NEW ISSUE
Full Book-Entry

Moody's "Aa3"
Standard & Poor's "AA-"
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 2017 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 2017 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 2017 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 law, for so long as interest on the Series 2017 Bonds is and remains excluded from gross income for federal income tax purposes, such interest 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.

$255,610,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2017

$159,485,000 Series 2017A (Tax-Exempt)	$96,125,000 Series 2017B (Tax-Exempt)

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 2017A (the "Series 2017A Bonds") and the Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017B (the "Series 2017B Bonds" and, together with the Series 2017A Bonds, the "Series 2017 Bonds") will be issued pursuant to an Indenture of Trust, dated as of April 1, 2017 (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 April 1, 2017 (the "Loan Agreement"), by and between the Issuer and the 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 2017 Bonds as such payments become due. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS" herein.

The Series 2017 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as described herein under the heading "THE SERIES 2017 BONDS — Redemption and Purchase in Lieu of Redemption Prior to Maturity."

The proceeds of the sale of the Series 2017A Bonds, together with other available funds of the University, will be used to (i) finance the Series 2017A Facility (as defined herein), (ii) refund the Refunded DASNY 2007A-2 Bonds, the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds, the Refunded DASNY 2009E Bonds and the Refunded Series 2011A Bonds (each as defined herein), (iii) finance the payment of capitalized interest on a portion of the Series 2017A Bonds and (iv) pay certain costs of issuance of the Series 2017A Bonds. The proceeds of the sale of the Series 2017B Bonds, together with other available funds of the University, will be used to (i) finance the Series 2017B Facility (as defined herein), (ii) refund the Refunded DASNY 2007C Bonds, the Refunded DASNY 2009C Bonds and the Refunded Series 2011B Bonds, (iii) finance the payment of capitalized interest on a portion of the Series 2017B Bonds and (iv) pay certain costs of issuance of the Series 2017B Bonds. See "THE PROJECT" herein.

The Series 2017 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 2017 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 2017 Bonds. Interest on the Series 2017 Bonds will be payable on July 1, 2017, and semi-annually thereafter on January 1 and July 1 in each year until maturity.

The Series 2017 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 2017 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 2017 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, Bond, Schoeneck & King, PLLC, 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, Katten Muchin Rosenman LLP, New York, New York. It is anticipated that the Series 2017 Bonds will be available for delivery in New York, New York, or as may be agreed upon, on or about April 5, 2017.

J.P. Morgan **Barclays** **Morgan Stanley**

March 17, 2017

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

$159,485,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2017A

Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†	Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2018	$1,660,000	5.000%	1.000%	61075TPD4	2028	$10,120,000	5.000%	2.950%(1)	61075TPP7
2019	1,220,000	5.000	1.210	61075TPE2	2029	10,630,000	5.000	3.030(1)	61075TPQ5
2020	4,075,000	5.000	1.500	61075TPF9	2030	11,160,000	5.000	3.100(1)	61075TPR3
2021	4,280,000	5.000	1.720	61075TPG7	2031	11,720,000	5.000	3.170(1)	61075TPS1
2022	4,495,000	5.000	1.960	61075TPH5	2032	5,930,000	5.000	3.220(1)	61075TPT9
2023	9,100,000	5.000	2.180	61075TPJ1	2033	5,480,000	5.000	3.290(1)	61075TPU6
2024	9,585,000	5.000	2.390	61075TPK8	2034	5,750,000	5.000	3.350(1)	61075TPV4
2025	10,055,000	5.000	2.600	61075TPL6	2035	6,040,000	5.000	3.400(1)	61075TPW2
2026	10,550,000	5.000	2.730	61075TPM4	2036	6,330,000	5.000	3.440(1)	61075TPX0
2027	9,720,000	5.000	2.840	61075TPN2	2037	6,660,000	5.000	3.460(1)	61075TPY8

$13,855,000 3.875% Term Bond Due July 1, 2042 Priced at 98.804% to Yield 3.950% CUSIP Number 61075TPZ5 †

$1,070,000 3.875% Term Bond Due July 1, 2047 Priced at 98.331% to Yield 3.970% CUSIP Number 61075TQA9†

$96,125,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2017B

Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†	Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2018	$1,715,000	5.000%	1.000%	61075TQB7	2028	$2,760,000	5.000%	2.950%(1)	61075TQM3
2019	4,670,000	5.000	1.210	61075TQC5	2029	1,575,000	5.000	3.030(1)	61075TQN1
2020	6,485,000	5.000	1.500	61075TQD3	2030	1,660,000	5.000	3.100(1)	61075TQP6
2021	6,790,000	5.000	1.720	61075TQE1	2031	1,740,000	5.000	3.170(1)	61075TQQ4
2022	6,005,000	5.000	1.960	61075TQF8	2032	1,825,000	3.375	3.600	61075TQR2
2023	7,415,000	5.000	2.180	61075TQG6	2033	1,885,000	3.500	3.640	61075TQS0
2024	7,780,000	5.000	2.390	61075TQH4	2034	1,950,000	3.500	3.700	61075TQT8
2025	8,155,000	5.000	2.600	61075TQJ0	2035	4,030,000	3.625	3.760	61075TQU5
2026	8,565,000	5.000	2.730	61075TQK7	2036	4,175,000	3.625	3.840	61075TQV3
2027	8,085,000	5.000	2.840	61075TQL5	2037	4,315,000	3.750	3.860	61075TQW1

$4,545,000 3.750% Term Bond Due July 1, 2039 Priced at 98.070% to Yield 3.880% CUSIP Number 61075TQX9†

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(1) Priced at the stated yield to the July 1, 2027 optional redemption date at a Redemption Price equal to 100% of the principal amount of the Series 2017A Bonds or the Series 2017B Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the redemption date.

† 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 pages 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 2017 Bonds and no representation is made as to the correctness of the CUSIP numbers printed above. CUSIP numbers assigned to the Series 2017 Bonds may be changed during the term of the Series 2017 Bonds based on a number of factors including but not limited to the refunding or defeasance in whole or in part of such Series 2017 Bonds or the use of secondary market financial products applicable to all or a portion of the Series 2017 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 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 2017 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 2017 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 2017 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 (except for the statements under the caption "UNDERWRITING"). 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 2017 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, as amended, 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

$255,610,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
REVENUE BONDS
(UNIVERSITY OF ROCHESTER PROJECT), SERIES 2017

$159,485,000 **Series 2017A** **(Tax-Exempt)**	**$96,125,000** **Series 2017B** **(Tax-Exempt)**

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 $159,485,000 aggregate principal amount of Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017A (the "Series 2017A Bonds") and $96,125,000 aggregate principal amount of Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017B (the "Series 2017B Bonds" and, together with the Series 2017A Bonds, the "Series 2017 Bonds"). The following is a brief description of certain information concerning the Series 2017 Bonds, the Issuer and the University of Rochester (the "University"). A more complete description of such information and additional information that may affect decisions to invest in the Series 2017 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 2017A Bonds, together with other available funds of the University, will be used to (i) finance the Series 2017A Facility (as defined herein), (ii) refund the Refunded DASNY 2007A-2 Bonds, the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds, the Refunded 2009E Bonds and the Refunded Series 2011A Bonds (each as defined herein) and (iii) fund capitalized interest on a portion of the Series 2017A Bonds and pay certain costs of issuance of the Series 2017A Bonds. The proceeds of the sale of the Series 2017B Bonds, together with other available funds of the University, will be used to (i) finance the Series 2017B Facility (as defined herein), (ii) refund the Refunded DASNY 2007C Bonds, the Refunded DASNY 2009C Bonds and the Refunded Series 2011B Bonds (each as defined herein) and (iii) fund capitalized interest on a portion of the Series 2017B Bonds and pay certain costs of issuance of the Series 2017B Bonds. See "THE PROJECT" herein.

