,202	-	-	63,202
Total operating expenses	2,518,123	-	-	2,518,123
Change in net assets from operating activities	118,049	(25,054)	14,969	107,964
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	34,857	25,960	1,748	62,565
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	$ 1,877,267	$ 179,572	$ 324,928	$ 2,381,767

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
Year Ended June 30, 2009
(dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 300,480	$ -	$ -	$ 300,480
Less: scholarships and fellowships	(120,416)	-	-	(120,416)
Net tuition and fees	180,064	-	-	180,064
State and local appropriations	1,843	-	-	1,843
Grants and contracts	385,136	-	-	385,136
Gifts and pledges	15,259	35,068	14,894	65,221
Hospital and faculty practice patient care activities	1,599,123	-	-	1,599,123
Auxiliary enterprises	73,730	-	-	73,730
Interest income and depreciation of operating investments	(7,784)	-	-	(7,784)
Educational activities	29,023	-	-	29,023
Royalty income	42,975	-	-	42,975
Other sources	15,686	-	-	15,686
Long-term investment income and gains allocated to operations	93,151	-	-	93,151
Net assets released from restriction	32,867	(32,867)	-	-
Total operating revenues	2,461,073	2,201	14,894	2,478,168
Operating expenses:				
Salaries and wages	1,209,480	-	-	1,209,480
Fringe benefits	320,057	-	-	320,057
Total compensation	1,529,537	-	-	1,529,537
Supplies	316,611	-	-	316,611
Business and professional	210,532	-	-	210,532
Utilities	55,060	-	-	55,060
Maintenance and facilities costs	98,313	-	-	98,313
Depreciation	136,648	-	-	136,648
Interest	31,114	-	-	31,114
Other	70,559	-	-	70,559
Total operating expenses	2,448,374	-	-	2,448,374
Change in net assets from operating activities	12,699	2,201	14,894	29,794
Non-operating activities:				
Long-term investment activities:				
Investment income	16,466	(34)	(87)	16,345
Net depreciation	(325,255)	(63,114)	(8,123)	(396,492)
Total long-term investment activities	(308,789)	(63,148)	(8,210)	(380,147)
Long-term investment income and gains allocated for operations	(93,151)	-	-	(93,151)
Loss on extinguishment of debt	(6,714)	-	-	(6,714)
Other changes, net	(38,831)	(2,983)	3,029	(38,785)
Change in valuation of annuities	-	229	463	692
Change in net assets from non-operating activities	(447,485)	(65,902)	(4,718)	(518,105)
Change in net assets	(434,786)	(63,701)	10,176	(488,311)
Beginning net assets	2,159,147	242,367	298,035	2,699,549
Ending net assets	$ 1,724,361	$ 178,666	$ 308,211	$ 2,211,238

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)

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 170,529	$ (488,311)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	141,957	136,648
Net (appreciation) / depreciation on long-term investment activities	(142,663)	396,492
Gifts of property, plant, equipment and other	(989)	(2,361)
Bond discount amortization	(732)	(379)
Loss on the extinguishment of debt	2,014	7,037
Provision for bad debts	25,369	24,607
Contributed securities	(7,687)	(3,162)
Loss on disposals of property, plant, and equipment	3,411	5,267
(Increases) / decreases in:		
Operating investments	(57,378)	(14,026)
Accounts receivable, net	(56,294)	(36,538)
Inventories, prepaid expenses and deferred charges	(3,253)	(97)
Contributions receivable, net	8,507	(12,224)
Other assets	(1,267)	411
Increases / (decreases) in:		
Accounts payable and accrued expenses	30,125	1,218
Advanced receipt of sponsored research revenues	(3,061)	(4,621)
Deferred revenues	201	(1,794)
Third-party settlements payable, net	30,386	8,159
Accrued pension, post-retirement, and post-employment	25,549	48,058
Contributions for long-term investment, net	(32,061)	(35,240)
Net cash provided by operating activities	132,663	29,144
Cash flows from investing activities:		
Purchases of property, plant and equipment	(186,776)	(186,609)
Purchases of investments	(728,662)	(604,533)
Proceeds from the sale of investments	731,206	735,175
Increase in investments in perpetual trusts held by others	(87)	(81)
Increase in notes receivable, net	(28,597)	(5)
Net cash used in investing activities	(212,916)	(56,053)
Cash flows from financing activities:		
Net repayments on lines-of-credit	(6,534)	(20,196)
Principal repayments of long-term debt	(58,621)	(133,782)
Proceeds from issuance of long-term debt	185,456	93,780
Deferred financing costs	(1,793)	(1,064)
(Decrease) / increase in refundable U.S. Government grants for student loans	(42)	114
Contributions for long-term investment, net	32,061	35,240
Net cash provided by / (used in) financing activities	150,527	(25,908)
Net increase / (decrease) in cash and cash equivalents	70,274	(52,817)
Cash and cash equivalents, beginning of year	135,447	188,264
Cash and cash equivalents, end of year	$ 205,721	$ 135,447
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest on long-term debt	$ 32,780	$ 31,755
Non-cash investing and financing activities:		
Increase / (decrease) in construction related payables	$ 4,245	$ (15,078)
Assets acquired under capital leases	$ 3,677	$ 818

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(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), Excell Partners, Inc., Rochester BioVenture Center, Inc., High Tech Rochester, Inc., eXtensible Catalog Organization, LLC, and the University of Rochester 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 winding down its activities.

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

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

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.

In August 2009, the University became 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.

(c) Basis of Accounting

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

Classification of Net Assets

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

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

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

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trusteed balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.

- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.

- Certain accumulated net investment gains earned on permanently restricted net assets are included within unrestricted net assets. In accordance with New York State law, the appropriation and spending of such gains, absent donor directives, is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i).

- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for property, plant and equipment purposes and for other specific operating purposes.

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

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

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

(d) Income Taxes

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

(e) Operations

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

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

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

(f) Cash and Cash Equivalents and Operating Investments

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

Operating investments include all other current investments with original maturities greater than three months and are used to support operations. These current investments include obligations of the U.S. Treasury, U.S. Government and other government agencies, and corporate and foreign bonds. 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 3.5% 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 New York State law to allow for the spending of income and gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law allows the University to appropriate and spend such income and gains as is prudent, considering such factors as the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions.

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Accordingly, during fiscal year 2010, the University Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at a rate of 5.8% (6.8% during fiscal year 2009) of the average fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment and similar purposes.

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

The University 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. Because the collateral must be returned in the future, a corresponding liability is reported on the consolidated balance sheet.

(dollars in thousands)

(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:

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

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, 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 2010 and 2009, the fair values are $69,776 and $56,642, respectively. Generally, contribution revenues are recognized at the dates the agreements are established 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 subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2005.

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

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS) through March 31, 2011.

Under HCRA, Medicaid, workers compensation and no-fault payors pay rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and 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 26% and 10%, respectively, of the Hospital's net patient service revenue for the years ended June 30, 2010 and 2009.

Revenue from Medicare and Medicaid programs accounted for approximately 31% and 17%, respectively, of the Hospital's net patient revenue for the fiscal year ended June 30, 2010, and 31% and 16%, respectively, for the year ended June 30, 2009. Laws and regulation governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation, and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments, which can be reasonably estimated, have been provided for in the accompanying financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During fiscal years 2010 and 2009, the Hospital recognized approximately $(2,500) and $8,000 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 $14,600 and $8,400 related to fiscal years 2010 and 2009, 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, 2010, over 1,005 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 889,029 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 37,838 hospital admissions, as well as participated in the coverage of the emergency department handling over 97,493 visits. Payments for these services are derived primarily from third-party insurers including Managed Care companies (27.6%), Medicare (22.0%), Blue Shield (18.0%), Medicaid (10.2%), commercial (7.9%), other (5.4%), and self-pay (8.9%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 440 University medical students and 738 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, 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 investment 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 primarily affects the way the University accounts for asbestos-related removal costs. The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

(t) Derivative Instruments and Hedging Activities

Derivative instruments related to the University's long-term debt are included in accounts payable and accrued expenses or in accounts receivable, net on the consolidated balance 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.

During fiscal year 2010, the University determined that $20,693 should have been recorded in the balance sheet as of June 30, 2009 to gross up assets and liabilities in relation to deferred compensation 457 (b) and 457 (f) plans. The impact was an increase of $20,693 in investments held for long-term purposes and a corresponding increase of $20,693 in accrued pension, post-retirement, and post-employment obligations in the balance sheet as of June 30, 2009. The impact on the consolidated statement of cash flows for the year ended June 30, 2009 was an increase of $1,943 in net cash provided by operating activities and a corresponding increase in net cash used in investing activities.

(dollars in thousands)

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	2010	2009
Designated:		
University divisions	$ 1,121,939	$ 975,427
Highland Hospital and affiliates	102,026	79,875
Eastman Dental Center Foundation	48,984	45,515
Other related entities	(22,371)	(22,081)
Total designated	1,250,578	1,078,736
Net investment in property, plant, and equipment	556,631	592,857
Undesignated	70,058	52,768
Total unrestricted net assets	$ 1,877,267	$ 1,724,361

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

	2010	2009
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions	$ 91,967	$ 84,457
Interest in net assets of foundation	12,370	11,654
Related entities	3,368	3,132
Other gifts and income subject to:		
Purpose restrictions	12,643	12,400
Time restrictions:		
Contributions receivable	33,681	42,252
Split-interest agreements	25,543	24,771
Total temporarily restricted net assets	$ 179,572	$ 178,666

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

	2010	2009
Perpetual endowment funds	$ 259,771	$ 244,869
Interests in perpetual trusts held by others	43,119	40,691
Related entities	3,313	3,617
Split-interest agreements	2,371	2,619
Perpetual loan funds	3,664	3,639
Contributions receivable	12,690	12,776
Total permanently restricted net assets	$ 324,928	$ 308,211

(dollars in thousands)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - Restricted Funds:				
True Endowments	$ 201,523	$ 90,913	$ 259,771	$ 552,207
Term Endowments	-	1,054	-	1,054
	201,523	91,967	259,771	553,261
Funds Functioning as Endowment (Quasi)	755,081	-	-	755,081
Total Endowment Funds	$ 956,604	$ 91,967	$ 259,771	$ 1,308,342

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ 896,955	$ 84,457	$ 244,869	$ 1,226,281
Investment return:				
Investment income, net of fees	9,437	1,419	-	10,856
Net appreciation	115,861	21,434	-	137,295
Total investment return	125,298	22,853	-	148,151
New gifts	737	-	14,617	15,354
Amounts appropriated for expenditure	(72,448)	(10,595)	-	(83,043)
Other changes and reclassifications	6,062	(4,748)	285	1,599
Endowment net assets, June 30, 2010	$ 956,604	$ 91,967	$ 259,771	$ 1,308,342

(dollars in thousands)

Endowment net assets consist of the following at June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - Restricted Funds:				
True Endowments	$ 181,460	$ 83,590	$ 244,869	$ 509,919
Term Endowments	-	867	-	867
	181,460	84,457	244,869	510,786
Funds Functioning as Endowment (Quasi)	715,495	-	-	715,495
Total Endowment Funds	$ 896,955	$ 84,457	$ 244,869	$ 1,226,281

Rollforward of endowment net assets from July 1, 2008 to June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ 1,264,154	$ 132,363	$ 232,941	$ 1,629,458
Investment return:				
Investment income, net of fees	11,821	1,765	-	13,586
Net depreciation	(303,762)	(38,126)	-	(341,888)
Total investment return	(291,941)	(36,361)	-	(328,302)
New gifts	672	-	12,838	13,510
Amounts appropriated for expenditure	(85,222)	(7,434)	-	(92,656)
Other changes and reclassifications	9,292	(4,111)	(910)	4,271
Endowment net assets, June 30, 2009	$ 896,955	$ 84,457	$ 244,869	$ 1,226,281

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2010	2009
Patient care and related activities, net of allowances for doubtful accounts of $34,862 and $33,019	$ 169,561	$ 176,995
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of $836 and $490	42,834	44,111
Medical resident FICA refund claim (including interest), net of allowance of $16,818	31,520	-
Student receivables, net of allowances for doubtful accounts of $2,067 and $2,113	7,512	6,482
Royalties and other	55,942	48,856
Total accounts receivable	$ 307,369	$ 276,444

(dollars in thousands)

(4) Contributions

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

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 5,093	$ 3,029
One year to five years	42,789	54,068
More than five years	10,870	9,334
Subtotal	58,752	66,431
Less unamortized discount and allowance for uncollectible amounts	(11,451)	(9,427)
Total contributions receivable, net	$ 47,301	$ 57,004

At June 30, 2010, the University had also received $19,288 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 $31,046 and $29,662, for University relations and development for the years ended June 30, 2010 and 2009, respectively.

(5) Notes Receivable

Student loans receivable at June 30, 2010 and 2009 are reported net of allowances for doubtful loans of $1,510. 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.

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

(6) Investments Held for Long-Term Purposes

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

	2010	2009
Endowment and similar purposes	$ 1,378,118	$ 1,282,924
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	15,190	21,702
Other	74,372	23,568
Total property, plant and equipment purposes	89,562	45,270
Other purposes	96,167	86,270
Total investments held for long-term purposes	$ 1,563,847	$ 1,414,464

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.

(dollars in thousands)

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

	2010		
	Fair Value	**Cost**	**Net Gains/ (Losses)**
End of year	$ 1,378,118	$ 1,390,467	$ (12,349)
Beginning of year	$ 1,282,924	$ 1,360,703	$ (77,779)
Unrealized appreciation, net			65,430
Realized net gains for year			77,000
Net increase for year			$ 142,430

	2009		
	Fair Value	**Cost**	**Net Gains/ (Losses)**
End of year	$ 1,282,924	$ 1,360,703	$ (77,779)
Beginning of year	$ 1,722,211	$ 1,457,137	$ 265,074
Unrealized depreciation, net			(342,853)
Realized net loss for year			(14,095)
Net decrease for year			$ (356,948)

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, 2010 and 2009.

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

Investment fees were $30,655 and $26,890 for the years ended June 30, 2010 and 2009, respectively.