Authorization of the Series 2017 Bonds

The Series 2017 Bonds are authorized to be issued pursuant to a resolution of the Issuer adopted on March 8, 2017 (the "Resolution"). The Series 2017 Bonds will be issued under an Indenture of Trust, dated as of April 1, 2017 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). See "THE SERIES 2017 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 830 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 2017 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 2017 BONDS SOLELY FROM THE TRUST ESTATE UNDER THE TERMS OF THE INDENTURE AND AVAILABLE FOR SUCH PAYMENT. THE SERIES 2017 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 2017 BONDS SHALL NOT BE PAYABLE FROM ANY OTHER FUNDS OF THE ISSUER. THE ISSUER HAS NO TAXING POWERS.

General

The Series 2017 Bonds will be issued as "book-entry-only" obligations to be held by The Depository Trust Company, as depository for the Series 2017 Bonds. See "THE SERIES 2017 BONDS – Book-Entry Only System" herein.

The Series 2017 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 2017 Bonds are special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2017 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 April 1, 2017 (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 2017 Bonds. The aforementioned revenues consist of the payments required to be made by the University under the Loan Agreement with respect to the Series 2017 Bonds on account of the principal and Redemption Price of and interest on the Series 2017 Bonds.

To secure the Series 2017 Bonds, the Issuer will execute and deliver to the Trustee a Pledge and Assignment with an acknowledgement thereof by the University, dated as of April 1, 2017, 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 2017 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 2017 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 2017 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 2017 BONDS

Authorization

The Series 2017 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 the Resolution.

General

The Series 2017 Bonds will mature on July 1 of the years and in the amounts shown on the inside cover pages hereof. The Series 2017 Bonds will be dated the date of their delivery and will bear interest from such date. Interest on the Series 2017 Bonds will be payable on July 1, 2017, and semi-annually thereafter on each January 1 and July 1 (each a "Bond Payment Date") at the rates per annum set forth on the inside cover pages hereof. The Series 2017 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 2017 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 2017 Bonds. Purchasers will not receive certificates representing their interest in the Series 2017 Bonds. See "Book-Entry Only System" below.

Subject to the provisions of the Indenture, the principal of and premium, if any, on the Series 2017 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 2017 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 2017 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 2017 Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. Payment of interest on the Series 2017 Bonds will be made by (i) check or draft mailed to the address of the Person in whose name such Series 2017 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 2017 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 2017 Bonds maturing after July 1, 2027 are subject to redemption by the Issuer at the option of the University on or after July 1, 2027, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount of the Series 2017 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the Redemption Date.

The Trustee will call Series 2017 Bonds for redemption 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 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 2017 Bonds so to be called for redemption, and (ii) the applicable Redemption Price.

Mandatory Sinking Fund Redemption Without Premium.

The Series 2017A Bonds maturing on July 1, 2042 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
July 1, 2038	$5,025,000
July 1, 2039	5,215,000
July 1, 2040	175,000
July 1, 2041	3,250,000
July 1, 2042	190,000*

* Stated maturity.

The Series 2017A Bonds maturing on July 1, 2047 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
July 1, 2043	$195,000
July 1, 2044	205,000
July 1, 2045	215,000
July 1, 2046	225,000
July 1, 2047	230,000*

* Stated maturity.

The Series 2017B Bonds maturing on July 1, 2039 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
July 1, 2038	$2,230,000
July 1, 2039	2,315,000*

* Stated maturity.

Special Redemption. The Series 2017 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 2017 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 2017 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 2017 Bonds are called for redemption in whole or in part pursuant to the terms of the Indenture, such Series 2017 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 such Series 2017 Bonds called for redemption or for such lesser portion of such Series 2017 Bonds in authorized denominations of $5,000 or any integral multiple of $5,000 in excess thereof. The University may direct the Trustee to purchase all or such lesser portion of the Series 2017 Bonds so called for redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all of the Series 2017 Bonds called for redemption are to be purchased or, if less than all of the Series 2017 Bonds called for redemption are to be purchased, identify those Series 2017 Bonds to be purchased in authorized denominations; 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 2017 Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Series 2017 Bonds in the name of the Issuer stating: (1) the Series 2017 Bonds to be redeemed; (2) the Redemption Date; (3) that such Series 2017 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 2017 Bond to be redeemed the Redemption Price thereof (except in the case of a mandatory sinking fund redemption of Series 2017 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); 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 2017 Bonds. With respect to any redemption exercised at the option of the University as provided in the Indenture, notice of such redemption shall state that the redemption is conditioned upon receipt by the Trustee, on or before the Redemption Date, of monies sufficient, together with any other monies held by the Trustee and available therefor to pay the Redemption Price of the Series 2017 Bonds to be redeemed on the Redemption Date and that, absent such receipt by the Trustee, such notice shall be of no force or effect and such Series 2017 Bonds shall not be required to be redeemed.

Partial Redemption of Series 2017 Bonds

Upon surrender of any Series 2017 Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder thereof a new Series 2017 Bond or Series 2017 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2017 Bond surrendered.

Selection of Bonds for Redemption

If less than all of the Series 2017 Bonds are to be redeemed, the Series 2017 Bonds 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 2017 Bonds, payment of interest and other payments on the Series 2017 Bonds to DTC Participants or Beneficial Owners of the Series 2017 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2017 Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2017 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 2017 Bonds. The Series 2017 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 2017 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, as amended. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its

Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Series 2017 Bonds. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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. Except as otherwise provided herein, if less than all of the Series 2017 Bonds within a maturity of the Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OF THE SERIES 2017 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2017 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 2017 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 2017 Bonds, debt service on other outstanding indebtedness of the University and the total debt service on all indebtedness of the University, including the Series 2017 Bonds.

	Series 2017 Bonds				
12-Month Period Ending June 30,[1]	Principal Payments	Interest Payments[2]	Total Debt Service on Series 2017 Bonds[2]	Debt Service on Other Outstanding Indebtedness[3]	Total Debt Service[2][3]
2017	$0	$2,938,774	$2,938,774	$92,464,172	$95,402,945
2018	3,375,000	12,301,844	15,676,844	92,730,060	108,406,903
2019	5,890,000	12,133,094	18,023,094	89,707,436	107,730,529
2020	10,560,000	11,838,594	22,398,594	82,960,897	105,359,491
2021	11,070,000	11,310,594	22,380,594	82,045,650	104,426,244
2022	10,500,000	10,757,094	21,257,094	75,814,956	97,072,049
2023	16,515,000	10,232,094	26,747,094	64,998,284	91,745,378
2024	17,365,000	9,406,344	26,771,344	70,446,822	97,218,166
2025	18,210,000	8,538,094	26,748,094	67,602,816	94,350,910
2026	19,115,000	7,627,594	26,742,594	60,217,507	86,960,101
2027	17,805,000	6,671,844	24,476,844	59,655,947	84,132,791
2028	12,880,000	5,781,594	18,661,594	54,915,153	73,576,746
2029	12,205,000	5,137,594	17,342,594	54,109,965	71,452,559
2030	12,820,000	4,527,344	17,347,344	53,996,083	71,343,426
2031	13,460,000	3,886,344	17,346,344	53,729,601	71,075,945
2032	7,755,000	3,213,344	10,968,344	52,740,242	63,708,586
2033	7,365,000	2,855,250	10,220,250	52,640,035	62,860,285
2034	7,700,000	2,515,275	10,215,275	40,653,317	50,868,592
2035	10,070,000	2,159,525	12,229,525	37,965,228	50,194,753
2036	10,505,000	1,711,438	12,216,438	36,340,697	48,557,135
2037	10,975,000	1,243,594	12,218,594	33,691,850	45,910,444
2038	7,255,000	748,781	8,003,781	30,220,786	38,224,567
2039	7,530,000	470,438	8,000,438	29,731,970	37,732,407
2040	175,000	181,544	356,544	21,371,409	21,727,953
2041	3,250,000	174,763	3,424,763	17,434,550	20,859,312
2042	190,000	48,825	238,825	14,984,123	15,222,948
2043	195,000	41,463	236,463	14,969,292	15,205,755
2044	205,000	33,906	238,906	5,003,552	5,242,459
2045	215,000	25,963	240,963	4,998,056	5,239,019
2046	225,000	17,631	242,631	1,883,053	2,125,684
2047	230,000	8,913	238,913	0	238,913
2048	0	0	0	0	0

(1) Payments to be made on July 1 of each year are deemed to be payable on June 30 of the immediately preceding year.

(2) Figures include debt service on the Series 2017 Bonds to be paid from capitalized interest.

(3) Certain University indebtedness is assumed to bear interest at its fixed swap rate. Figures do not include debt service on the maturities of the Refunded Bonds expected to be redeemed with a portion of the proceeds of the Series 2017 Bonds.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS

Payment of the Series 2017 Bonds

The Series 2017 Bonds will be special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2017 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 2017 Bonds. The aforementioned revenues consist of the payments required to be made by the University under the Loan Agreement with respect to the Series 2017 Bonds on account of the principal, Redemption Price of and interest on the Series 2017 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 2017 Bonds

The Series 2017 Bonds will be secured by (1) all moneys and securities held from time to time by the Trustee for the Owners of the Series 2017 Bonds pursuant to the Indenture, including all Series 2017 Bond proceeds prior to disbursement pursuant to the terms of such Indenture (excluding monies held for the redemption of the Series 2017 Bonds, notice of the redemption of which has been given, or 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 2017 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 2017 Bonds are special and limited obligations of the Issuer, payable solely as provided in the Indenture.

THE SERIES 2017 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

Pursuant to the Resolution, the Issuer determined to issue the Series 2017A Bonds for the benefit of the University for the purpose of financing, refinancing and/or reimbursing the Series 2017A Project (as defined below) and the Series 2017B Bonds for the benefit of the University for the purpose of financing, refinancing and/or reimbursing the Series 2017B Project (as defined below, and collectively with the Series 2017A Project, the "Project"), and all located or to be located on the University's campuses or facilities located in in the City of Rochester, New York (except as noted below), consisting of: (A) the main campus located at Wilson Boulevard (the "River Campus"); (B) the south campus located at 250 East River Road in the Town of Brighton, New York and 300 and 400 Kendrick Road (collectively, the "South Campus"); (C) the central utilities plant located at 390 Elmwood Avenue (the "Central Utilities Plant"); (D) the University's Memorial Art Gallery located at 500 University Ave (the "Memorial Art Gallery"); (E) the Eastman School of Music located at 26 Gibbs Street ("ESM"), Messinger Hall located at 10 Gibbs Street ("Messinger Hall"), Miller Center located at 389 E. Main Street ("Miller Center") and Eastman Commons located at 100 Gibbs Street ("Eastman Commons", and together with ESM, Messinger Hall and Miller Center, the "ESM Campus"); (F) the University's Strong Memorial Hospital located at 601 Elmwood Avenue and URMC Strong West located at 156 West Avenue in the Village of Brockport/Town of Sweden, New York (collectively, the "Hospital"); (G) School of Medicine and Dentistry located at 601 Elmwood Avenue ("SMD"); and (H) Eastman Institute for Oral Health located at 625 Elmwood Avenue ("EIOH", and collectively with the Hospital and SMD, the "Medical Center Campus"; the Medical Center Campus, the River Campus, the South Campus, the Central Utilities Plant, the Memorial Art Gallery and the ESM Campus collectively referred to as the "Campus").

The Series 2017A Project

The proceeds of the sale of the Series 2017A Bonds will be used to: (A) finance (i) the Series 2017A improvements (collectively, the "Series 2017A Improvements") consisting of: (a) the River Campus improvements (collectively, the "River Campus Facility Improvements") consisting of: (1) the construction and equipping of an approximately 75,000 square foot new seven-story one hundred and fifty (150) bed undergraduate residence hall and athletic space, together with ancillary and related site improvements; (2) the renovation, equipping and modernization of various office, classroom and laboratory facilities throughout the River Campus including, but not limited to, Lattimore Hall, Bausch & Lomb Hall, Morey Hall, Dewey Hall, Meliora Hall, Rush Rhees Library, Gavett Hall, Hopeman Engineering Building, Hutchison Hall, Hylan Building, Computer Studies Building, Goergen Hall for Biomedical Engineering, Rettner Hall and Harkness Hall; (3) the renovation, equipping and modernization of the concourse, press box and fencing of Fauver Stadium, together with ancillary and related site improvements; (4) the designing of up to an approximately 32,000 square-foot two-story to four-story addition to Hutchison Hall, to house additional science building space, together with ancillary and related site improvements; (5) the renovation, equipping and modernization of various classroom facilities at Rush Rhees Library relating to the Writing, Speaking and Argument Program; (6) the renovation, equipping and modernization of various classroom facilities including, but not limited to, Computer Studies Building and Rettner Hall, relating to the Audio and Music Engineering Program; (7) the renovation, equipping and modernization of various office and classroom facilities at the Simon Business School, including, but not limited to, Schlegel Hall and Carol G. Simon Hall; and (8) the deferred maintenance and replacement, renovation and modernization (including, but not limited to, the installation of replacement windows and elevators) of various buildings and facilities throughout the River Campus (including, but not limited to, Strong Auditorium, Wilson Commons, Todd Union, Fraternity Quadrangle) and undergraduate and graduate residential buildings located on the River Campus and South Campus; (b) the central utilities infrastructure improvements consisting of the replacement, renovation, equipping and modernization of various central utilities critical equipment including, but not limited to, chillers, building automation panels, cabling, hot water furnaces/pumps, chilled water distribution main lines and electrical transformers, and related infrastructure upgrades located in various buildings and facilities throughout the River Campus (including, but not limited to, Spurrier Hall, Fauver Stadium and Goergen Athletic Center), the South Campus and the Medical Center Campus; (c) the ESM Campus improvements (collectively, the "ESM Campus Facility Improvements") consisting of the deferred maintenance and renovation, equipping and modernization of various classroom facilities and practice rooms throughout the ESM Campus (including, Messinger Hall, Eastman Commons, Miller Center, Eastman Theatre, East Wing, Eastman School of Music, Old Sibley Library, Annex and East End Garage and (d) the deferred maintenance and renovation, equipping and modernization of various buildings and facilities throughout the Campus; and (ii) the acquisition and installation in and around the Series 2017A Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Series 2017A Equipment", and together with the Series 2017A Improvements, the "Series 2017A Facility"); (B) refund certain maturities of the Dormitory Authority of the State of New York ("DASNY") University of Rochester Revenue Bonds, Series 2007A-2 (the "Refunded DASNY 2007A-2 Bonds"); (C) refund a portion of all maturities of the DASNY University of Rochester Revenue Bonds, Series 2009A (the "Refunded DASNY 2009A Bonds"); (D) refund a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009B (the "Refunded DASNY 2009B Bonds"); (E) refund a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009E (the "Refunded DASNY 2009E Bonds"); (F) refund all or a portion of certain maturities of the Issuer's Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A (the "Refunded Series 2011A Bonds"); (G) fund capitalized interest on a portion of the Series 2017A Bonds and (H) pay certain costs and expenses incidental to the issuance of the Series 2017A Bonds (the costs associated with items (A) through (H) above being hereinafter collectively referred to as the "Series 2017A Project Costs").