(7) Property, Plant and Equipment

As of June 30, 2010 and 2009, the University's investment in property, plant and equipment is as follows:

	2010	**2009**
Buildings and improvements	$ 1,813,666	$ 1,763,417
Land improvements	42,054	41,233
Completed projects under leasehold agreements	8,738	6,998
Equipment owned	773,610	727,032
Library books	134,181	125,673
Subtotal	2,772,249	2,664,353
Less accumulated depreciation	1,549,084	1,456,786
Subtotal	1,223,165	1,207,567
Land	7,860	7,860
Museum collections	30,160	29,955
Construction in progress	139,853	103,888
Total property, plant and equipment, net	$ 1,401,038	$ 1,349,270

(dollars in thousands)

(8) Long-term Debt

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

		2010		2009
Obligations under capital lease agreements, 3.414% to 7.85%, (a)	$	20,509	$	22,565
Urban Development Corporation loan, (b)		1,833		2,000
Note payable, 7.60%, (c)		-		18
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of $23 in 2010 and $25 in 2009), (d)		8,577		8,575
Bond Payable – COMIDA, 10.00%, (e)		627		653
Bond payable – DASNY Series 1994B, 5.50%, (f)		9,610		10,025
Bond payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of $573 in 2009), (g)		-		2,623
Bond payable – DASNY Series 1998A, 3.50% to 5.25% (net of unamortized discount of $41 in 2009), (h)		-		22,656
Bond payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of $49 in 2009), (i)		-		3,681
Bond payable – DASNY Series 2000A, 4.50% to 6.05%, (j)		-		7,036
Bond payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of $75 in 2010 and $83 in 2009), (k)		15,365		16,716
Bond payable – DASNY Series 2003A, B, and C, 3.97%, (l)		123,050		130,350
Bond payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of $368 in 2010 and $384 in 2009), (m)		26,968		27,629
Bond payable – COMIDA, 3.125% to 5.450% (net of unamortized premium of $761 in 2010 and $861 in 2009), (n)		33,601		35,931
Bond payable – DASNY Series 2006 A-1 and B-1, 3.919%, (o)		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 $7,371 in 2010 and $7,622 in 2009), (p)		241,215		242,096
Bond payable – DASNY Series 2009A, B, C, D, and E, 2.50% to 5.00% (net of unamortized premium of $3,087 in 2010), (q)		115,702		-
Bond payable – DASNY Series 2010. 2.00% to 5.20% (net of unamortized discount of $68 in 2010), (r)		10,932		-
Notes payable, 0.74% to 2.73%, (s)		53,782		-
Total long-term debt	$	772,951	$	643,734

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

(a) Obligations Under Capital Lease Agreements

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

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

(b) Urban Development Corporation Loan

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

Pursuant to an agreement authorized by statute, the State of New York leases the COI from the University for the 30 year term of the loan, paying as rent, an amount sufficient to cover the University's obligations to UDC. These rents have been assigned to UDC as further collateral for the loan. The University retains possession of the property under a 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) Note Payable – HSBC

Pursuant to an agreement between a University related entity and HSBC Bank, USA dated July 2007, HSBC issued a note payable of $99 at an interest rate of 7.60% for various information technology purchases. The note has been paid in full as of December 1, 2009.

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

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

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

(e) Bond Payable – COMIDA

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

(f) Bonds Payable – DASNY Series 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.

(g) Bonds Payable – DASNY Series 1997A

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

The Series 1997A bonds were refinanced as a result of the issuances of Series 2006A-1 and Series 2009B during fiscal years 2006 and 2010, respectively. As a result of debt extinguishment during fiscal year 2010, a loss of $86 was recognized.

(h) Bonds Payable – DASNY Series 1998A

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

The Series 1998A bonds were refinanced as a result of the issuances of Series 2006A-1, Series 2007C, and Series 2009B during fiscal years 2006, 2007, and 2010, respectively. As a result of debt extinguishment during fiscal year 2010, a loss of $820 was recognized.

(i) Bonds Payable – DASNY Series 1999B

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

The Series 1999B bonds were refinanced as a result of issuances of Series 2006B-1 and Series 2009D during fiscal years 2006 and 2010, respectively. As a result of debt extinguishment during fiscal year 2010, a loss of $168 was recognized.

(j) Bonds Payable – DASNY Series 2000A

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

The Series 2000A bonds were refinanced as a result of issuances of Series 2006A-1 and Series 2009B during fiscal years 2006 and 2010, respectively. As a result of debt extinguishment during fiscal year 2010, a loss of $940 was recognized.

(k) Bonds Payable – DASNY Series 2001A

Pursuant to an agreement between the University and DASNY dated July 10, 2001, DASNY issued and sold $22,920 of bonds known as the University of Rochester Revenue Bonds, Series 2001A. The Series 2001A bonds were issued at a discount of $152 resulting in net proceeds of $22,768 to refinance (1) all the outstanding $184 University's Dormitory (Apartment) bonds of 1962, HUD Series D and all the outstanding $840 University's Dormitory (Apartment) bonds of 1966, HUD Series E; and (2) a portion of the University of Rochester Revenue Bond, Series 1994A, maturing on and after July 1, 2007. HUD Series D and E were paid on October 1, 2001. DASNY Series 1994A bondholders were paid on July 1, 2004.

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

(l) 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 residence halls. 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 $123,050 of interest rate swaps with third parties. The University entered into the interest rate swap agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally, under this agreement, the counterparty pays the University a variable interest rate equal to 61.5% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. These rates are subject to change based upon certain conditions as stated in the swap agreement. 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 JPMorgan Chase Bank, N.A. Of this total, no amounts were outstanding at June 30, 2010 and 2009.

The University has a letter of credit in place for DASNY Series 2003B in the amount of $34,745 with HSBC Bank, N.A. Of this total, no amounts were outstanding at June 30, 2010 and 2009.

(m) Bonds Payable – DASNY Series 2004A

Pursuant to an agreement between the University and DASNY dated August 26, 2004, DASNY issued $45,000 of bonds known as the University of Rochester Revenue Bonds, Series 2004A. The Series 2004A bonds were issued at a premium of $603, resulting in proceeds of $45,603 to finance the construction of a co-generation facility and 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.

(n) Bonds Payable – COMIDA

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the County of Monroe Industrial Development 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 Orthopaedic 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.

(o) 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 $111,180 of interest rate swaps with a third party. The University entered into an interest rate swap agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Generally, under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.919%. 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., which expires on September 10, 2011. This letter of credit has an option of renewal every three years. Of this total, no amounts were outstanding as of June 30, 2010 and 2009.

(p) 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 residence halls.

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

Series 2007B bonds were issued to finance (1) the construction of the 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.

(q) 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 the 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; and (6) a portion of the construction of the Clinical and Translational Science Building.

(dollars in thousands)

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.

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.

(r) 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.

(s) 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 set up 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.

(t) 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, 2015 and thereafter are as follows:

Maturity	Principal portions of lease payments	Principal payments of debt	Total principal payments
2011	$ 4,813	$ 23,782	$ 28,595
2012	3,911	25,335	29,246
2013	1,916	25,605	27,521
2014	787	27,350	28,137
2015	721	36,234	36,955
Thereafter	8,361	614,136	622,497
Total	$ 20,509	$ 752,442	$ 772,951

The University incurred $28,053 and $31,114 of interest expense for the years ended June 30, 2010 and 2009, respectively, net of interest capitalization of $3,870 and $1,677 for the years ended June 30, 2010 and 2009, 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 $28,595, $229,926, $46,321, $13,397, and $454,712 for the five year period ending June 30, 2015 and thereafter.

(u) 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 $743,377 and $590,239 at June 30, 2010 and 2009, respectively.

(9) Benefits Plans

Self-insurance Plans – University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2010 were discounted by 3.25% and amounted to $40,800 (3.75% and $38,262 in 2009). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $7,920 at June 30, 2010 ($6,955 at June 30, 2009). 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 $12,056 and $11,269 as of June 30, 2010 and 2009, 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 $66,560 and $63,570 in 2010 and 2009, 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 $15,364 and $14,770 for the years ended June 30, 2010 and 2009, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

(dollars in thousands)

Benefit expense for this plan for the years ended June 30, 2010 and 2009 includes the following components:

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 125,596	$ 112,877
Service cost	2,562	2,256
Interest cost	7,636	7,395
Estimated plan participant contributions	1,654	1,749
Actuarial loss	14,436	9,724
Benefits paid	(8,507)	(8,405)
Benefit obligation at end of year	$ 143,377	$ 125,596
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	6,853	6,656
Participant contributions	1,654	1,749
Benefits paid	(8,507)	(8,405)
Fair value of plan assets at end of year	$ -	$ -
Components of accrued benefit:		
Funded status	$ (143,377)	$ (125,596)
Unrecognized net actuarial loss	27,663	13,274
Unrecognized prior service cost	10,822	15,941
Accrued benefits	$ (104,892)	$ (96,381)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	$ (96,381)	$ (88,267)
Net post-retirement benefit expense	(15,364)	(14,770)
Net benefits paid	6,853	6,656
Accrued benefits	$ (104,892)	$ (96,381)
Amount recorded in unrestricted net assets	(38,485)	(29,215)
Net amount recognized in unrestricted net assets	$ (143,377)	$ (125,596)
Components of net periodic benefit cost:		
Service cost	$ 2,562	$ 2,256
Interest cost	7,636	7,395
Amortization of prior service cost	5,166	5,119
Net periodic benefit cost	$ 15,364	$ 14,770

(dollars in thousands)

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

	Estimated contributions / benefit payments	Estimated 28% Rx subsidy payments
2011	$ 8,358	$ 1,127
2012	8,974	1,232
2013	9,672	1,320
2014	10,103	607
2015	10,315	594
2016 to 2020	52,154	2,512

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

	2010	2009
Discount rate for obligation	5.25%	6.25%
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 2016 and to remain at that level thereafter.

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

	One percentage point increase	One percentage point decrease
Effect on total of service and interest cost components	$ 682	$ (564)
Effect on post-retirement benefit obligation	$ 5,604	$ (4,786)

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

In September 2006, post-retirement plan guidance was issued that requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This guidance also requires an employer 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 $59,330 and $56,189 at June 30, 2010 and 2009, 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 $1,045 is maintained as security for workers compensation claims. Included in liabilities at June 30, 2010 and 2009 are accruals of approximately $5,990 and $4,938, 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 $982 and $797 at June 30, 2010 and 2009, respectively. This liability has been discounted by 2.00% and 2.75% at June 30, 2010 and 2009, respectively.

Retirement Plan – Related Entity (Highland Hospital and Affiliates)

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

Retirement plan expense of $7,449 and $2,320 was incurred for the years ended December 31, 2009 and 2008, respectively, and is recorded in benefits expense in the consolidated statement of activities. In addition, a pension related benefit other than net periodic pension cost of $6,585 and ($29,805) for the years ending December 31, 2009 and 2008, respectively, was recorded in other changes on the consolidated statement of activities.

Pension expense for this plan for the years ended December 31, 2009 and 2008 (the most recent data available) includes the following components (in thousands):

	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 93,046	$ 80,128
Service cost	3,903	4,067
Interest cost	5,596	6,331
Actuarial loss	5,668	5,238
Benefits paid	(2,520)	(2,718)
Benefit obligation at end of year	$ 105,693	$ 93,046

	2009	2008
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 56,161	$ 72,125
Actual return on plan assets	14,547	(16,291)
Employer contribution	5,703	3,233
Benefits paid	(2,520)	(2,718)
Administrative expenses paid	(243)	(188)
Fair value of plan assets at end of year	$ 73,648	$ 56,161

Amounts recognized in the balance sheets consist of:		
Accrued benefits	$ (3,867)	$ (2,122)
Amount recognized in unrestricted net assets	(28,178)	(34,763)
Funded Status	$ (32,045)	$ (36,885)
Components of net periodic benefit cost:		
Service cost	$ 3,903	$ 3,271
Interest cost	5,597	5,098
Expected return on plan assets	(4,946)	(6,049)
Amortization (gain)/loss	2,895	-
Net periodic benefit cost	$ 7,449	$ 2,320
Weighted-average assumptions as of December 31:		
Discount rate for obligation	5.97%	6.09%
Discount rate for pension expense	6.09%	6.50%
Investment return assumption (regular)	8.50%	8.50%
Future compensation increase rate	3.80%	3.80%

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

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

	2009	2008
Weighted-average assumptions by asset categories:		
Equity securities	56%	61%
Fixed income securities	30%	38%
Cash and other investments	14%	1%
	100%	100%

(dollars in thousands)

Estimated future benefit payments for the years ending December 31:

2010	$	2,507
2011		2,734
2012		3,067
2013		3,592
2014		4,048
2015 to 2019		30,444
Total estimated future payments	$	46,392

The related entity expects to contribute $6,800 to the plan in 2010.

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

	Target Allocation	Range
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. 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 hedge funds and credit opportunities, includes publicly traded stocks and bonds.

		Level 1
Cash	$	304
Mutual Fund – Global Balanced Asset		37,411
Mutual Fund – Multi-Asset		35,933
	$	73,648

(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:

(dollars in thousands)

	2009	2008
Results of Operations		
Net earned premiums	$ 265,352	$ 262,438
Expenses	(283,751)	(289,199)
Investment income and realized gains on sales of marketable securities	24,663	23,410
Net (loss)/ income	$ 6,264	$ (3,351)
Financial Position		
Total assets	$ 2,159,366	$ 1,990,489
Total liabilities	2,004,356	1,985,915
Shareholders' Equity	$ 155,010	$ 4,574

(11) Professional Liability Insurance

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage as well as the buffer and self-insured layers of excess insurance were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The 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 $37,682 and $37,756 as of June 30, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet.

(12) Fair Value of Financial Instruments

Effective July 1, 2008, the University adopted fair value measurements accounting, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. 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 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.

(dollars in thousands)

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:

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2010 Total Fair Value
Assets				
Cash and cash equivalents	$ -	$ 14,734	$ -	$ 14,734
Collateral held for securities lending	-	79,283	-	79,283
Operating investments and investments held for long-term purposes:				
Cash & cash equivalents	95,200	4,234	-	99,434
Debt securities	63,645	259,532	1,574	324,751
Stocks	228,182	216,622	-	444,804
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
Total operating investments and investments held for long-term purposes	392,130	586,610	828,751	1,807,491
Interest in net assets of foundation	-	-	12,370	12,370
Investments in perpetual trusts held by others	-	-	43,119	43,119
Total assets at fair value	$ 392,130	$ 680,627	$ 884,240	$ 1,956,997
Liabilities				
Interest rate swap payable	$ -	$ 29,355	$ -	$ 29,355
Total liabilities at fair value	$ -	$ 29,355	$ -	$ 29,355

(dollars in thousands)

Assets	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2009 Total Fair Value
Cash and cash equivalents	$ -	$ 41,895	$ -	$ 41,895
Collateral held for securities lending	-	62,062	-	62,062
Operating investments and investments held for long-term purposes:				
Cash & cash equivalents	28,316	14,362	-	42,678
Debt securities	4,425	273,563	731	278,719
Stocks	206,346	226,716	-	433,062
Real assets	-	-	196,755	196,755
Private equity	-	-	266,346	266,346
Hedge funds	-	-	359,852	359,852
Other	3,516	4,513	11,176	19,205
Total operating investments and investments held for long-term purposes	242,603	519,154	834,860	1,596,617
Interest in net assets of foundation	-	-	11,653	11,653
Investments in perpetual trusts held by others	-	-	40,691	40,691
Total assets at fair value	$ 242,603	$ 623,111	$ 887,204	$ 1,752,918
Liabilities				
Interest rate swap payable	$ -	$ 19,751	$ -	$ 19,751
Total liabilities at fair value	$ -	$ 19,751	$ -	$ 19,751

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 present value of the future distributions expected to be received over the term of the agreement, 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:

	Notional Amount	2010 Level 2 Fair Value	2009 Level 2 Fair Value
Accounts Payable	$ 234,230	$ 28,339	$ 19,459

Effect of interest swaps on statements of activities:

	2010 Unrealized Gain/(Loss)	2009 Unrealized Gain/(Loss)
Non-operating net appreciation / (depreciation)	$ (8,880)	$ (9,967)

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.

(dollars in thousands)

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

	Balance June 30, 2009	Realized gains/(losses)	Unrealized gains/(losses)	Purchases, sales and settlements, net	Transfers in/(out) of Level 3	Balance June 30, 2010
Investments:						
Debt securities	$ 731	$ 22	$ 21	$ (394)	$ 1,194	$ 1,574
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 Foundation net assets	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	$ 887,204	$ 29,446	$ 25,032	$ 42,570	$ (100,012)	$ 884,240

	Balance June 30, 2008	Realized gains/(losses)	Unrealized gains/(losses)	Purchases, sales and settlements, net	Transfers in/(out) of Level 3	Balance June 30, 2009
Investments:						
Debt securities	$ 452	$ (1)	$ 25	$ 255	$ -	$ 731
Private equity	286,765	(14)	(60,501)	38,976	1,120	266,346
Hedge funds	503,029	38,283	(117,978)	(55,882)	(7,600)	359,852
Real assets and other	217,397	236	(58,414)	48,290	422	207,931
Interest in Foundation net assets	16,859	766	(4,712)	-	(1,260)	11,653
Investments of trusts held by others	51,324	2,080	(12,794)	81	-	40,691
Total Fair Value	$ 1,075,826	$ 41,350	$ (254,374)	$ 31,720	$ (7,318)	$ 887,204

All net realized and unrealized gains/(losses) in the table above are reflected in net appreciation/(depreciation) 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, 2010.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in limited partnerships that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, 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 in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the University's consolidated financial statements.

(dollars in thousands)

Strategy	2010 Fair value	Unfunded commitments	Redemption frequency	Redemption notice
Hedge funds:				
Long/short	$ 174,373	$ -	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:			**Remaining fund life**	**Drawdown period**
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
Total alternative Investments	$ 915,598	$ 305,437		

The amount of unfunded commitments at June 30, 2009 is $382,545.

(dollars in thousands)

(13) Lines of Credit

The University has a $50,000 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, 2010 and 2009, respectively.

The University has a $25,000 line of credit agreement with First Niagara Bank that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2010 and 2009, respectively.

The University has a $75,000 committed 364 day revolving credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Of this total, no amounts were outstanding at June 30, 2010, and $7,494 was outstanding at June 30, 2009.

(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, 2010, the University has entered into construction contracts and commitments aggregating $505,332 ($550,093 at June 30, 2009) of which $423,544 ($430,522 at June 30, 2009) 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, 2010 and 2009 totaling $31,358 and $24,239, 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:

	University	Related Entities
2011	$ 26,573	$ 3,765
2012	24,624	3,484
2013	22,328	2,913
2014	17,789	2,628
2015	13,133	2,557
Thereafter	50,534	8,571
Total minimum lease payments	$ 154,981	$ 23,918

(16) Scholarships, Grants and Fellowships

The University awarded a total of $132,222 and $120,416 in scholarships, grants and fellowships during fiscal years 2010 and 2009, respectively. In addition, the University awarded $18,869 and $18,329, respectively, of scholarships, grants and fellowships as compensation to the recipients. Of this amount, $21,058 and $18,764, 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.

(dollars in thousands)

(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:

	2010	2009
Instruction	$ 296,338	$ 296,425
Research	304,557	297,448
Public service	10,541	9,487
Libraries and other academic support	53,376	55,819
Student services	42,534	44,732
Institutional support	81,283	82,842
Hospital and faculty practice patient care	1,644,845	1,581,334
Auxiliary enterprises	84,649	80,287
Total functional expenses	$ 2,518,123	$ 2,448,374

(18) Subsequent Events

On September 17, 2010, the Governor of New York signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which applies to donor restricted endowment funds (i.e., true endowments). This law will impact the University for the fiscal year ended June 30, 2011, primarily in the area of classification of net assets. The appreciation of true endowments, now classified as unrestricted net assets, will be reclassified as temporarily restricted net assets. Management is in the process of evaluating the impact of UPMIFA.

The University has performed an evaluation of subsequent events through October 15, 2010, the date on which the consolidated financial statements were issued.

APPENDIX C

CERTAIN DEFINITIONS

"Accountant" means a nationally or regionally recognized firm of independent certified public accountants selected by the University having expertise in the particular businesses in which the University is engaged.

"Act" means Section 1411 of the Not-For-Profit Corporation Law of the State of New York as amended.

"Act of Bankruptcy" means the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the University as debtor or the Issuer as debtor under any applicable bankruptcy, insolvency, reorganization or similar law as now or hereafter in effect.

"Additional Bonds" means any bonds, other than the Series 2011 Bonds, issued pursuant to Section 2.13 of the Indenture.

"Assignment" means the Pledge and Assignment.

"Authorized Representative" means with respect to the Issuer, its President, Vice President or Executive Director, with respect to the University, any officer of the University, and with respect to both such additional persons as, at the time, are designated to act on behalf of the Issuer or the University, as the case may be, by written certificate furnished to the Trustee and to the Issuer or the University, as the case may be, containing the specimen signature of each such person and signed on behalf of (i) the Issuer by its President, Vice President or Executive Director, or (ii) the University by any officer of the University.

"Bond" or "Bonds" means the Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011, in the original aggregate principal amount of $161,660,000 and any Additional Bonds, authorized to be issued pursuant to the Indenture to finance all or a portion of the Cost of the Facility.

"Bond Counsel" means the law firm of Harris Beach PLLC or an attorney or firm of attorneys whose experience in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized.

"Bond Fund" means the fund so designated which is created by Section 4.01 of the Indenture.

"Bondholder" or "Holder" or "Owner" means the registered owner at the time in question of any Bond, as shown on the registration books maintained by the Bond Registrar pursuant to the Indenture.

"Bond Payment Date" means any date on which a Debt Service Payment shall be payable on any of the Bonds according to their terms so long as any of the Bonds shall be Outstanding.

"Bond Proceeds" means, collectively, the Series 2011A Bond Proceeds and the Series 2011B Bond Proceeds.

"Bond Purchase Contract" means the Bond Purchase Contract, dated August 18, 2011, by and among the Issuer, the University and the Underwriter.

"Bond Registrar" means the Trustee, acting as such, and any successor bond registrar for the Bonds appointed pursuant to Article IX of the Indenture, their respective successors and any other corporation which may at any time be substituted in their respective places pursuant to the Indenture.

"Bond Resolution" means, collectively, the resolution adopted by the Issuer on August 9, 2011 authorizing the issuance, execution, sale and delivery of the Series 2011 Bonds and the execution and delivery of Issuer Documents, as such resolutions may be amended or supplemented from time to time.

"Bond Year" means the one-year period beginning on the day after the expiration of the preceding Bond Year. The first Bond Year begins on the dated date of original issuance of the Bonds and ends one year later.

"Business Day" means a day other than a Saturday, Sunday, legal holiday or other day on which the Trustee is authorized by law or executive order to remain closed.

"Capital Additions" means all property or interests in property, real, personal and mixed (a) which constitute additions, improvements or extraordinary repairs to or replacements of all or any part of the Facility, and (b) the cost of which is properly capitalized under generally accepted accounting principles.

"Capitalized Interest Subaccount" means the subaccount of the Series 2011A Project Account so designated which is created by Section 4.01 of the Indenture.

"Certificates of Authentication of the Trustee" and "Trustee's Certificates of Authentication" means, collectively, the certificates executed by an authorized officer of the Trustee certifying the due authentication of the (i) Series 2011A Bonds in the aggregate principal amount of $122,340,000 and (ii) Series 2011B Bonds in the aggregate principal amount of $39,320,000.

"Closing" or "Closing Date" means the date of the sale and delivery of the Series 2011 Bonds and the delivery of the Financing Documents.

"Code" means the Internal Revenue Code of 1986, as amended, and the final, temporary and proposed regulations of the United States Department of the Treasury promulgated thereunder. References to Sections of the Code shall be construed also to refer to successor and renumbered sections.

"Commercial Code" shall mean the Uniform Commercial Code, as the same may from time to time be in effect in the State.

"Completion Date" means, as applicable, the date of completion of the acquisition, construction and equipping of the Hospital Facility and the University Facility, as certified pursuant to the Loan Agreement.

"Computation Period" means each period from the date of original issuance of the Bonds through the date on which a determination of the Rebate Amount is made.

"Condemnation" means the taking of title to, or the use of, Property under the exercise of the power of eminent domain by any governmental entity or other Person acting under Governmental Authority.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of September 1, 2011, by and between the University and the Trustee, as the same may be amended or supplemented from time to time.

"Contract Term" means the period commencing with the Closing Date and continuing until the principal of, premium, if any, and interest on the Bonds have been paid in full, or provision therefor has been made pursuant to Article VII of the Indenture, and all other amounts due under the Loan Agreement have been paid in full.

"Cost of the Facility" the Series 2011A Project Costs and the Series 2011B Project Costs.

"Debt Service Payment" means, with respect to any Bond Payment Date, (i) the interest payable on such Bond Payment Date on the Bonds Outstanding, plus (ii) the principal, if any, payable on such Bond Payment Date on the Bonds Outstanding, plus (iii) the premium, if any, payable on such Bond Payment Date on the Bonds Outstanding.

"Default Rate" means nine percent (9.00%) or the maximum rate permitted by law, that being the rate at which interest accrues on the Bonds from and after the date of occurrence of an Event of Default and for so long as such Event of Default remains in effect.

"Defeasance Obligations" shall mean (i) cash; (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGBs)); (iii) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury; (iv) obligations of Resolution Funding Corp. ("REFCORP") (*provided*, *however*, that, only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form shall qualify as Defeasance Obligations); (v) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P (*provided*, *however*, that, if such pre-funded municipal bonds are only rated by S&P, then such pre-refunded bonds shall have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals; and (vi) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S. Export-Import Bank (Eximbank) Direct Obligations or fully guaranteed certificates of beneficial ownership; (b) Farmers Home Administration (FmHA); (c) Federal Financing Bank; (d) General Services Administration; Participation Certificates; (e) U.S.

Maritime Administration; Guaranteed Title XI financing; and (f) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures – U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

"Depository" or "DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Earnings Fund" means the fund so designated which is created by Section 4.01 of the Indenture.

"Equipment" means, collectively, the Hospital Equipment and the University Equipment.

"Event of Default" means any of those events defined as Events of Default by Section 8.01 of the Indenture or, when used with respect to the Loan Agreement, any of those events defined as Events of Default by Section 7.1 of the Loan Agreement.

"Exempt Obligation" means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Indenture, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of, the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all reasonable, out-of-pocket expenses incurred by the Trustee or any Paying Agent under the Indenture other than Ordinary Services and Ordinary Expenses including but not limited to, the services rendered and expenses reasonably incurred by the Trustee with respect to any Event of Default under the Financing Documents, or the happening of an occurrence which, with the passage of time or the giving of a notice, would ripen into an Event of Default.

"Facility" means, collectively, the Hospital Facility and the University Facility.

"Favorable Opinion of Bond Counsel" shall mean, with respect to any action, the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act and the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"Federal Agency Obligation" means (i) an obligation issued by any federal agency or instrumentality; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Financing Documents" or "Bond Documents" means, collectively, the Bonds, the Indenture, the Loan Agreement, the Pledge and Assignment, the Tax Compliance Agreement, the Continuing Disclosure Agreement, any other document or instrument executed in connection therewith to secure the University's obligation to repay the Series 2011 Bonds or make the debt service payments due under the Loan Agreement, and any other instrument or document supplemental thereto.

"Fiscal Year" means the fiscal year of the University currently commencing on July 1 and ending on June 30 of each year.

"Fixed Interest Rate" means the interest rates on the Bonds as set forth in the Indenture, from and including the date of issuance of the Bonds, through but not including the final maturity date on the Bonds.

"Governmental Authority" means the United States, the State, and any other state or any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of these, having jurisdiction over the construction, equipping, ownership, leasing, operation and/or maintenance of the Facility.