The Series 2017B Project

The proceeds of the sale of the Series 2017B Bonds will be used to: (A) finance (i) the renovation, equipping and modernization of the Pediatric Intensive Care Unit and operating rooms within Golisano Children's Hospital adjacent to Strong Memorial Hospital (collectively, the "Children's Hospital Facility Improvements"); (ii) the renovation, equipping and modernization of various clinic and office facilities located throughout EIOH (collectively, the "EIOH Improvements"); (iii) the Strong Memorial Hospital improvements (collectively, the "Strong Memorial Hospital Facility Improvements", and collectively with the Children's Hospital Facility Improvements and the EIOH Improvements, the "Series 2017B Improvements", and collectively with the Series 2017A Improvements, the "Improvements")) consisting of the replacement, renovation, equipping and modernization of various buildings and facilities throughout Strong Memorial Hospital and (iv) the acquisition and installation in and around the Series 2017B Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Series 2017B Equipment", and collectively with the Series 2017A Equipment, the "Equipment") (the Series 2017B Equipment and the Series 2017B Improvements collectively referred to as the "Series 2017B Facility", and collectively with the Series 2017A Facility, the "Facility"); (B) refund certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2007C (the "Refunded DASNY 2007C Bonds", and collectively with the Refunded DASNY 2007A-2 Bonds, the "Refunded DASNY 2007 Bonds"); (C) refund a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009C (the "Refunded DASNY 2009C Bonds", and collectively with the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds and the Refunded DASNY 2009E Bonds, the "Refunded DASNY 2009 Bonds"); (D) refund certain maturities of the Issuer's Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011B (the "Refunded

Series 2011B Bonds", and collectively with the Refunded Series 2011A Bonds, the "Refunded Series 2011 Bonds", and collectively with the Refunded DASNY 2007 Bonds and the Refunded DASNY 2009 Bonds, the "Refunded Bonds"); (E) fund capitalized interest on a portion of the Series 2017B Bonds and (F) pay certain costs and expenses incidental to the issuance of the Series 2017B Bonds (the costs associated with items (A) through (F) above being hereinafter collectively referred to as the "Series 2017B Project Costs", and collectively with the Series 2017A Project Costs, the "Project Costs").

THE REFUNDING PLAN

Upon the issuance and delivery of the Series 2017A Bonds, portions of the proceeds thereof, together with other available funds of the University, will be deposited with the respective trustee for the Refunded DASNY 2007A-2 Bonds, the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds, the Refunded 2009E Bonds and the Refunded Series 2011A Bonds and will be held in trust by such trustee solely for the payment of the redemption price of and interest on the Refunded DASNY 2007A-2 Bonds, the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds, the Refunded 2009E Bonds and the Refunded Series 2011A Bonds.

Upon the issuance and delivery of the Series 2017B Bonds, portions of the proceeds thereof, together with other available funds of the University, will be deposited with the respective trustee for the Refunded DASNY 2007C Bonds, the Refunded DASNY 2009C Bonds and the Refunded Series 2011B Bonds and will be held in trust by such trustee solely for the payment of the redemption price of and interest on the Refunded DASNY 2007C Bonds, the Refunded DASNY 2009C Bonds and the Refunded Series 2011B Bonds.

At the time of such deposits, the respective issuers will give the respective trustees irrevocable instructions to, among other things, give notice of the refunding of the respective Defeased Refunded Bonds (as defined below) and to apply the proceeds on deposit to the payment of the maturing principal or redemption price of and interest on the respective Defeased Refunded Bonds on the respective maturity or redemption dates.

In the opinion of the respective defeasance counsel for each of the Refunded DASNY 2007A-2 Bonds, the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds, the Refunded 2009E Bonds, the Refunded Series 2011A Bonds, the Refunded DASNY 2007C Bonds, the Refunded DASNY 2009C Bonds and the Refunded Series 2011B Bonds (collectively, the “Defeased Refunded Bonds”), upon making such deposits with the respective trustees and the issuance of certain irrevocable instructions to such trustees, such respective Defeased Refunded Bonds will, under the terms of the respective resolutions or indentures under which they were issued, be deemed to have been paid and will no longer be outstanding and the pledge of the revenues or other moneys and securities pledged to such respective Defeased Refunded Bonds and all other rights granted by such resolutions or indentures to such respective Defeased Refunded Bonds shall be discharged and satisfied. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

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SOURCES AND USES OF BOND PROCEEDS

Proceeds of the Series 2017 Bonds are to be applied as follows:

Sources of Funds:	Series 2017A Bonds	Series 2017B Bonds
Par Amount of the Series 2017 Bonds	$159,485,000	$96,125,000
Net Original Issue Premium	22,869,731	10,959,813
Total Sources of Funds	$182,354,731	$107,084,813
Uses of Funds:		
Deposit to the Project Fund	$40,500,000	$31,600,000
Transfer to the respective Refunding Escrows	140,154,482	74,028,351
Deposit to the Capitalized Interest Subaccount of the Project Fund(1)	425,940	716,516
Estimated Costs of Issuance(2)	1,274,309	739,946
Total Uses of Funds	$182,354,731	$107,084,813

(1) Capitalized interest is expected to pay a portion of the interest payments of (a) the Series 2017A Bonds prior to completion of the Series 2017A Improvements and (b) the Series 2017B Bonds prior to completion of the Series 2017B Improvements.

(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 2017 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 2017 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 2017 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 under 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 2017 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 85% 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 2017 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 2017A Bonds and the Series 2017B Bonds and defaults in covenants regarding the Series 2017A Bonds and Series 2017B 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 2017A Bonds or the Series 2017B Bonds, nor would it cause a change in the interest rates on the Series 2017A Bonds or the Series 2017B 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 2017 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 2017 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 2017 Bonds

There can be no assurance that there will be a secondary market for purchase or sale of the Series 2017 Bonds. From time to time there may be no market for the Series 2017 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 2017 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 180 days after the close of its fiscal year in each year commencing June 30, 2017 (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 2017 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the Series 2017 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 2017 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 2017 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 2017A Bonds maturing on July 1 in the years 2042 and 2047 and the Series 2017B Bonds maturing on July 1 in the years 2032 through 2037, inclusive, and 2039 (collectively, 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.

The Series 2017A Bonds maturing on July 1 in the years 2018 through 2037, inclusive, and the Series 2017B Bonds maturing on July 1 in the years 2018 through 2031, inclusive (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. 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 the Premium Bonds are advised that they should consult with their own 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 2017 Bonds in order that interest on the Series 2017 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 2017 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 2017 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2017 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 above 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 2017 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 2017 Bonds should be aware that the accrual or receipt of interest on the Series 2017 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 2017 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 2017 Bonds, (ii) interest on the Series 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

State Income Taxes

In the opinion of Bond Counsel, under existing law as of the date of the issuance of the Series 2017 Bonds, for so long as interest on the Series 2017 Bonds is and remains excluded from gross income for federal income tax purposes, such interest is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. Noncompliance with any of the federal income tax requirements set forth above resulting in the interest on the Series 2017 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 2017 Bonds.

Interest on the Series 2017 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 2017 Bonds under the laws of such other state or local jurisdictions. Each purchaser of the Series 2017 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2017 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 2017 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2017 Bonds.

Certain requirements and procedures contained in 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 of or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any federal, state or local tax consequences with respect to the Series 2017 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.

No assurance can be given that any future legislation or governmental actions, including amendments to the Code or State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2017 Bonds to be subject to federal, State or local 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 2017 Bonds for audit examination or the course or result of an audit examination of the Series 2017 Bonds or of obligations which present similar tax issues, will not affect the market price, value or marketability of the Series 2017 Bonds. For example, various legislative proposals have been released the effect of which would be to limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2017 Bonds) for taxpayers whose income exceeds certain threshold levels. No prediction is made as to whether any such proposals will be enacted. Prospective purchasers of the Series 2017 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 2017 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 2017 BONDS.

INDEPENDENT ACCOUNTANTS

The financial statements for the University as of 2016 and 2015 and for each of the two years in the period ended June 30, 2016, included in APPENDIX B of this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (i) mathematical computations of the adequacy of the cash and the maturing principal of and interest earned on the government obligations to be held separately in escrow to pay maturing principal or redemption price of, and interest on, each of the Defeased Refunded Bonds and (ii) certain mathematical computations supporting the conclusion that the Series 2017 Bonds are not "arbitrage bonds" under the Code, will be verified by Samuel Klein and Company, Certified Public Accountants. See "THE REFUNDING PLAN" herein.

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," "AA-" and "AA-," respectively, to the Series 2017 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 2017 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 2017 Bonds or the proceedings or authority under which the Series 2017 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 2017 Bonds are subject to the approval of Harris Beach PLLC, Bond Counsel, whose approving opinion will be delivered with the issuance of Series 2017 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, Bond, Schoeneck & King, PLLC, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Katten Muchin Rosenman LLP, New York, New York.