"Governmental Obligations" means (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Hazardous Materials" means any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum-based products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials as set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. Sections 2601, et seq.), Articles 15 or 27 of the New York Environmental Conservation Law, or any other applicable Environmental Law and the regulations promulgated thereunder.

"Hospital Equipment" means all machinery, equipment and other tangible personal property used and to be used in connection with the Hospital Facility and acquired in whole or in part with the Series 2011B Bond Proceeds with such additions thereto and substitutions therefor as may exist from time to time.

"Hospital Facility" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Hospital Land" means the real property which is the site of the Hospital Facility.

"Hospital Project" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Indenture" means the Indenture of Trust, dated as of August 1, 2011, by and between the Issuer and the Trustee pursuant to which the Series 2011 Bonds are authorized to be issued, as may be amended or supplemented by any additional Supplemental Indenture.

"Independent Counsel" means an attorney or attorneys or firm or firms of attorneys duly admitted to practice law before the highest court in the State.

"Interest Payment Date" means each July 1 and January 1 (or the next succeeding Business Day if such first day is not a Business Day), commencing with January 1, 2012.

"Investment Agreement" means an agreement for the investment of moneys with a Qualified Financial Institution.

"Issuer" means (i) Monroe County Industrial Development Corporation and its successors and assigns and (ii) any not-for-profit corporation resulting from or surviving any consolidation or merger to which the Monroe County Industrial Development Corporation or its successors or assigns may be a party.

"Issuer Documents" means the Bonds, the Indenture, the Loan Agreement, the Pledge and Assignment and the Tax Compliance Agreement.

"Land" means, collectively, the Hospital Land and the University Land.

"Lien" means any interest in Property securing an obligation owed to a Person, whether such interest is based on the common law, statute or contract, and including but not limited to a security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" includes reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar encumbrances, including but not limited to, mechanics', materialmen's, warehousemen's and carriers' liens and other similar encumbrances affecting real property. For the purposes of the Indenture, a Person shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

"Loan Agreement" means the Loan Agreement, dated as of August 1, 2011, by and between the Issuer and the University pursuant to which the Issuer loans the proceeds of the Series 2011 Bonds to the University with the debt-service payments thereunder to be in an amount sufficient to pay, among other things, the principal of and interest on the Series 2011 Bonds.

"Loss Event" means in the event that at any time during the term of the Loan Agreement, the whole or part of the Facility shall be damaged or destroyed, or the whole or any part of the Facility shall be taken or condemned by a competent authority for any public use or purpose, or by agreement between the Issuer and those authorized to exercise such right, or if the temporary use of the Facility or any part thereof shall be so taken by condemnation or agreement.

"Net Proceeds" means so much of the gross proceeds with respect to which that term is used as remain after payment of all expenses, costs and taxes (including attorneys' fees and disbursements and Trustee's fees and disbursements) incurred in obtaining such gross proceeds.

"Office of the Trustee" means the corporate trust officers of the Trustee located at One M&T Plaza, 7th Floor, Buffalo, New York 14203.

"Official Statement" means the Official Statement of the Issuer, dated the date thereof, with respect to the offering and sale of the Series 2011 Bonds.

"Opinion of Counsel" shall mean a written opinion of counsel who may (except as otherwise expressly provided in the Loan Agreement or any other Financing Document) be counsel for the University or the Issuer and who shall be acceptable to the Trustee.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those reasonable, out-of-pocket expenses normally incurred by a trustee or paying agent under instruments similar to the Indenture, including reasonable fees and disbursements of counsel to the Trustee.

"Outstanding" or "Bonds Outstanding" or "Outstanding Bonds" Outstanding, means when used with reference to a Bond or Bonds, as of any particular date, all Bonds which have been issued, executed, authenticated and delivered under the Indenture, except:

(i) Bonds cancelled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee under the Indenture for cancellation;

(ii) any Bond (or portion of a Bond) for the payment or redemption of which there has been separately set aside and held in the Bond Fund either:

(A) moneys and/or

(B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys, in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such moneys and/or Defeasance Obligations to such payment on the date so specified, provided, that, if such Bond or portion thereof is to be redeemed, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(iii) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article IV of the Indenture,

provided, however, that, in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, such Bonds including Series 2011 Bonds owned by the University or any affiliate of the University shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds which have been pledged in good faith to a Person may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the University or any affiliate of the University.

"Participant" means any of those brokers, dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

"Paying Agent" means the Trustee, acting as such, and any additional paying agent for the Bonds appointed pursuant to Article IX of the Indenture, their respective successors and any other corporation which may at any time be substituted in their respective places pursuant to the Indenture.

"Permitted Collateral" means any of the following:

(i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;

(iii) commercial paper that (A) matures within two hundred seventy (270) days after its date of issuance, (B) is rated in the highest short term rating category by at least one nationally recognized statistical rating service, and (C) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least $125,000,000 and is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

"Permitted Encumbrances" means:

(i) the Pledge and Assignment, the Indenture and any other Financing Document;

(ii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default;

(iii) utility, access and other easements and rights-of-way restrictions and exceptions that an Authorized Representative of the University certifies to the Issuer and the Trustee will not interfere with or impair the University's use of the Facility as provided in the Loan Agreement;

(iv) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to property similar in character to the Facility and as do not, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it is owned by the University;

(v) any mechanic's, workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, or are insured over, or which are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or has been due for less than 90 days;

(vi) any mortgage, lien, security interest or other encumbrance which exists in favor of the Trustee;

(vii) any lien on Property, Plant or Equipment;

(viii) such other liens and exceptions to title that do not materially impair the value of the Facility as approved in writing by the Trustee;

(ix) deposits, endorsements, guaranties, and other encumbrances incurred in the ordinary course of business and which do not secure indebtedness;

(x) liens granted on a parity or subordinate basis with the Liens granted to the Trustee as security for the Bonds to secure indebtedness incurred or permitted pursuant to the Loan Agreement;

(xi) Liens to secure indebtedness permitted to be incurred pursuant to the Loan Agreement; and

(xii) those Liens on the Facility in existence as of the date of the Indenture.

"Permitted Investments" means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) collateralized certificates of deposit that are (A) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter of credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (B) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

"Person" means an individual, partnership, corporation, trust or unincorporated organization, and a government or agency or political subdivision or branch thereof.

"Plans and Specifications" means, collectively, the plans and specifications for the Hospital Facility and the University Facility, prepared for the University, as the same may be amended or supplemented from time to time.

"Pledge and Assignment" means the Pledge and Assignment, dated as of August 1, 2011, by and between the Issuer and the Trustee, pursuant to which the Issuer assigns to the Trustee substantially all of its rights under the Loan Agreement (except the Unassigned Rights).

"Preliminary Official Statement" means the Preliminary Official Statement of the Issuer, dated the date thereof, with respect to the offering and sale of the 2011 Bonds.

"Project" means, collectively, the Hospital Project and the University Project.

"Project Costs" means the Series 2011A Project Costs and the 2011B Project Costs.

"Project Fund" means the fund so designated which is created by Section 4.01 of the Indenture.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Property, Plant and Equipment" shall mean all property of the University that is considered net property, plant and equipment under generally accepted accounting principles.

"Qualified Financial Institution" means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (A) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (B) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, or any foreign nation whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality; or

(v) a corporation whose obligations, including any investments of any moneys held under the Indenture purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

"<u>Rating Agency</u>" means any nationally recognized securities rating agency.

"<u>Rebate Amount</u>" means with respect to the Bonds, the amount computed as described in the Tax Compliance Agreement.

"<u>Rebate Fund</u>" means the fund so designated pursuant to Section 4.01 of the Indenture.

"<u>Record Date</u>" means the Regular Record Date or the Special Record Date, as the case may be.

"<u>Redemption Date</u>" means the date determined by the Trustee, following receipt by the Trustee of notice from the Issuer or the University, on behalf of the Issuer, pursuant to the Indenture as of the date as of which a redemption shall be effective.

"Redemption Price" means, when used with respect to a Bond, the principal amount thereof plus the applicable redemption premium, if any, payable thereon, plus accrued interest to the Redemption Date.

"Regular Record Date" means, with respect to any Bond Payment Date, the fifteenth (15^{th}) day of the calendar month (whether or not a Business Day) next preceding such Bond Payment Date.

"Renewal Fund" means the fund so designated and created pursuant to Section 4.01 of the Indenture.

"Reserved Rights" means the Unassigned Rights.

"Request for Disbursement" means a request for disbursement by the University to the Trustee substantially in the form of Exhibit B attached to the Indenture.

"SEQR Act" means the State Environmental Quality Review Act, as amended and the regulations thereunder.

"Series 2011 Bonds" means the Series 2011A Bonds and the Series 2011B Bonds.

"Series 2011A Bonds" means the Issuer's $122,340,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A.

"Series 2011A Proceeds" means the sum of the face amount of the Series 2011A Bonds plus accrued interest, if any, premium, if any, less the sum of the original issue discount plus the underwriter's spread or similar discount, if any.

"Series 2011A Project Costs" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2011B Bonds" means the Issuer's $39,320,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B.

"Series 2011B Proceeds" means the sum of the face amount of the Series 2011B Bonds plus accrued interest, if any, premium, if any, less the sum of the original issue discount plus the underwriter's spread or similar discount, if any.

"Series 2011B Project Costs" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Special Record Date" means a date for the payment of interest on the Bonds after an Event of Default has occurred fixed by the Trustee pursuant to Section 2.03(b) of the Indenture.

"State" means the State of New York.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture, which may be executed by the Issuer and the Trustee in accordance with Article X of the Indenture.

"Tax Compliance Agreement" means the Tax Compliance Agreement, dated the Closing Date, by and between the Issuer and the University, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof and the Indenture.

"Tax-Exempt Organization" means any corporation (or other entity) determined by the Internal Revenue Service to be exempt from taxation for federal income tax purposes.

"Trustee" means Manufacturers and Traders Trust Company, a banking corporation organized and existing under the laws of the State of New York, as Trustee under the Indenture, and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as such under the Indenture.

"Trust Estate" means all Property which may from time to time become subject to the Lien of the Indenture.

"Unassigned Rights" shall mean collectively:

(i) the right of the Issuer in its own behalf to receive all Opinions of Counsel, reports, financial statements, certificates, insurance policies, binders or certificates, or other notices or communications required to be delivered to the Issuer under the Loan Agreement;

(ii) the right of the Issuer to grant or withhold any consents or approvals required of the Issuer under the Loan Agreement;

(iii) the right of the Issuer to enforce, in its own behalf, the obligation of the University to complete the Project;

(iv) the right of the Issuer, in its own behalf (or on behalf of the appropriate taxing authorities), to enforce, receive amounts payable under or otherwise exercise its rights under Sections 1.5, 2.1, 2.2, 3.1, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 5.1, 6.1, 6.2, 6.3, 6.5, 6.6, 6.10, 6.11, 6.13, 6.18, 6.19, 7.7, 8.1, 8.2, 8.4, 9.3, 9.10, 9.13, 9.17, 9.18 and 9.19 of the Loan Agreement; and

(v) the right of the Issuer, in its own behalf, to declare an Event of Default under Section 7.1 of the Loan Agreement with respect to any of the Reserved Rights.

"Underwriter" means, collectively, J.P. Morgan Securities LLC and Barclays Capital Inc., or their respective successors or assigns.

"University" means University of Rochester, a not-for-profit education corporation and organization described in Section 501(c)(3) of the Code, organized and existing under the laws of the State of New York, with an office located at Wallis Hall, Room 208, Box 270023, Rochester, New York 14627 and its successors and assigns.

"University Documents" means the Loan Agreement, the Tax Compliance Agreement, the Continuing Disclosure Agreement, the Preliminary Official Statement and the Official Statement.

"University Equipment" means all machinery, equipment and other tangible personal property used and to be used in connection with the University Facility and acquired in whole or in part with the Series 2011A Bond Proceeds with such additions thereto and substitutions therefor as may exist from time to time.

"University Facility" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"University Land" means the real property which is the site of the University Facility.

"University Project" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

[END OF APPENDIX C]

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following description of certain provisions of the Indenture is only a brief outline of some of the provisions thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Indenture for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Delivery of Bonds

Upon the execution and delivery of the Indenture, the Issuer shall execute and deliver the Series 2011 Bonds to the Trustee and the Trustee shall authenticate the Series 2011 Bonds and deliver them upon receipt of the Bond Proceeds in accordance with the directions of the Issuer and the provisions of the Indenture. (Section 2.07)

Additional Bonds

(a) The Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2011 Bonds issued under the Indenture for any of the purposes listed below:

(1) To pay the cost of completing the Facility or completing an addition thereto based on the original general design and scope of the Facility or such addition thereto set forth in the original plans and specifications therefor, with such changes as may have become necessary to carry out such original design, or to reimburse expenditures of the University for any such costs;

(2) To pay the cost of Capital Additions or to reimburse expenditures of the University for any such cost;

(3) To pay the cost of refunding through redemption of any Outstanding Bonds issued under the Indenture and subject to such redemption; or

(4) To pay the cost of any additional project approved by the Issuer.

(b) In any such event the Trustee shall, at the written request of the Issuer, authenticate the Additional Bonds and deliver them as specified in the request, but only upon receipt of:

(1) (A) a Supplemental Indenture setting forth the terms of the Additional Bonds and, for Additional Bonds described in subsection (a)(2) or (4) above, describing the Capital Additions to become part of the Facility; and (B) a supplement to the Loan

Agreement providing for additional Debt Service Payments to be made by the University sufficient to cover the debt service due on the Additional Bonds.