UNDERWRITING

J.P. Morgan Securities LLC ("JPMS"), Barclays Capital Inc. and Morgan Stanley & Co. LLC (together, the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the Series 2017A Bonds from the Issuer at an aggregate purchase price of $181,828,017.74 (which is equal to the aggregate principal amount of the Series 2017A Bonds, less an Underwriters' discount in the amount of $526,713.81, plus aggregate net premium in the amount of $22,869,731.55) and the Series 2017B Bonds from the Issuer at an aggregate purchase price of $106,802,166.26 (which is equal to the aggregate principal amount of the Series 2017B Bonds, less an Underwriters' discount in the amount of $282,647.29, plus aggregate net premium in the amount of $10,959,813.55), and to make an initial public offering of the Series 2017 Bonds at prices that are not in excess of the initial public offering prices corresponding to the yields set forth on the inside cover pages of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2017 Bonds if any of the Series 2017 Bonds are purchased. The Series 2017 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2017 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 pages hereof. The initial public offering prices may be changed from time to time by the Underwriters.

JPMS, one of the Underwriters of the Series 2017 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings, including the Series 2017 Bonds, at the initial public offering prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase Series 2017 Bonds from JPMS at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2017 Bonds that such firm sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2017 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017 Bonds.

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 2017 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 2017 Bonds is to be construed as a contract with the holders of the Series 2017 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 2017 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 2017 Bonds, the 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: *<u>/s/ Jeffrey R. Adair</u>*
Title: Executive Director

UNIVERSITY OF ROCHESTER

By: *<u>/s/ Holly G. Crawford</u>*
Title: Senior Vice President for Administration and Finance, Chief Financial Officer and Treasurer

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE UNIVERSITY AND THE HOSPITAL / MEDICAL CENTER

THE UNIVERSITY

General

The University of Rochester ("UR" or the "University"), founded in 1850 and located in Rochester, New York, is an independent, nonprofit institution of higher education, research, and health care. It is a coeducational, nonsectarian university, granted a charter under the authority of the New York State Board of Regents. 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 gifts from friends, alumni, corporations, and other private philanthropies. The University encompasses several operating divisions and clinical entities, including Strong Memorial Hospital ("Hospital") which is part of the University's UR Medicine health system located in the University of Rochester Medical Center.

The University is one of only 62 higher education research institutions in the United States and Canada invited for membership in the prestigious Association of American Universities. In recognition of its broad range of educational degree offerings and its level of research productivity, the University is considered an "R1: Doctoral University – Highest Research Activity" institution according to the Carnegie Classification of Institutions of Higher Education. The University as a whole is accredited by the Middle States Commission on Higher Education, and its specific educational programs are separately accredited by their respective commissions and associations.

The University is comprised of seven schools with over 200 academic programs—including those in the humanities, the social sciences, natural sciences and the professional fields of engineering, education, management, music, medicine, and nursing—all well-regarded among institutions of higher education. There are more than 11,200 students studying at the University of Rochester, including nearly 3,000 international students from approximately 135 countries. Since 2008, there have been 62 Fulbright Student Scholars. Nearly 80 percent of undergraduates participate in research, and about one-third study abroad. In addition to its regular academic sessions, which include two regular semesters and special summer programs, each school offers courses for part-time studies.

The University's Institute of Optics is widely considered one of the nation's premier educational programs and research centers in optics, as is the Eastman School of Music for music education. According to the most recent *US News & World Report (US News")* ranking of "America's Best Colleges", the University is 32nd among national universities and 41st for its graduate engineering program. *US News* and *Kiplinger's* both recognize the University as a "Best Value" school, and in 2014 the *New York Times* listed the University of Rochester as among the top most-economically diverse higher education institutions in the United States.

The Simon Business School was last ranked by *US News* as the 39th best U.S. business school overall and 18th and 31st respectively for finance and accounting. In the most recent international listing of fulltime MBAs from *Financial Times* (of London), the Simon Business School is 38th among U.S. business schools and worldwide 2nd for finance and 5th for economics specialties.

US News' "Best Graduate Schools" recognizes the School of Medicine & Dentistry as 29th for medical research and 40th for primary care and recognizes the School of Nursing as 38th for nursing Master's and 35th for Doctor of Nursing Practice. Strong Memorial Hospital, ranks as the 5th best hospital in New York State and 34th for the adult specialty in Neurology & Neurosurgery in the *US News* "Best Hospitals" ranking.

The University has about 1,300 full-time tenure-track faculty on staff, and its 2016 employment total of over 25,700 full-time equivalents makes it the top employer in the Rochester region and the 7th largest private employer in New York State. With over $360 million in annual funding, research is embedded in its culture and spans artistic, mathematical, medical, musical, philosophical, sociopolitical, scientific, and technical disciplines. When adjusted for faculty size, the University consistently ranks among the top 20

U.S. higher education institutions in federal research and development expenditures. In the 2016 fiscal year alone, over 200 inventors from 48 University departments filed invention disclosures.

The University's seven academic units plus its Memorial Art Gallery are situated in several nearby locations. The largest is the River Campus, overlooking the Genesee River and home to four of the University's schools: the Hajim School of Engineering & Applied Sciences, the School of Arts & Sciences, the Warner School of Education, and the Simon Business School. In addition to the academic buildings housing these units, the River Campus includes 30 (undergraduate) residential and dining halls, five athletic facilities, the Interfaith Chapel, and several administrative support buildings. The Ronald Rettner Hall for Media Arts and Innovation opened in fall 2013 as a three-story, 18,900 square-foot hub for arts, sciences, and music engineering. The Robert B. Goergen Hall for Biomedical Engineering and Optics and the new Wegmans Hall, opening in spring 2017 as a 58,000 square-foot, four-story home to the newly established Goergen Institute for Data Science, complete the Hajim Engineering Quadrangle. The Frederick Douglass Building reopened in fall 2016 with renovated dining facilities and newly constructed student space.

The Eastman School of Music, located in downtown Rochester, has its own academic and auxiliary service buildings that contain facilities designed 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 performances by Eastman School groups and by the community's major orchestras and visiting artists. The East Wing, dedicated in 2010, houses a recital hall, faculty teaching studios, an orchestra-sized rehearsal hall, and a high-tech recording control room. Messinger Hall provides practice space for students and is home to the Eastman Community Music School which offers music classes to the public. A 16-story residence hall provides on-campus housing for approximately 370 students.

The University of Rochester Medical Center (the "Medical Center"), adjacent to the River Campus, houses the School of Medicine & Dentistry, the School of Nursing, the Eastman Institute for Oral Health, the James P. Wilmot Cancer Center, the Golisano Children's Hospital, and Strong Memorial Hospital, which is described in more detail in "THE HOSPITAL/MEDICAL CENTER." The creation of the Aab Institute for Biomedical Research, several interdisciplinary research centers, the ambulatory surgical center, the James P. Wilmot Cancer Center, Saunders Research Building, and biomedical research facilities have been accompanied by an increase in the number of faculty and a growth in sponsored research. The Golisano Children's Hospital, dedicated in May 2015, is a 245,000-square-foot state-of-the-art hospital to expand research programs, medical services and specialized care for more than 74,000 children annually in need of its services.

The Memorial Art Gallery, 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. Its Centennial Sculpture Park, dedicated in May 2013, recast 10 acres of the Gallery's grounds into a showcase of public art and urban space. Four major artists were commissioned to create site-specific work for Centennial Sculpture Park.

The University's library system contains nearly 4.5 million books (in all formats) and subscribes to approximately 60,000 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; the Sibley Music Library, one of the largest academic music libraries in the western hemisphere, serving the Eastman School of Music; and many other small, discipline-specific libraries. The University is a member of the Association of Research Libraries.

Other special programs and facilities include: the Simon School of Business' cooperative programs with the University of Bern in Switzerland; 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 to ensure the long-term viability of the laboratory, allows for advances in fusion research and permits exploration of new and exciting physics.