(2) For Additional Bonds described in subsection (a)(1), (a)(2) or (a)(4) above, a certificate signed by an Authorized Representative of the University stating that the proceeds of the Additional Bonds plus other amounts, if any, available to the University for the purpose will be sufficient to pay the cost thereof; and (ii) payments and additional payments, if any, scheduled to be paid by the University under the Loan Agreement will be adequate to satisfy all of the Debt Service Payments required to be made on the Bonds to remain Outstanding during the remaining life thereof; provided, however, such Additional Bonds shall not be issued to cure any deficiencies existing on the date of such certification in any funds required to be maintained under the Indenture;

(3) For Additional Bonds described in subsection (a)(1) above, (i) a certificate of the University stating (A) the estimated cost of completion of the Facility or the addition thereto and (B) that all approvals required for completion of the Facility or addition thereto have been obtained, other than building permits for any portions of the Facility or such addition thereto which, based on consultations with the University and contractor or other construction manager, will be obtained in due course so as not to interrupt or delay construction of the Facility or such addition thereto and other than licenses or permits required for occupancy or operation of the Facility or such addition thereto upon its completion;

(4) for Additional Bonds described in subsection (a)(3) above, (A) a certificate of an Authorized Representative of the University that notice of redemption of the Bonds to be refunded has been given or that provisions have been made therefor, and (B) a certificate of an Accountant stating that the proceeds of the Additional Bonds plus the other amounts, if any, stated to be available for the purpose, will be sufficient to accomplish the purpose of the refunding and to pay the cost of refunding, which shall be itemized in reasonable detail;

(5) for any Additional Bonds, a certified resolution of the Issuer (A) stating the purpose of the issue, (B) establishing the series of Additional Bonds to be issued and providing the terms and form of Additional Bonds thereof and directing the payments to be made into the funds established under the Indenture, (C) authorizing the execution and delivery of the Additional Bonds to be issued and (D) authorizing redemption of any previously issued Bonds which are to be refunded;

(6) for any Additional Bonds, a certificate of an Authorized Representative of the University stating (A) that no Event of Default under the Indenture or under the Loan Agreement has occurred and is continuing (except, in the case of Additional Bonds described in subsection (a)(l) above, for an Event of Default, if any, resulting from non-completion of the Facility or an addition thereto) and (B) that the proceeds of the Additional Bonds plus other amounts, if any, stated to be available for that purpose will be sufficient to pay the costs for which the Additional Bonds are being issued, which shall be itemized in reasonable detail;

(7) for any Additional Bonds, a certified resolution of the Board of Trustees of the University (A) approving the issuance of the Additional Bonds and the terms thereof, (B) authorizing the execution of any required amendments or supplements to the Indenture and the Loan Agreement, (C) for Additional Bonds described in subsection (a)(1) or (2) above, approving plans and specifications for the Facility or an addition thereto, and (D) for Additional Bonds described in subsection (a)(3) above, authorizing redemption of the Bonds to be refunded;

(8) for any Additional Bonds, an opinion or opinions of Bond Counsel to the effect that (A) the purpose of the Additional Bonds is one for which Additional Bonds may be issued under Indenture, (B) all conditions prescribed herein as precedent to the issuance of the Additional Bonds have been fulfilled, (C) the Additional Bonds have been validly authorized and executed and when authenticated and delivered pursuant to the request of the Issuer will be valid, legally binding, special obligations of the Issuer, and are entitled to the benefit and security of the Indenture, (D) all consents of any regulatory bodies required as a condition to the valid issuance of the Additional Bonds have been obtained and (E) issuance of such Additional Bonds will not adversely affect the tax status of Outstanding Bonds;

(9) [Reserved]; and.

(10) for Additional Bonds described in Subsection (a)(1), (a)(2) or (a)(4) above, an opinion of Independent Counsel to the University reasonably acceptable to the Issuer. (Section 2.13)

Establishment of Funds and Accounts; Application of Series 2011 Bond Proceeds and Allocation Thereof

In connection with the Series 2011 Bonds, the Indenture requires the establishment of the following trust funds and accounts with the Trustee: (i) the Project Fund within which there shall be two (2) accounts: (1) the Series 2011A Project Account within which there shall be a Capitalized Interest Subaccount and (2) the Series 2011B Project Account, (ii) the Bond Fund within which there shall be two (2) accounts: (1) the Series 2011A Bond Account and (2) the Series 2011B Bond Account, (iii) the Renewal Fund within which there shall be two (2) accounts: (1) the Series 2011A Renewal Account and (2) the Series 2011B Renewal Account, (iv) the Rebate Fund, in which there shall be two accounts, the Principal Account and the Earnings Account and (v) the Earnings Fund. Upon the receipt of the proceeds of the Bonds, the Trustee shall deposit such proceeds (a) in the (1) Series 2011A Bond Account: all accrued interest, if any, and premium, if any, paid by the purchaser of the Series 2011 Bonds and (2) Series 2011B Bond Account: all accrued interest, if any, and premium, if any, paid by the purchaser of the Series 2011 Bonds and (b) in the Series 2011A Project Account: the balance of the proceeds received from the sale of the Series 2011A Bonds provided that, of such balance of the proceeds of the Series 2011A Bonds, the Trustee shall credit to the Capitalized Interest Subaccount of the Series 2011A Project Account such amount as is certified to the Trustee by the

Issuer and (2) Series 2011B Project Account: the balance of the proceeds received from the sale of the Series 2011B Bonds. (Section 4.01 and 4.02)

Use of Moneys in the Project Fund

Moneys in the Project Fund shall be applied and expended by the Trustee in accordance with the Loan Agreement and the Indenture; provided further that, during the time prior to the applicable Completion Date, the Trustee is authorized under the Indenture to disburse from the Capitalized Interest Subaccount of the Series 2011A Project Account on the Business Day prior to an Interest Payment Date for the Series 2011A Bonds, for deposit into the Series 2011A Bond Account, such amount, together with amounts already available as is sufficient to pay the interest on the Series 2011A Bonds coming due on such Interest Payment Date (or, if insufficient funds are then on deposit, the balance of such Capitalized Interest Subaccount). The Trustee is authorized and directed to issue its checks or make wire transfers for each disbursement from the applicable account of the Project Fund upon being furnished certain documents required by the Indenture. The completion of the acquisition, construction and equipping of the Facility and payment or provision for payment of items included within the Cost of the Facility shall be evidenced by the filing with the Trustee of the certificate required by the Loan Agreement. As soon as practicable and in any event not more than sixty (60) days from the date of the certificate referred to in the preceding sentence, (1) any balance remaining in the Project Fund, except for (i) amounts the University shall have directed the Trustee to retain for any item included within the Cost of the Facility not then due and payable, and (ii) amounts required to be transferred to the Rebate Fund by the Tax Compliance Agreement and the Indenture, shall without further authorization be transferred to the Bond Fund and thereafter be applied to redeem the Bonds in accordance with the Indenture. If an Event of Default shall occur under the Indenture and the Outstanding principal amount of the Bonds shall be declared due and payable, the entire balance remaining in the Project Fund, after making any required transfer to the Rebate Fund, shall be transferred to the Bond Fund. (Section 4.04)

Payments into the Bond Fund; Use of Moneys in the Bond Fund

The Trustee shall deposit into the Bond Fund: (i) the accrued interest and premium, if any, on the Bonds as provided in the Indenture, (ii) any and all debt service payments received by the Trustee under the Loan Agreement, (iii) the balance of the Project Fund, the Renewal Fund, the Earnings Fund and the Rebate Fund to the extent specified in the Indenture, (iv) the amount of net income or gain received from investment of moneys in the Bond Fund and (v) all other moneys received by the Trustee pursuant to any of the provisions of the Loan Agreement or the Indenture which, by the terms of the Loan Agreement and the Indenture are required to be or which are accompanied by directions that such moneys are to be paid into the Bond Fund. (Section 4.05)

So long as there remain any Bonds Outstanding, moneys in the Bond Fund shall be used solely for the payment, when due, of the Debt Service Payments on the Bonds or for the redemption of the Bonds as provided in the Indenture. (Section 4.06)

Payments into Renewal Fund; Application of Renewal Fund

The Net Proceeds resulting from any casualty insurance proceeds or Condemnation award with respect to the Facility deposited or delivered to the Trustee pursuant to the Loan Agreement shall be deposited in the Renewal Fund. The amounts in the Renewal Fund shall be subject to a security interest, lien and charge in favor of the Trustee until disbursed as provided in the Indenture. The Trustee is authorized under the Indenture to apply the amounts in the Renewal Fund to the payment (or reimbursement to the extent the same have been paid by or on behalf of the University or the Issuer) of the costs required for the rebuilding, replacement, repair and restoration of the Facility upon written instructions from the University. The Trustee is further authorized and directed to issue its checks for each disbursement from the Renewal Fund upon a requisition submitted to the Trustee, signed by an Authorized Representative of the University. (Section 4.07)

Payments Into Earnings Fund; Application of Earnings Fund

All investment income or earnings on amounts held in the Project Fund, the Renewal Fund, the Earnings Fund or any other special fund held with respect to the Bonds under any of the Financing Documents (other than the Rebate Fund or the Bond Fund) shall be deposited upon receipt by the Trustee into the Earnings Fund. Within thirty (30) days after the end of each Bond Year, or such later date that the Trustee receives the written certificate required to be delivered by or on behalf of the University pursuant to the Indenture and the Tax Compliance Agreement, the Trustee shall withdraw from the Earnings Fund an amount equal to the difference, if any, between the Rebate Amount set forth in such certificate and the amount then on deposit in the Rebate Fund. Any amounts remaining in the Earnings Fund following such transfer shall be transferred to the funds, as specifically directed by the University, which were the sources of the earnings deposited into the Earnings Fund. If an Event of Default under the Indenture shall have occurred and the outstanding principal amount of the Bonds shall have been declared due and payable, the entire balance remaining in the Earnings Fund, after making the transfer to the Rebate Fund required under the Tax Compliance Agreement and the Indenture, shall be transferred to the Bond Fund and applied to redeem Bonds in accordance with the Indenture. (Section 4.08)

Payments Into Rebate Fund; Application of Rebate Fund

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, Lien or charge in favor of the Trustee, the Owner of any Bond or any other Person.

The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Representative of the University, in accordance with the Tax Compliance Agreement, shall deposit in the Rebate Fund Principal Account within thirty (30) days after the end of each Bond Year, or such later date that the Trustee receives such certification from the University, an amount such that the amount held in the Rebate Fund Principal Account after such deposit is equal to the Rebate Amount calculated as of the last day of the prior Bond Year. If there has been delivered to the Trustee a certification of the Rebate Amount in conjunction with the completion of the Facility pursuant to the Tax Compliance Agreement at any time during a Bond Year the Trustee shall deposit in the Rebate Fund Principal Account within thirty (30) days of the Completion Date, or such later date that the Trustee receives such certification from the University, an amount such that the amount held in the Rebate Fund Principal Account after such deposit is equal to the Rebate Amount calculated at the Completion Date. The amounts deposited in the Rebate Fund Principal Account pursuant to the Indenture shall be withdrawn from the Earnings Fund, to the extent of any moneys therein, and then, to the extent of any deficiency, from such fund or funds as are designated by the University to the Issuer and the Trustee in writing.

In the event that on the first day of any Bond Year the amount on deposit in the Rebate Fund Principal Account exceeds the Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Representative of the University, shall withdraw such excess amount and prior to the Completion Date, deposit it in the Project Fund or, after the Completion Date, deposit it in the Bond Fund.

The Trustee, upon the receipt of written instructions from an Authorized Representative of the University, shall pay to the United States, out of amounts in the Rebate Fund, (i) not later than thirty (30) days after the last day of the fifth Bond Year and after every fifth Bond Year thereafter, an amount equal to ninety percent (90%) of the balance, if any, in the Rebate Fund Principal Account and the total amount on the Rebate Fund Earnings Account as of the date of such payment and (ii) in accordance with the Indenture, not later than thirty (30) days after the date on which all Bonds have been paid in full, the balance in the Rebate Fund. (Section 4.09)

Investment of Moneys

Moneys held in any fund established by the Indenture (other than the Bond Fund) shall be invested and reinvested by the Trustee in Permitted Investments, pursuant to direction by the Authorized Representative of the University. Moneys held in the Bond Fund shall be invested and reinvested, pursuant to direction by the Authorized Representative of the University, only in Governmental Obligations maturing as needed. (Section 4.11)

Payment to University Upon Payment of the Bonds

Except as otherwise specifically provided in the Indenture, after payment in full of (1) the principal of, premium, if any, and interest on all the Bonds (or after provision for the payment thereof has been made in accordance with the Indenture), (2) the fees, charges and expenses of the Trustee and Paying Agent and (3) all other amounts required to be paid under the Indenture and the Loan Agreement, and provided that all moneys required to be paid into the Rebate Fund have been paid or adequately provided for, all amounts remaining in any fund established pursuant to the Indenture (except the Rebate Fund) or otherwise held by the Trustee and by any additional Paying Agent for the account of the Issuer or the University under the Indenture or the Loan Agreement shall be paid to the University. (Section 4.12)

Payments Due on Other Than Business Days

In any case where a Bond Payment Date shall not be a Business Day, then payment of the principal of, premium, if any, and interest on the Bonds need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date due and no interest shall accrue for the period after such date. (Section 5.14)

Priority Rights of Trustee

The rights and privileges of the University set forth in the Loan Agreement are specifically made subject and subordinate to the rights and privileges under the Financing Documents of the Trustee and the Holders of the Bonds. (Section 6.01)

Defeasance of Bonds

Any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of, and with the effect expressed in, the Indenture if: (i) there shall have been irrevocably deposited with the Trustee sufficient Defeasance Obligations, in accordance with the Indenture, which will, without further investment, be sufficient, together with other amounts held for such payment, to pay the principal of the Bonds when due or to redeem the Bonds at the Redemption Price, if any, in accordance with the Indenture (ii) in the event such Bonds are to be redeemed prior to maturity in accordance with the Indenture, all action required by the provisions of the Indenture to redeem the Bonds shall have been taken or provided for to the satisfaction of the Trustee, and notice thereof in accordance with the Indenture shall have been duly given or provisions satisfactory to the Trustee shall have been made for the giving of such notice, (iii) provision shall have been made for the payment of all fees and expenses of the Trustee and of any additional Paying Agents with respect to the Bonds, (iv) the Issuer shall have been reimbursed for all of its expenses under the Financing Documents and (v) all other payments required to be made under the Loan Agreement and the Indenture with respect to the Bonds shall have been made or provided for. At such time as a Bond shall be deemed to be paid, under the Indenture, as aforesaid, such Bond shall no longer be secured by or entitled to the benefit of the Indenture, except for the purposes of any such payment from such moneys or Defeasance Obligations.

For the purpose of the paragraph above, the Trustee shall be deemed to hold sufficient moneys to pay the principal of an Outstanding Bond not then due or to redeem Outstanding Bonds prior to the maturity thereof only if there shall be on deposit with the Trustee for such purpose Defeasance Obligations maturing or redeemable at the option of the holder thereof not later than (i) the maturity date of such Bonds, or (ii) the first date following the date on which such Bonds are to be redeemed pursuant to the Indenture (whichever may first occur), or both cash and such Defeasance Obligations, in an amount which, together with income to be earned on such Defeasance Obligations (without reinvestment) prior to such maturity date or Redemption Date, equals the principal due on such Bond, together with the premium, if any, due thereon and all interest thereon which has accrued and which will accrue to such maturity date or Redemption Date. In addition to the foregoing, the Issuer shall cause to be delivered to the Trustee, at the expense of the University, (i) a certificate or report from an Accountant verifying that the cash or Defeasance Obligations held by the Trustee meet the requirements under the

Indenture, (ii) an escrow deposit or other similar agreement ("Escrow Agreement"), (iii) an Opinion of Counsel to the effect that the Series 2011 Bonds are no longer Outstanding under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Bonds.

Upon the defeasance of all Outstanding Bond in accordance with the Indenture, the Trustee shall hold in trust, for the benefit of the Holders of such Bonds, all such moneys and/or Defeasance Obligations and shall make no other or different investment of such moneys and/or Defeasance Obligations and shall apply the proceeds thereof and the income therefrom only to the payment of such Bonds. (Section 7.02)

Events of Default

The following shall be "Events of Default" under the Indenture, and the terms "Event of Default" or "Default" shall mean, when they are used in the Indenture, any one or more of the following events:

(a) A default in the due and punctual payment of the interest on any Bond, irrespective of notice; or

(b) A default in the due and punctual payment of the principal or Redemption Price of any Bond, whether at the stated maturity thereof, upon proceedings for redemption thereof, or upon the maturity thereof by declaration or otherwise; or

(c) (i) Subject to clause (ii) below, the failure by the Issuer to observe and perform any covenant, condition or agreement under the Indenture on its part to be observed or performed (except obligations referred to in (a) and (b) above) for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Issuer and the University by the Trustee or by the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of Outstanding Bonds;

(ii) If the covenant, condition, or agreement which the Issuer has failed to observe or perform is of such a nature that it cannot reasonably be fully cured within such thirty (30) days, the Issuer shall not be in default if the Issuer commences a cure within such thirty (30) days and thereafter diligently proceeds with all action required to complete the cure, and, in any event, completes such cure within sixty (60) days of such written notice from the Trustee or the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Bonds Outstanding, unless the Trustee or the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Outstanding Bonds shall give their written consent to a longer period; or

(d) The occurrence and continuance of an "Event of Default" under the Loan Agreement. (Section 8.01)

Acceleration

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Outstanding Bonds shall, by written notice delivered to the Issuer and the University declare all Bonds Outstanding immediately due and payable, and such Bonds shall become immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding. (Section 8.02)

Enforcement of Remedies

In the event the Bonds are declared immediately due and payable, the Trustee may, and upon the written request of the Holders as set forth in the Indenture shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Act, the Bonds, the Indenture and the Loan Agreement by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem necessary or expedient. Upon the occurrence and continuance of any Event of Default, and upon being provided with the security and indemnity if so required pursuant to the Indenture, the Trustee shall exercise such of the rights and powers vested in the Trustee by the Indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

The Trustee may sue for, enforce payment of and receive any amounts due or becoming due from the Issuer or the University for the payment of the principal, premium, if any, and interest on the Outstanding Bonds under any of the provisions of the Indenture, the Bonds or the Loan Agreement without prejudice to any other right or remedy of the Trustee or of the Holders.

Notwithstanding anything to the contrary contained in the foregoing paragraph, upon the occurrence and continuance of any Event of Default the Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, on and interest on the Bonds then Outstanding and to enforce and compel the performance of the duties and obligations of the Issuer and the University under the Financing Documents.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than fifty-one percent (51%) in the aggregate principal amount of the Outstanding Bonds may, and if provided with the security and indemnity required under the Indenture shall, institute and maintain such suits and proceedings as it may be advised by such Holders shall be necessary or expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Indenture or of any resolution authorizing the Bonds, or to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders not making such request. (Section 8.03)

Application of Moneys

The Net Proceeds received by the Trustee pursuant to any right given or action taken under the provisions of and in accordance with the Indenture shall be deposited in the Bond Fund.

All moneys in the Bond Fund following the occurrence of an Event of Default shall be applied to the payment of the reasonable fees and expenses of the Issuer and the Trustee and then:

(i) Unless the principal of all the Bonds shall have become due or shall have been declared due and payable,

FIRST - To the payment of all installments of the interest then due, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or preference.

SECOND - To the payment of the unpaid principal or Redemption Price of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which such Bonds became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the Persons entitled thereto without any discrimination or preference.

THIRD - To the payment of the principal or Redemption Price of and interest on the Bonds as the same become due and payable.

(ii) If the principal of all the Bonds shall have become due by declaration or otherwise, to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon all of the Bonds, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest, to the Persons entitled thereto without discrimination or preference.

(iii) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture then, subject to the provisions of the Indenture, in the event that the principal of all the Bonds shall later become due by declaration or otherwise, the moneys shall be applied in accordance with the provisions of the Indenture. (Section 8.05)

Individual Holder Action Restricted

No Holder of any Bond shall have any right to institute any suit, action, or proceeding in equity or law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(i) an Event of Default has occurred of which the Trustee has been notified as provided in the Indenture or of which under the Indenture the Trustee is deemed to have notice; and

(ii) the Holders of at least fifty-one percent (51%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; and

(iii) such Holders shall have offered the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee shall have failed or refused to exercise the powers granted under the Indenture or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity.

No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right thereafter except in the manner provided in the Indenture and for the equal benefit of the Owners of all Bonds Outstanding. (Section 8.09)

Supplemental Indentures Not Requiring Consent of Holders

Without the consent of or notice to any of the Holders, the Issuer and the Trustee may enter into one or more Supplemental Indentures, not inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

(a) In connection with the issuance of Additional Bonds, to set forth such matters as are specifically required or permitted under the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;

(d) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer;

(e) To more precisely identify the Trust Estate;

(f) To subject to the Lien of the Indenture additional revenue, receipts, Property or collateral;

(g) To evidence the appointment of a successor Trustee;

(h) To preserve the tax-exempt status of the Bonds; or

(i) To effect any other change in the Indenture which, in the judgment of the Trustee is not to the prejudice of the Trustee or the Holders. (Section 10.01)

Supplemental Indentures Requiring Consent of Holders

Except as provided in the Indenture, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such Supplemental Indentures as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or in any Supplemental Indenture or in the Bonds; provided, however, that nothing contained in the Indenture shall permit: (i) a change in the terms of redemption or maturity of the principal or the time of payment of interest on any Outstanding Bond or a reduction in the principal amount of or premium, if any, on any Outstanding Bond or the rate of interest thereon, without the consent of the Holder of such Bond, or (ii) the creation of a Lien upon the Trust Estate ranking prior to or on a parity with the Lien created by the Indenture, without the consent of the Holder of all Outstanding Bonds, or (iii) the creation of a preference or priority of any Bond or Bonds over any other Bond or Bonds, without the consent of the Holder of all Outstanding Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, without the consent of the Holder of all Outstanding Bonds.

If at any time the Issuer shall request the Trustee to enter into a Supplemental Indenture for any of the purposes as provided in the Indenture, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice to be given as set forth in the Indenture; provided, however, that the failure to give such notice or any defect therein shall not affect the validity of any proceeding taken pursuant to the Indenture.

If the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof, as provided by the Indenture, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein or in any manner to question the propriety of the execution thereof or enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. (Section 10.02)

Amendments to Loan Agreement

Without the consent of or notice to the Holders, the Issuer and the University may enter into, and the Trustee may consent to, any amendment, change or modification of the Loan Agreement as may be required (i) by the provisions thereof or of the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission therein, (iii) for the purpose of issuing Additional Bonds under the Indenture; (iv) in connection with the description of the Facility, (v) in order to preserve the tax-exempt status of the Bonds or (vi) in connection with any other change therein, which, in the sole judgment of the Trustee based on an opinion of Independent Counsel, does not adversely affect the interests of the Trustee or the Holders. Except for amendments, changes or modifications as provided in the Indenture, neither the Issuer nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement without notice thereof being given to the Holders in the manner provided in the Indenture and the written approval or consent of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds procured and given in the manner set forth in the Indenture; provided, however, that no such amendment shall be permitted which changes the terms of payment under the Indenture without the consent of the Holders of all Outstanding Bonds. (Section 11.01)

Amendments to Tax Compliance Agreement

Without the consent of or notice to the Holders, the Issuer and the University may enter into, and the Trustee may consent to, any amendment, change or modification of the Tax Compliance Agreement as may be required (i) by the provisions thereof or of the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission therein, (iii) for the purpose of issuing Additional Bonds under the Indenture, (iv) in connection with the description of the Facility, (v) in order to preserve the tax-exempt status of the Bonds, or (vi) in connection with any other change therein, which, in the sole judgment of the Trustee based on an opinion of Independent Counsel, does not adversely affect the interests of the Trustee or the Holders. Except for amendments, changes or modifications as provided in the Indenture, neither the Issuer nor the Trustee shall consent to any amendment, change or modification of the Tax Compliance Agreement without notice thereof being given to the Holders in the manner provided in the Indenture and the written approval or consent of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds procured and given in the manner set forth in the Indenture; provided, however, that no such amendment shall be permitted which changes the terms of payment thereunder without the consent of the Holders of all Outstanding Bonds. (Section 11.03)

[END OF APPENDIX D]

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT AND PLEDGE AND ASSIGNMENT

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following description of certain provisions of the Loan Agreement is only a brief outline of some of the provisions thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Loan Agreement for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Completion by University.

The University unconditionally covenants and agrees under the Loan Agreement that it will complete the Project, or cause the Project to be completed, by the Completion Date, and that such completion will be effected in a workmanlike manner, using high-grade materials, free of defects in materials or workmanship (including latent defects), as applicable, and in accordance with the Loan Agreement and the Indenture. In the event that moneys in the Project Fund are not sufficient to pay the costs necessary to complete the Project in full, the University shall pay that portion of such costs of the Project as may be in excess of the moneys therefor in said Project Fund and shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or the Holders of any of the Bonds (except from the proceeds of Additional Bonds which may be issued for that purpose), nor shall the University be entitled to any diminution of the debt service payments payable or other payments to be made under the Loan Agreement. (Section 2.2)

Issuance of Series 2011 Bonds

On the Closing Date, the Trustee shall deposit the proceeds of the Series 2011 Bonds in the applicable account of the Project Fund (i) upon receipt of the Series 2011 Bonds and (ii) subject to the terms and conditions of the Indenture. Additional Bonds may be issued and purchased from time to time, as set forth in the Indenture on a pari passu basis with the Series 2011 Bonds. Each series of Additional Bonds shall be issued only for the purpose provided in the Supplemental Indenture executed in connection therewith.

The Issuer agrees to loan the proceeds of the Series 2011 Bonds to the University and the University agrees to pay to the Trustee the principal of and interest on the Series 2011 Bonds and all other amounts due under the Loan Agreement in accordance with the terms of the Loan Agreement, the Indenture and the Series 2011 Bonds. (Section 3.1)

Payment Provisions; Pledge of Loan Agreement.

The University covenants to make debt service payments for and in respect of the Series 2011 Bonds pursuant to the Loan Agreement, which the Issuer agrees shall be paid by the University directly to the Trustee on each Bond Payment Date for deposit in the Bond Fund in an amount equal to the sum of (i) with respect to interest due and payable on the Series 2011 Bonds, an amount equal to the interest next becoming due and payable on the Series 2011 Bonds on the immediately succeeding Interest Payment Date (less any amount available in the Project Fund for transfer to the Bond Fund), (ii) the principal amount of the Bonds then Outstanding which will become due on the immediately succeeding Interest Payment Date (whether at maturity or by redemption or acceleration as provided in the Indenture), and (iii) the principal of and redemption premium, if any, including sinking fund installments, on the Bonds to be redeemed which will become due on the immediately succeeding redemption date together with accrued interest to the date of redemption.

In addition, the University shall pay, as an additional payment, within fifteen (15) days after receipt of an invoice setting forth the nature and payee of each such expense and demand for payment therefor, the expenses payable by the Issuer to the Trustee pursuant to and under the Indenture (Section 3.2)

Obligation of University Unconditional.

The obligations of the University to pay debt service payments and all other payments provided for in the Loan Agreement and to maintain the Facility in accordance with the Loan Agreement constitute a general obligation of the University and shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Issuer, the Trustee or the Holder of any Series 2011 Bond and the obligation of the University shall arise whether or not the Project has been completed as provided in the Loan Agreement. (Section 3.3)

Alterations and Improvements.

During the term of the Loan Agreement, the University will keep the Facility in good and safe operating order and condition, ordinary wear and tear excepted, will occupy, use and operate the Facility in the manner for which it was designed and intended and contemplated by the Loan Agreement, and will make all replacements, renewals and repairs thereto (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen). (Section 4.1)

Taxes, Assessments and Charges.

The University shall pay, when the same shall become due, all taxes and assessments, general and specific, if any, levied and assessed upon or against the Facility, any estate or interest of the University in the Facility, or the payments under the Loan Agreement during the term of the Loan Agreement and all water and sewer charges, special district charges, assessments and other governmental charges and impositions whatsoever, foreseen or unforeseen, ordinary or extraordinary, under any present or future law, and charges for public or private utilities or other charges incurred in the occupancy, use, operation, maintenance or upkeep of the Facility. (Section 4.3)

Insurance.