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 members, 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 (*Members of the Executive Committee):

The Board has thirteen Board Committees: Academic Affairs, Advancement, Audit and Risk Assessment, Compliance and Compensation, Executive, Facilities, Health Affairs, Human Resources, Investment, Nominations and Board Practices, Research and Innovation, Strategic and Financial Planning and Student Life. 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 law or 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 Institute for Oral Health, to the Medical Center Board, subject to powers expressly retained by the Board. The Medical Center Board currently has 42 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 members of the Board of 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 University's Senior Vice President for Health Sciences/Chief Executive Officer of the Medical Center, the Medical Center Vice President/Chief Medical Officer, the Medical Center Vice President/Chief Operating Officer, the Medical Center Senior Vice President/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, the Director of the Eastman Institute for Oral Health, the Chief Executive Officer of the Medical Faculty Group, the Associate Director for Clinical Services of the Eastman Institute for Oral Health, 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 six times a year and has eight standing committees: Executive, Audit and Risk Assessment, Advancement, Finance, Facilities, Nominations and Board Practices, Compliance and Compensation Committee and Quality of Care. The Executive Committee meets six times a year.

The University's Board of Trustees has delegated authority for governing the Hospital and the Eastman Institute for Oral Health 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 Institute for Oral Health (EIOH). 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 EIOH, (2) have a major impact on University academic programs, or (3) contravene policies of the University established by the Board of Trustees. All strategic planning, issuances of debt, treasury investments and major capital investments are under the direction of University senior administration and require approval of the University Board of Trustees.

Potential Conflicts of Interest

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

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 January 1, 2017 are:

Joel Seligman, President, Chief Executive Officer, and G. Robert Witmer, Jr. University Professor. 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, the Financial Industry Regulatory Authority (FINRA), and the Eastman Kodak Company. In 2016, he was elected a member of the American Academy of Arts and Sciences. In the Greater Rochester community, he serves on the boards of the Greater Rochester Enterprise (GRE) and the Greater Rochester Chamber of Commerce. From 2011 to 2016 he served with Wegmans CEO Danny Wegman as co-chair of the Finger Lakes Regional Economic Development Council.

Robert Clark, Provost and Senior Vice President for Research. Dr. Clark earned his doctorate in mechanical engineering from the Virginia Polytechnic Institute and State University and joined Duke University's Department of Mechanical Engineering and Materials Science in 1992. He founded Duke's Center for Biologically Inspired Materials and Material Systems, creating a multimillion dollar program involving more than two dozen faculty members. He also held the Thomas Lord Professorship of Engineering and served as Dean of the Pratt School of Engineering before coming to Rochester to serve as Dean of the Hajim School in 2008. Dr. Clark was named Senior Vice President for Research in March 2013 following a national search and was appointed Provost and Senior Vice President for Research on July 1, 2016. In this capacity, Dr. Clark oversees the University's academic enterprise and works to promote the intellectual life of its community. He serves as Chief Academic Officer for all academic matters (teaching, research, and associated support activities). Dr. Clark is an expert in the science of acoustics, dynamic systems, applied control and bio-nano-manufacturing. His work in these areas has led to more than 140 journal publications and earned him numerous awards. He is a fellow of the American Society of Mechanical Engineers, the Acoustical Society of America, and the American Association for the Advancement of Science.

Paul Burgett, Vice President, Senior Advisor to the President, and University Dean. Mr. Burgett joined the University in 1981 as the Dean of Students at Eastman School of Music. He 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, N.Y. 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.

Holly G. Crawford, Senior Vice President for Administration and Finance and Chief Financial Officer. ('11 Simon) As Chief Financial Officer, Ms. Crawford is responsible for the University's financial operations as well as for budgeting, planning, and the treasury function. She 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. She is in charge of the University's administrative and support operations, including Environmental Health and Safety, Facilities and Services, Planning and Project Management, Auxiliary Operations, Human Resources, and Purchasing and Supply Chain. Ms. Crawford has played a key role in the University's strategic planning and campus master plan activities. Prior to her current positon, Ms. Crawford was the Senior Associate Vice President for Budgets and Planning and Deputy to the Senior Vice President and Chief Financial Officer. She has been with the University for 18 years. Ms. Crawford holds a Bachelor of Science degree from Long Island University and an MBA degree from the Simon School of Business. She is a CPA. Ms. Crawford previously held management positions with ACC Telecommunications, Bausch and Lomb, and Arthur Andersen LLP. She is a member of the AICPA.

Thomas J. Farrell '88, '90W, Senior Vice President and James D. Thompson Chief Advancement Officer. Before joining the University in November 2014, Mr. Farrell was chief development officer for the University of Illinois and president/CEO of the University of Illinois Foundation. In these roles he oversaw development programs across three campuses and was responsible for the university's core endowment of $1.6 billion. Prior to his tenure with Illinois, he was the chief advancement officer for the University of Chicago, overseeing a staff of 450 and launching Chicago's current $4.5 billion campaign. For 10 years he served at the University of Pennsylvania, where he led individual and undergraduate advancement activity, including the strategy for Penn's recently completed $4.3 billion *Making History* campaign. In addition, he has held senior positions at Dartmouth College and the University of Buffalo. Mr. Farrell's more than 25-year career in advancement began at the University of Rochester in the early 1990s. He returned to his alma mater to lead comprehensive advancement efforts to maximize the success of *The Meliora Challenge*: The Campaign for the University and to develop plans to maintain the University's advancement momentum.

Peter Lennie, Senior Vice President and Robert L. and Mary L. Sproull Dean of the Faculty of Arts, Sciences and Engineering. In his role as 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 graduate and undergraduate affairs on the River Campus, including admissions, athletics, and residential life. He has held his position as Senior Vice President and Dean since 2006, and served as Provost from May 2012 through June 2016. Dr. Lennie returned to Rochester in 2006 after serving for eight years as Dean for Science and a professor in neural science at New York University. During his previous tenure at Rochester, from 1982 to 1998, Dr. Lennie was an associate professor, then professor of psychology and visual science, and served at different times as director of the Center for Visual Science, and as dean of academic resources and planning. In 1995, he became the founding chair of Rochester's 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.

David E. Lewis, Vice President for Information Technology and Chief Information Officer. Mr. Lewis, joined the University in 1997 and provides University-wide leadership for information technology with a focus on computational support for research, shared services, and strategic partnerships. In collaboration with senior University leadership, Mr. Lewis facilitates University-wide governance and policy setting for IT. Mr. Lewis also 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 oversees the University's central IT organization and the Center for Integrated Research Computing. Mr. Lewis is a strong advocate for IT internship programs at the University and has also served as executive champion of Sankofa, the African American affinity group for faculty and staff at the University. He serves on several local boards, and 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, University Professor, Vice President and Vice Provost, Chief Executive Officer and Director of the Laboratory for Laser Energetics. Dr. 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 of the Board of Trustees and Chief of Staff to the President. 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.

Gail M. Norris, Esq., Vice President and General Counsel. Ms. Norris became General Counsel on January 1, 2013. She joined the University in August, 2005 as a senior counsel focusing on a broad variety of legal matters for the University. From 2000 to 2005, Ms. Norris was the General Counsel of the U.S. subsidiaries of Celltech plc, a biopharmaceutical company headquartered in the UK. In her role as General Counsel, she oversaw all legal matters related to the Company's North American operations. For the decade prior to that, Ms. Norris was a partner with the law firm of Nixon Peabody in the Corporate Law Department, where she provided legal advice on a broad range of business matters including mergers and acquisitions, financing transactions and intellectual property licensing.

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 joining the University in October 2000. Before 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 2010 he received NACUBO's Rodney Adams Award for outstanding management of endowments. Mr. Phillips serves as the Investment Committee Chairman of the Medical Center Insurance Company (MCIC) and previously served on the investment committees of The Rotary Foundation of Rotary International, The American Red Cross, and the NY State Common Retirement Fund. He serves or has served on several not-for profit boards or investment committees in Rochester, including the Farash Foundation and the Rochester Philharmonic Orchestra.