At all times throughout the term of the Loan Agreement including, without limitation, during any period of construction or renovation of the Facility, the University, in accordance with the Loan Agreement, shall maintain insurance with insurance companies licensed to do business in the State (or authorized in the State under the Federal Liability Risk Retention Act), against such risks, loss, damage and liability (including liability to third parties) and for such amounts as are customarily insured against by other enterprises of like size and type as that of the University. (Section 4.4)

Damage, Destruction and Condemnation.

In the event that at any time during the term of the Loan Agreement, the whole or part of the Facility shall be damaged or destroyed, or the whole or any part of the Facility shall be taken or condemned by a competent authority for any public use or purpose, or by agreement between the Issuer and those authorized to exercise such right, or if the temporary use of the Facility or any part thereof shall be so taken by condemnation or agreement (a "Loss Event"): (i) the Issuer shall have no obligation to rebuild, replace, repair or restore the Facility, (ii) there shall be no abatement, postponement or reduction in the debt service payments or other amounts payable by the University under the Loan Agreement, and (iii) the University will promptly give written notice of such Loss Event to the Issuer and the Trustee, generally describing the nature and extent thereof.

Upon the occurrence of a Loss Event, any Net Proceeds derived therefrom shall be paid to the University and the University shall either: (i) at its own cost and expense (except to the extent paid from the Net Proceeds deposited in the Renewal Fund as provided in the Loan Agreement and the Indenture), promptly and diligently rebuild, replace, repair or restore the Facility to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, regardless of whether or not the Net Proceeds derived from the Loss Event shall be sufficient to pay the cost thereof, and the University shall not, by reason of payment of any such excess costs, be entitled to any reimbursement from the Issuer, the Trustee or any Bondholder, nor shall the debt service payments or other amounts payable by the University under the Loan Agreement be abated, postponed or reduced, or (ii) if, to the extent and upon the conditions permitted to do so under the Loan Agreement and under the Indenture, exercise its option to make advance debt service payments to redeem the Series 2011 Bonds in whole; provided, however, that, any Net Proceeds derived from a Loss Event affecting the Facility shall be paid to the Trustee and deposited in the Renewal Fund and the University shall elect to comply with either clause (i) or clause (ii) above.

Notwithstanding the foregoing, if all or substantially all of the Facility shall be taken or condemned, or if the taking or condemnation renders the Facility unsuitable for use by the University as contemplated by the Loan Agreement, the University shall exercise its option to terminate the Loan Agreement pursuant to the Loan Agreement, and the amount of the Net Proceeds so recovered shall be transferred from the Renewal Fund and deposited in the Bond

Fund, and the University shall thereupon pay to the Trustee for deposit in the Bond Fund an amount which, when added to any amounts then in the Bond Fund and available for that purpose, shall be sufficient to retire and redeem the Series 2011 Bonds in whole at the earliest possible date (including, without limitation, principal and interest to the maturity or redemption date and redemption premium, if any), and to pay the expenses of redemption, the fees and expenses of the Issuer, the Bond Registrar, the Trustee and the Paying Agent, together with all other amounts due under the Indenture and under the Loan Agreement, and such amount shall be applied, together with such other available moneys in such Bond Fund, if applicable, to such redemption or retirement of the Bonds on said redemption or maturity date.

The University shall be entitled to any insurance proceeds or condemnation award, compensation or damages attributable to improvements, machinery, equipment or other property installed on or about the Facility but which, at the time of such damage or taking, is not part of the Facility and is owned by the University. (Section 5.1)

Restrictions on University.

The University agrees that it will (i) maintain its existence, (ii) continue to operate as a not-for-profit organization and as an institution for higher education, (iii) obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the University as an institution for higher education providing such programs of instruction as it may from time to time determine, (iv) not dissolve or otherwise dispose of all or substantially all of its assets, unless otherwise permitted by the terms of the Loan Agreement and (v) not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it, unless otherwise permitted by the terms of the Loan Agreement. (Section 6.1)

Indemnity.

The University shall at all times protect and hold the Issuer, the Trustee, the Bond Registrar, the Paying Agent, and the Bondholders, and any of their respective directors, members, officers, employees, servants or agents (excluding for this purpose the University, which is not obligated by the Loan Agreement to indemnify its own employees or affiliate individuals) or any of such Persons and persons under the control or supervision of any of such Persons (collectively, the "Indemnified Parties") harmless of, from and against any and all claims (whether in tort, contract or otherwise), taxes (of any kind and by whomsoever imposed), demands, penalties, fines, liabilities, lawsuits, actions, proceedings, settlements, costs and expenses (collectively, "Claims") of any kind for losses, damage, injury and liability (collectively, "Liability") of every kind and nature and however caused (except, with respect to any Indemnified Party, Liability arising from the gross negligence or willful misconduct of such Indemnified Party), arising during the period commencing from the date the Issuer adopted the inducement resolution for the Project, and continuing throughout the term of the Loan Agreement and for the relevant statute of limitations thereafter for any Claim arising during such term (subject to the Loan Agreement), upon or about the Facility or resulting from, arising out of, or in any way connected with the events described in the Loan Agreement. (Section 6.2)

Financial Statements; No-Default Certificates; Other Information.

The University shall promptly notify the Issuer and the Trustee of the occurrence of any Event of Default or any event which with notice and/or lapse of time would constitute an Event of Default under any Financing Document of which it has knowledge. Any notice required to be given pursuant to this subsection shall be signed by an Authorized Representative of the University and set forth a description of the default and the steps, if any, being taken to cure said default. If no steps have been taken, the University shall state this fact on the notice. (Section 6.6)

Events of Default.

Any one or more of the following events shall constitute an "Event of Default" under the Loan Agreement: (a) failure of the University to pay any debt service payment that has become due and payable by the terms of the Loan Agreement which results in a default in the due and punctual payment of the principal of, redemption premium, if any, or interest on any Bond; (b) failure of the University to pay any amount (except as set forth in the Loan Agreement) that has become due and payable or to observe and perform any covenant, condition or agreement on its part to be performed under the Loan Agreement, and continuance of such failure for a period of thirty (30) days after receipt by the University of written notice from the Issuer, the Trustee, or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, specifying the nature of such default; (c) failure of the University to observe and perform any covenant, condition or agreement under the Loan Agreement on its part to be performed (except as set forth in the Loan Agreement) and (1) continuance of such failure for a period of thirty (30) days after receipt by the University of written notice specifying the nature of such default from the Issuer, the Trustee, or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, or (2) if by reason of the nature of such default the same can be remedied, but not within the said thirty (30) days, and the University fails to proceed with reasonable diligence after receipt of said notice to cure the same or fails to continue, with reasonable diligence, its efforts to cure the same; (d) the University shall: (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts generally become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the federal Bankruptcy Code (as now or in effect after the date of the Loan Agreement), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) take any action for the purpose of effecting any of the foregoing, or (vii) be adjudicated a bankrupt or insolvent by any court; (e) a proceeding or case shall be commenced, without the application or consent of the University, in any court of competent jurisdiction, seeking, (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (ii) the appointment of a trustee, receiver, liquidator, custodian or the like of the University or of all or any substantial part of its assets, (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing against the University shall be entered and continue unstayed and in effect, for a period of ninety (90) days or (iv) the University shall fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against itself in an involuntary case under such Bankruptcy Code; the terms "dissolution" or "liquidation" of the University as used above shall not be construed to prohibit any action otherwise permitted by the Loan Agreement; (f) any representation or warranty made (i) by or on behalf of the University in the application, commitment letter and related materials submitted to the Issuer or the initial purchaser(s) of the Series 2011 Bonds for approval of the Project or its financing, or (ii) by the University in the Loan Agreement or in any of the other Financing Documents or (iii) in the Bond Purchase Agreement, or (iv) in the Tax Compliance Agreement, or (v) in any report, certificate, financial statement or other instrument furnished pursuant to the Loan Agreement or any of the foregoing shall prove to be false, misleading or incorrect in any material respect as of the date made or (g) an "Event of Default" caused by the University under the Indenture or under any other Financing Document shall occur and be continuing. (Section 7.1)

Remedies on Default.

Whenever any Event of Default referred to in the Loan Agreement shall have occurred and be continuing, the Issuer, or the Trustee where so provided, may take any one or more of the following remedial steps:

(a) the Trustee, as and to the extent provided in the Indenture, may cause all principal installments of debt service payments payable under the Loan Agreement for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same, together with the accrued interest thereon, shall become immediately due and payable; *provided*, *however*, that, upon the occurrence of an Event of Default under the Loan Agreement, all principal installments of debt service payments payable under the Loan Agreement for the remainder of the term of the Loan Agreement, together with the accrued interest thereon, shall immediately become due and payable without any declaration, notice or other action of the Issuer, the Trustee, the Holders of the Bonds or any other Person being a condition to such acceleration;

(b) the Issuer, with the prior written consent of the Trustee, may terminate this Loan Agreement. No such termination of the Loan Agreement shall relieve the University of its liability and obligations under the Loan Agreement and such liability and obligations shall survive any such termination;

(c) the Issuer or the Trustee may take whatever action at law or in equity as may appear necessary or desirable to collect the debt service payments then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements or covenants of the University under the Loan Agreement;

(d) the Trustee may take any action permitted under the Indenture with respect to an Event of Default thereunder; and

(e) the Issuer, without the consent of the Trustee or any Bondholder, may proceed to enforce its Reserved Rights by bringing an action for damages, injunction or specific performance and the University under the Loan Agreement appoints the Issuer its true and lawful agent and attorney-in-fact (which appointment shall be deemed to be an agency coupled with an interest) with full power of substitution to file on its behalf all affidavits, questionnaires and other documentation necessary to accomplish such conveyance.

In the event that the University fails to make any debt service or other payment required in the Loan Agreement, the installment so in default shall continue as an obligation of the University until the amount in default shall have been fully paid. (Section 7.2)

Remedies Cumulative.

The rights and remedies of the Issuer or the Trustee under the Loan Agreement shall be cumulative and shall not exclude any other rights and remedies of the Issuer or the Trustee allowed by law with respect to any default under the Loan Agreement. (Section 7.4)

Options.

The University has the option to make advance debt service payments for the deposit in the Bond Fund to effect the retirement of the Bonds in whole or the redemption in whole or in part of the Bonds, all in accordance with the terms of the Indenture; *provided*, *however*, that, no partial redemption of the Bonds may be effected through advance debt service payments under the Loan Agreement if there shall exist and be continuing an Event of Default.

The University shall have the option to terminate the Loan Agreement on any date during the term of the Loan Agreement by causing the redemption, purchase or defeasance in whole of all Outstanding Bonds in accordance with the terms set forth in the Indenture. (Section 8.1)

Termination of Loan Agreement.

After full payment of the Bonds or provision for the payment in full thereof having been made in accordance with the Indenture and the payment of the fees and expenses of the Issuer, the Trustee, the Bond Registrar, and the Paying Agent and all other amounts due and payable under the Loan Agreement or the Indenture, together with any amounts required to be rebated to the federal government pursuant to the Indenture or the Tax Compliance Agreement, the Loan Agreement shall terminate, subject, however, to the survival of the obligations of the University under the Loan Agreement. (Section 8.4)

Assignment.

The University may not at any time, except as otherwise permitted pursuant to the Loan Agreement, assign or transfer the Loan Agreement, without the prior written consent of the Issuer, and the Trustee (which consents shall not be unreasonably withheld);provided, further, that, (1) the University shall nevertheless remain liable to the Issuer for the payment of all debt service payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of any other Financing Document to which it shall be a party, (2) any assignee or transferee of the University in whole of the Facility shall have assumed in writing and have agreed to keep and perform all of the terms of the Loan Agreement on the part of the University to be kept and performed, shall be jointly and severally liable with the University for the performance thereof, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State, (3) in the Opinion of Counsel addressed to the Issuer and Trustee, such assignment or transfer shall not legally impair in any respect the obligations of the University for the payment of all debt service payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement or of any other Financing Document to which the University shall be a party, nor impair or limit in any respect the obligations of any obligor under any other Financing Document, (4) any assignee or transferee shall be a Tax-Exempt Organization or, if not a Tax-Exempt Organization, upon receipt of an Opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee as to the non-includability in gross income of interest on the Bonds for purposes of federal income taxation, and shall utilize the Facility in compliance with the Act, (5) such assignment or transfer shall not violate any provision of the Loan Agreement, the Indenture or any other Financing Document, (6) such assignment or transfer shall in no way diminish or impair the University's obligation to carry the insurance required under the Loan Agreement and the University shall furnish written evidence satisfactory to the Issuer and the Trustee that such insurance coverage shall in no manner be limited by reason of such assignment or transfer, (7) each such assignment or transfer contains such other provisions as the Issuer or the Trustee may reasonably require, and (8) in the opinion of nationally recognized bond counsel, such assignment or transfer shall not cause the interest on the Bonds to be includable on gross income for federal income taxes. The University shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such assignment or transfer in substantially final form at least thirty (30) days prior to the date of execution thereof. (Section 9.3)

Amendments.

In accordance with the terms thereof, the Loan Agreement may be amended only with the concurring written consent of the Trustee given in accordance with the provisions of the Indenture. (Section 9.6)

Inspection of Facility.

The University will permit the Trustee, or its duly authorized agents, at all reasonable times during normal business hours upon written notice to enter upon the Facility and to examine and inspect the Facility and exercise their rights under the Loan Agreement, under the Indenture and under the other Financing Documents with respect to the Facility. (Section 9.10)

SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AND ASSIGNMENT

The following description of the Pledge and Assignment is only a brief outline thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Pledge and Assignment for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Pursuant to the Pledge and Assignment, the Issuer will grant to the Trustee a lien on and security interest in, and pledge, assign, transfer and set over to the Trustee all of the Issuer's right, title and interest in any and all moneys due or to become due to the Issuer and any and all other rights and remedies of the Issuer under or arising out of the Loan Agreement (except for Reserved Rights).