Peter G. Robinson, Vice President & Chief Operating Officer, University of Rochester Medical Center and Vice President, Government and Community Relations. Mr. Robinson is the Vice President and Chief Operating Officer of the University of Rochester Medical Center and Vice President, Government and Community Relations for the University. He has responsibility for the University's role in economic development. He 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., and a past Chairman for the New York Biotechnology Association (New YorkBIO) and Greater Rochester Enterprise (GRE). 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.

Elizabeth Stauderman, Vice President for Communications. Ms. Stauderman is the chief adviser to the President, Provost, officers, deans, and senior staff on a full range of communications issues. She leads a department responsible for the University's strategic communications, media relations and news, social media, publications, and graphic design and identity; and oversees the communications collaborations required in a complex education and healthcare organization with diverse audiences, priorities, and aims. She also serves on the governing board and as local manager of Futurity, a globally-recognized website partnership of the University of Rochester, Stanford University, and Duke University that features the latest discoveries by scientists at more than 50 top research universities around the world. Before arriving at the University of Rochester in August 2015, she was Chief Communications Officer and Special Assistant to the President at Yale University. In this role, she led the development and implementation of Yale's first comprehensive strategic communications plan, and a university-wide collaborative effort to create Yale's first cohesive communications framework. She served in a variety of other communications leadership roles at Yale, including Associate Dean for Communications and Strategy at the Yale School of Management, and Director of Public Affairs at Yale Law School. She has particular expertise in crisis and issues management, social promotion, integrated communications, and higher education issues. A graduate of Yale College and Yale Law School, she is also committed to public service in the communities in which she lives and works. She is a former board member of Market New Haven and the United Way of Greater New Haven, and currently serves on the board of the Rochester City Ballet.

Mark B. Taubman, M.D., Chief Executive Officer, University of Rochester Medical Center and UR Medicine; Dean of the School of Medicine and Dentistry, and Senior Vice President for Health Sciences. A board-certified cardiologist, Dr. Taubman came to the Medical Center as chief of the Cardiology Unit and Paul N. Yu Professor in Cardiology in 2003. He became the chair of the Department of Medicine and Charles E. Dewey Professor of Medicine in 2007 and served in that role until being named as dean in 2010. He was appointed to the CEO role in 2015. 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, the Association of University Cardiologists, and the Association of American Medical Colleges. He 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.

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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
2012-13	5,495	3,251	38	8,784	128	1,038	560	1,726	10,510
2013-14	5,819	3,418	47	9,284	226	1,114	396	1,736	11,020
2014-15	5,926	3,434	76	9,436	163	1,023	438	1,624	11,060
2015-16	6,011	3,371	88	9,470	117	1,136	382	1,635	11,105
2016-17	6,138	3,399	57	9,594	97	1,127	391	1,615	11,209

The following table sets forth the full-time enrollment of matriculated undergraduate and graduate students for the 2016-17 academic year by division.

2016-17 Full-Time Enrollment
By Academic Division

Academic Division	Undergraduate	Graduate	Total
School of Arts & Sciences	4,682	661	5,343
Hajim School of Engineering & Applied Sciences	733 *	566	1,299
Margaret Warner Graduate School of Education and Human Development	-	220	220
Simon Business School	-	672	672
Eastman Institute of Oral Health		111	111
School of Medicine and Dentistry	-	827	827
School of Nursing	190	18	208
Eastman School of Music	533	324	857
Totals	6,138	3,399	9,537

*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
2012-13	16,033	5,663	35.3%	1,343	23.7%
2013-14	17,244	6,153	35.7	1,472	23.9
2014-15	17,428	6,345	36.4	1,436	22.6
2015-16	17,912	6,063	33.8	1,400	23.1
2016-17	17,484	6,167	35.3	1,461	23.7

GRADUATE

Academic Year	Applications	Admits	Percent Admits/ Applicants	New Enrollment	Percent New Enrollment/ Admits
2012-13	15,218	3,256	21.4%	1,626	49.9%
2013-14	16,343	3,450	21.1	1,836	53.2
2014-15	15,446	3,483	22.5	1,683	48.3
2015-16	16,824	3,758	22.3	1,534	40.8
2016-17	18,203	3,914	21.5	1,501	38.3

The University's student body is composed of students from every state in the United States and from approximately 135 foreign countries. As of the fall of 2016, there were 2,923 international students enrolled.

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 2016 was 1,354. For purposes of comparison, qualitative University data relating to mean SAT scores and grade point averages are based on undergraduate matriculants in the College. Data on applicants to the Eastman School are omitted because the significant criteria for admissions to that division are unique. For the past six years, over 90% of College 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 College freshman classes since 2012 as compared to the national average SAT scores for college-bound high school seniors over the same period.

Composite Mean Scholastic Aptitude Test Scores
College Freshman Class Entering Fall

	2012	2013	2014	2015	2016
University Freshman					
Critical Reading	649	649	647	653	652
Mathematics	685	696	696	695	702
Writing	651	660	658	657	659
National					
Critical Reading	496	496	497	495	494
Mathematics	514	514	513	511	508
Writing	488	488	487	484	482

Since more undergraduate students are taking the ACT exams, the University also measures student quality using a composite of SAT scores and the ACT equivalent. This metric for incoming freshmen in the College since 2012 is shown in the table below.

Two-Score Aggregated Average Scores (SAT and ACT equivalent)
College Freshman Class Entering Fall

	2012	2013	2014	2015	2016
University Freshman	1358	1368	1375	1382	1391

Student Charges

Tuition, room and board charges and mandatory fees for most undergraduates at the University for the prior four years and the current academic year are listed below:

STUDENT CHARGES

	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition	$42,890	$44,580	$46,150	$47,450	$49,260
Room	7,650	7,956	8,346	8,764	9,010
Board	4,936	5,108	5,292	5,530	5,808
Mandatory Fees	776	792	810	840	882
Total	$56,252	$58,436	$60,598	$62,584	$64,960
Mandatory Fees					
Health Insurance	$ 480	$ 492	$ 504	$ 528	$ 564
Activity Fee	266	270	276	282	288
Transportation Fee	30	30	30	30	30
Total	$ 776	$ 792	$ 810	$ 840	$ 882

Student Financial Aid

In the academic year 2015-16, the University administered student aid funds totaling $193,686,000. Scholarship funds provided by the University from its own resources assisted approximately 89% 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
2011-12	$ 151,430	$ 2,442	$ 8,950	$ 285	$ 163,107
2012-13	162,473	1,126	8,842	600	173,041
2013-14	177,904	1,208	9,057	527	188,696
2014-15	177,804	20	6,952	285	185,061
2015-16	189,123	359	3,978	226	193,686

In addition to the programs outlined above, students are eligible for Federal Work Study funds, federal loans, and private loan programs. The University also offers tuition pre-payment, monthly installment and financing programs to help students and their parents finance the cost of the students' education.

The University benefits from a New York 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 2015-16 academic year, the University received $1,071,430 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. The University cannot 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 University has five separate bargaining units with three unions covering about 2,100 of its employees. The University has historically had good relationships with all of the bargaining units and has no notice of a future strike by any of the unions representing its employees.

Faculty

Rochester has nearly 2,400 active, full-time faculty and instructional staff, which includes fellows of the American Physical Society, the Optical Society of America, the American Academy of Arts and Sciences, the American Association for the Advancement of Science, the American Academy of Nursing, the Institute of Medicine, and many of the National Academies. Several professors have been officers of the leading academic societies in their fields, and our faculty counts a number of John S. Guggenheim Fellowship and MacArthur Fellowship recipients among its ranks.

The University's faculty has received a total of 17 John S. Guggenheim Fellowships in the past 25 years. There have also been 8 Nobel Prize and 12 Pulitzer Prize winners among faculty and alumni. In the past 10 years faculty have won six National Endowment for the Humanities Senior Fellowships, 22 Alfred P. Sloan Research Fellowships, in addition to 41 prestigious National Science Foundation CAREER awards since 2000.

The faculty includes: 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; and two recipients of the American Physical Society's Panofsky Prize in Experimental 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.