[END OF APPENDIX E]

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APPENDIX F

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the delivery of the Serise 2011 Bonds, Harris Beach PLLC, Bond Counsel to the Issuer, proposes to deliver its legal opinion in substantially the following form:

__________, 2011

Monroe County Industrial Development Corporation
8100 City Place
50 West Main Street
Rochester, New York 14614

Re: $161,660,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011 consisting of $122,340,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A and $39,320,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B

Ladies and Gentlemen:

We have examined the record of proceedings in connection with the issuance by the Monroe County Industrial Development Corporation (the "Issuer") of its $161,660,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011 consisting of the (i) $122,340,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A (the "Series 2011A Bonds") for the benefit of the University of Rochester (the "University") for the purpose of financing or refinancing the University Project (as defined below) and (ii) $39,320,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B (the "Series 2011B Bonds", and collectively with the Series 2011A Bonds, the "Bonds" or the "Series 2011 Bonds") for the benefit of the University for the purpose of financing or refinancing the Hospital Project (as defined below, and collectively with the University Project, the "Project"), and all located or to be located on the University's campuses located in the City of Rochester, New York, consisting of: (A) the main campus located at Wilson Boulevard (the "River Campus"); (B) the south campus located in part at 300 and 400 Kendrick Road (the "South Campus"); (C) the central utilities plant located at 390 Elmwood Avenue (the "Central Utilities Plant"); (D) the data center located at 350 Science Parkway (the "Data Center"); (E) the Eastman School of Music (the "ESM") located at 26 Gibbs Street and the Eastman Commons-Student Living Center located at 100 Gibbs Street (the "Eastman Commons", and collectively with the ESM, the "ESM Campus") and (F) the University's Strong Memorial Hospital (the "Hospital"), School of Medicine and Dentistry (the "SMD") and School of Nursing (the "SON"), each located at 601 Elmwood Avenue (collectively, the "Medical Center Campus", and together with the River Campus, the South Campus, the Central Utilities Plant, the Data Center and the ESM Campus, the "Campus"). The Bonds are authorized to be issued pursuant to (a) Section 1411 of the Not-for-Profit Corporation Law of the

State of New York, (b) Resolution No. 288 of 2009 of the Monroe County Legislature and Resolution No. 100 of 2010 of the Monroe County Legislature (collectively, the "County Resolution"), (c) a bond resolution (the "Bond Resolution") adopted by the members of the Issuer on August 9, 2011, for the purpose of providing funds to assist in the financing of the Project for the benefit of the University, a not-for-profit education corporation organized under the Laws of the State of New York, and (d) a certain Indenture of Trust, dated as of August 1, 2011 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee").

The University project (collectively, the "University Project") consists of: (A) (i) the University improvements (collectively, the "University Improvements") consisting of: (a) the River Campus improvements (collectively, the "River Campus Facility Improvements") consisting of: (1) the renovation, equipping and modernization of the Danforth Dining Center; (2) the construction and equipping of an approximately 18,000 square foot new five-story building to house the University's Digital Media Center and Fabrication Lab, together with ancillary and related site improvements, and the renovation, equipping and modernization of engineering laboratories; (3) the renovation, equipping and modernization of undergraduate laboratories and classroom space throughout the River Campus; (4) the renovation, equipping and modernization of the aquatics center and the Fieldhouse indoor track and the replacement of the Fauver Stadium field lighting; (5) the renovation, equipping and modernization of various office, administrative and laboratory facilities; (6) the construction and equipping of an approximately 53,000 square foot new five-story one hundred and forty-eight (148) bed undergraduate residence hall, together with ancillary and related site improvements; (7) the renovation, equipping and modernization of and/or life/fire safety upgrades to various undergraduate and graduate residential facilities (including the South Campus); (8) the renovation, equipping and modernization of Anderson and Wilder residence halls; (9) the deferred maintenance and renovation to buildings and facilities throughout the River Campus and (10) the construction and equipping of an approximately 65,000 square foot new four-story building (to be known as the Raymond F. LeChase Hall) to house the University's Warner School of Education, together with ancillary and related site improvements; (b) the Central Utilities Plant improvements (collectively, the "Central Utilities Plant Facility Improvements") consisting of the renovation, equipping and modernization of the Central Utilities Plant and the chilled water plant located near the SON building, including the expansion of the chiller capacity; (c) the Data Center improvements (collectively, the "Data Center Facility Improvements") consisting of the renovation, equipping and modernization of the Data Center including information technology infrastructure and equipment improvements and similar infrastructure and equipment improvements at the Medical Center Campus; (d) the ESM Campus improvements (collectively, the "ESM Campus Facility Improvements") consisting of the deferred maintenance and renovation to buildings and facilities throughout the ESM Campus; (e) the SON improvements (collectively, the "SON Facility Improvements") consisting of the renovation, equipping and modernization of various SON office, administrative and classroom facilities at Helen Wood Hall; (f) the Medical Center Campus infrastructure improvements (collectively, the "Storm Sewer Infrastructure Facility Improvements") consisting of the renovation, equipping and modernization of the Medical Center Campus storm sewer infrastructure connecting to Crittenden Boulevard including force main and detention tank improvements; (g) the SMD improvements (collectively, the "SMD Facility Improvements") consisting of the renovation, equipping and modernization of various SMD office, administrative and laboratory facilities; (h) a portion of the Cancer Center Vertical Expansion improvements (collectively, the "Cancer Center Vertical Expansion Facility Improvements") consisting of the construction and equipping of an approximately 95,000 square foot three and one-half story addition to the existing James P. Wilmot Cancer Center, together with ancillary and related site improvements and (i) the renovation, equipping and modernization of various buildings and facilities throughout the River Campus, the South Campus, the ESM Campus and the Medical Center Campus, and (ii) the acquisition and installation in and around the University Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "University Equipment", and together with the University Improvements, the "University Facility"); (B) the refunding of all or a portion of the Dormitory Authority of the State of New York ("DASNY") University of Rochester Revenue Bonds, Series 2001A (the "Series 2001A Bonds") issued for the benefit of the University, the proceeds of which were applied in part (i) to refund bonds previously issued by DASNY for the benefit of the University, the proceeds of which were used to finance the renovation and equipping on the River Campus of the Lovejoy, Dewey and Lattimore residence halls and the Administration Building; finance major repairs of buildings and improvements of building infrastructure at ESM and refinance the construction of the Eastman Commons and (ii) to refinance certain indebtedness of the University, the proceeds of which were used to finance the construction and equipping of Hill Court residence halls located on the River Campus and the construction and equipping of the Graduate Living Center located on the South Campus; (C) the funding of capitalized interest and (D) paying certain costs and expenses incidental to the issuance of the Series 2011A Bonds (the costs associated with items (A) through (D) above being hereinafter collectively referred to as the "Series 2011A Project Costs").

The Hospital project (collectively, the "Hospital Project") consists of: (A) (i) the construction and equipping of the portion of the Cancer Center Vertical Expansion Facility Improvements to be occupied by the Hospital, and the relocation of the Hospital's existing Bone Marrow Transplant Unit to a portion of the new sixth floor of the James P. Wilmot Cancer Center (collectively with the Cancer Center Vertical Expansion Facility Improvements, the "Cancer Center Facility Improvements"); (ii) the renovation, equipping and modernization of the Angiography Laboratory including the replacement of certain existing angiographic equipment (the "Angiography Lab Facility Improvements"); (iii) the replacement of the OR Air Handler equipment and related improvements (the "OR Handler Improvements", and collectively with the Cancer Center Facility Improvements and the Angiography Lab Facility Improvements, the "Hospital Improvements", and collectively with the University Improvements, the "Improvements") and (iv) the acquisition and installation in and around the Hospital Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Hospital Equipment", and collectively with the University Equipment, the "Equipment") (the Hospital Equipment and the Hospital Improvements collectively referred to as the "Hospital Facility", and collectively with the University Facility, the "Facility") and (B) paying certain costs and expenses incidental to the issuance of the Series 2011B Bonds (the costs associated with items (A) through (B) above being hereinafter collectively referred to as the "Series 2011B Project Costs", and collectively with the Series 2011A Project Costs, the "Project Costs").

All capitalized terms, not otherwise defined herein, shall have the meaning given such terms in the Indenture.

The Bonds are being purchased by J.P. Morgan Securities LLC and Barclays Capital Inc. (collectively, the "Underwriter"), pursuant to a certain Bond Purchase Contract, dated August 18, 2011, by and among the Issuer, the Underwriter, and the University (the "Bond Purchase Contract").

Under the terms of a certain Loan Agreement, dated as of August 1, 2011 (the "Loan Agreement"), between the Issuer and the University, the Issuer has loaned the proceeds of the Bonds to the University to finance a portion of the costs of the Project with the loan payments thereunder to be in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable and to make certain other payments with respect to the Bonds as described therein.

As security for the Bonds, the Issuer assigned to the Trustee all of its rights (except Reserved Rights, as defined in the Indenture) under the Loan Agreement, pursuant to the terms of a certain Pledge and Assignment, dated as of August 1, 2011, from the Issuer to the Trustee (the "Pledge and Assignment").

The Issuer and the University have executed and delivered a certain Tax Compliance Agreement, dated the date hereof (the "Tax Compliance Agreement"), in which the Issuer and the University have made certain representations and covenants, established certain conditions and limitations and created certain expectations, relating to compliance with the requirements imposed by the Internal Revenue Code of 1986, as amended, and regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code").

The Bonds are dated as of their date of issuance and bear interest from that date on the unpaid principal amount at the rates set forth in, and pursuant to the terms of, the Indenture and the Bonds. The Bonds are subject to prepayment or redemption prior to maturity, in whole or in part, at such time or times, or under such circumstances and in such manner as are set forth in the Bonds and the Indenture, respectively.

As Bond Counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of rendering the opinions set forth herein. In such examination, we have assumed the genuineness of all signatures, the authenticity and due execution of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have relied upon, and assumed the accuracy and truthfulness of, the aforesaid instruments, certificates and documents, without having conducted any independent investigation.

In rendering the opinions set forth below, we have relied upon the opinion of Nixon Peabody LLP, counsel to the University, of even date herewith, as to the matters set forth in each of such opinions without making any independent investigation of the factual basis therefor or the legal conclusions set forth therein.

Based upon and in reliance upon the foregoing, it is our opinion that:

(a) The Issuer is a local development corporation created pursuant to the Not-For-Profit Corporation Law of the State of New York and is duly organized and validly existing under the laws of the State.

(b) The Issuer is duly authorized and entitled by law and the County Resolution to issue, execute, sell and deliver the Bonds for the purpose of financing the Project and to execute and deliver the Financing Documents to which the Issuer is a party.

(c) The Bond Resolution has been duly and lawfully adopted by the Issuer, is in full force and effect, and is valid and legally binding upon the Issuer in accordance with its terms.

(d) The Bonds have been duly authorized, executed and delivered, have been duly issued for value by the Issuer and are valid and legally binding special obligations of the Issuer payable in accordance with their terms and are entitled to the benefit and security of the Indenture in accordance with its terms.

(e) The Bonds do not constitute a debt of Monroe County, New York or the State of New York, and neither Monroe County, New York nor the State of New York will be liable thereon.

(f) Under statutes, regulations, administrative rulings and court decisions existing as of the date hereof, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds held by certain corporations is, however, included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the federal alternative minimum tax imposed on such corporations. Corporate purchasers of the Bonds should consult their tax advisors regarding the computation of any alternative minimum tax.

The difference between the principal amount of the Series 2011B Bonds maturing July 1 in the years 2029, 2030, 2031 and 2035 (the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

All of the Series 2011A Bonds and the Series 2011B Bonds maturing July 1 in the years 2012 through and including 2028, and in the year 2041 (collectively, the "Premium Bonds") are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

(g) Under statutes existing as of the date hereof, interest on the Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof.

In rendering the opinion set forth in paragraph (f) above that interest on the Bonds is excluded from gross income for federal income tax purposes, we have relied upon, among other things, certain representations and covenants of the parties to this transaction, including those made by: (i) the Issuer in the Indenture, the Loan Agreement, the Tax Compliance Agreement and the General Certificate of the Issuer, dated the date hereof and (ii) the University in the Loan Agreement, the Tax Compliance Agreement and the General Certificate of the University, dated the date hereof. We call your attention to the fact that there are certain requirements contained in the Code with which the Issuer and the University must comply after the date of issuance of the Bonds in order for interest on the Bonds to be and remain excluded from gross income for federal income tax purposes. The Issuer, the University or any other Person, by failing to comply with such requirements, may cause interest on the Bonds to become includable in gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. We render no opinion as to any federal, state or local tax consequences with respect to the Bonds, or the interest thereon, if any change occurs or action is taken or omitted under the Indenture, the Loan Agreement or the Tax Compliance Agreement by the Issuer or the University, or under any other relevant documents without the advice or approval of, or upon the advice or approval of any Bond Counsel other than, Harris Beach PLLC.

Except for the opinions as set forth in paragraphs (f) and (g) above, we express no opinion regarding any other federal, state or local income tax consequences arising with respect to the purchase or ownership of the Bonds. Purchasers of the Bonds, including, without limitation, purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial companies or certain recipients of Social Security benefits or other federal retirement benefits are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Bond Resolution, the Bonds, any of the Financing Documents and any other document executed in connection therewith may be limited by any applicable bankruptcy, insolvency or other similar law or equitable principle now or hereafter enacted by the State of New York or the federal government or pronounced by a court having proper jurisdiction, affecting the enforcement of creditors' rights generally.

We express no opinion as to (i) the title to the Facility; (ii) the sufficiency of the description of the Facility in the Indenture, the Loan Agreement or any other document; or (iii) the perfection or priority of any liens, charges or encumbrances on the Facility. Further, we have not been requested to examine and have not examined any documents or information relating to the Issuer or the University other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial information, or the adequacy thereof, which has been or may be supplied to the Trustee, the initial purchaser of the Bonds or any other person.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. We express no opinion herein except as to the laws of the State of New York and the federal laws of the United States.

Very truly yours,

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MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION • TAX-EXEMPT REVENUE BONDS (UNIVERSITY OF ROCHESTER PROJECT), SERIES 2011A AND SERIES 2011B

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