ANNUAL FINANCIAL STATEMENT INFORMATION

Management's Discussion of Financial Performance

The discussion and tables that follow are based on the audited consolidated financial statements of the University of Rochester, and should be read in conjunction with "Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities and Report of Independent Auditors."

Overview

During fiscal year 2016, total net assets for the University of Rochester and related entities decreased $221.3 million to $3.18 billion as of June 30, 2016. The decrease resulted mainly from the decline in the capital markets, positive hospital and patient care margins that were lower than the prior year, and a number of adjustments including changes in actuarial assumptions for post-retirement benefits and related entity pensions. The acquisitions of Noyes Health and Jones Memorial during the fiscal year increased net assets by $27.2 million and $4.3 million, respectively and were recorded as a cumulative effect of acquisitions. Total consolidated assets were $5.7 billion, with long-term investments of $2.3 billion and the consolidated cash position (including short-term investments) at nearly $704 million.

Annual Results

The University experienced an increase to consolidated net assets from operations of $16.1 million during fiscal year 2016, compared to last year's increase of $86.3 million.

Total operating revenue increased 7.4% over the prior fiscal year to $3.67 billion and was derived mostly from tuition and fees, grants and contracts, and hospital and faculty practice revenue. These three categories comprise 89% of all University revenue sources and are the main financial drivers of the institution.

Operating expenses increased by 9.7% over the prior fiscal year to $3.65 billion for the year ended June 30, 2016. Compensation and related fringe benefits which represent 62.5% of total expenses were $2.28 billion and a 8.0% increase over last year with much of the increase reflective of an overall 2.0% wage and salary increase as well as growth in consolidated employee headcount of 7.8%. Additional increases were driven by higher patient care volumes at Strong Memorial Hospital, and additional operating expenses from the acquisition of Noyes Health and Jones Memorial Hospital.

Non-operating activities are comprised primarily of the investment performance of the long-term investment portfolio and draws from the endowment for support to the operations of the University. In fiscal year 2016 the change in net assets from non-operating activities was a decrease of $268.9 million compared to a decrease of $40.6 million for fiscal year 2015. This year's decrease was attributable to the negative return on the long-term investments of $85.4 million and reduced by endowment use for operations of $93.6 million. The University's long-term investment pool reported an annual return of negative 3.1% in fiscal year 2016 compared to a positive 4.3% in 2015. Additionally, actuarially determined post-retirement and pension liabilities increased by $126.6 million mainly due to reductions in discount rates, updated mortality tables and changes in retiree medical plan election assumptions which negatively impacted both operating and non-operating activities.

Related Entities

The combined operating activities of the related entities represent about 17.9% of total consolidated operating revenues and approximately 8.5% of total consolidated net assets. Within the related entity group, Highland Hospital (and subsidiaries) generated operating revenues of $353.7 million, followed by F.F. Thompson Health System with $148.4 million and Strong Home Care Group with $52.5 million. For additional information, see "The Hospital/Medical Center" in this APPENDIX A.

Summary of Financial Information

The following Statement 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.

STATEMENT OF ACTIVITIES (dollars in thousands)

	Fiscal Years Ended June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Operating Revenue:					
Tuition and fees	$ 360,695	$ 389,344	$ 421,397	$ 437,659	$ 458,446
Less scholarships and fellowships	(151,430)	(162,473)	(177,904)	(177,804)	(189,123)
Net tuition and fees	209,265	226,871	243,493	259,855	269,323
State and local appropriations	1,851	-	-	-	-
Grants and contracts	396,145	400,772	347,768	342,867	369,954
Gifts and pledges	111,805	81,408	106,652	101,203	78,976
Hospital & faculty practice patient care	1,860,382	2,078,284	2,249,400	2,419,776	2,638,925
Auxiliary enterprises	88,728	91,028	96,828	118,667	117,439
Investment income on cash equivalents	5,537	10,878	15,539	5,326	(3,223)
Educational activities	28,540	23,943	22,365	15,602	14,486
Royalty income	34,431	24,299	26,025	23,634	23,113
Other sources	14,252	16,311	20,954	40,203	64,169
Long-term investment income & gains allocated for operations	88,390	86,766	85,729	87,946	93,576
Total operating revenue	2,839,326	3,040,560	3,214,753	3,415,079	3,666,738
Operating expenses:					
Salaries and wages	1,369,458	1,475,021	1,545,092	1,631,055	1,750,538
Fringe benefits	400,322	420,403	444,600	483,241	532,365
Total compensation	1,769,780	1,895,424	1,989,692	2,114,296	2,282,903
Supplies	350,767	374,058	411,931	504,287	562,358
Business and professional	190,815	192,725	188,276	202,783	235,287
Utilities	52,253	53,192	55,865	57,036	55,171
Maintenance and facilities costs	115,087	130,624	135,096	125,626	128,095
Depreciation expense	162,742	184,320	187,797	196,698	206,974
Interest Expense	30,604	33,441	37,815	35,041	45,072
Other	59,881	70,022	74,650	92,995	134,818
Total operating expenses	2,731,929	2,933,806	3,081,122	3,328,762	3,650,678
Change in net assets from operating activities	107,397	106,754	133,631	86,317	16,060
Non-operating activities:					
Long-term investment activities:					
Investment income	12,492	18,185	21,725	12,508	15,360
Net appreciation (depreciation)	(8,394)	188,777	316,601	76,879	(100,769)
Total long-term investment activities	4,098	206,962	338,326	89,387	(85,409)
Long-term investment income & gains allocated for operations	(88,390)	(86,766)	(85,729)	(87,946)	(93,576)
Loss on extinguishment of debt	(636)	(335)	(2,167)	(10,880)	(559)
Other changes, net	(55,043)	51,960	(3,567)	(30,687)	(82,994)
Change in valuation of annuities	(1,619)	(3,360)	(4,107)	(514)	(6,327)
Change in net assets from non-operating activities	(141,590)	168,461	242,756	(40,640)	(268,865)
Change in net assets before cumulative effect of acquisition	(34,193)	275,215	376,387	45,677	(252,805)
Cumulative effect of acquisition	0	48,279	6,431	0	31,505
Change in net assets	(34,193)	323,494	382,818	45,677	(221,300)
Beginning net assets	$2,683,860	$2,649,667	$2,973,161	$ 3,355,979	$ 3,401,656
Ending net assets	$2,649,667	$2,973,161	$3,355,979	$ 3,401,656	$ 3,180,356

Financial Position

Consolidated total assets decreased by 0.8% from fiscal year 2015 to $5.7 billion at June 30, 2016. The decrease of $64.5 million in consolidated cash position (consisting of cash, cash equivalents and short-term investments) was attributable to cash paid for debt service payments offset by the reimbursement of prior year capital expenditures from construction funds held by the bond trustee. Long-term investments decreased by $137.3 million to $2.3 billion at June 30, 2016 which was due to a negative 3.1% return of the long-term investment pool. Property, plant and equipment increased to $1.99 billion with capital spending of $264.1 million. Consolidated liabilities were $2.52 billion, 7.6% higher than the prior fiscal year. Total consolidated net assets decreased by $221.3 million or, 6.5% to $3.18 billion for the year ended June 30, 2016.

Following is a summary of Assets, Liabilities and Net Assets as of June 30, for the fiscal years 2012-2016. This summary is derived from the audited consolidated financial statements of the University for such periods.

CONSOLIDATED BALANCE SHEET (dollars in thousands)

	As of June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Assets					
Cash and cash equivalents	$326,227	$486,821	$467,619	$ 450,595	$ 277,221
Short-term investments	209,016	176,422	308,741	317,703	426,593
Accounts receivable, net	325,773	299,683	333,036	311,114	380,951
Inventories, prepaid and deferred	52,816	58,993	64,216	71,200	71,453
Contributions receivable, net	90,927	91,577	92,498	100,827	88,526
Notes receivable, net	48,347	48,525	48,730	49,994	49,482
Other assets	11,936	14,355	16,207	25,317	40,438
Investments held for long-term purposes	1,822,954	1,933,879	2,315,847	2,445,777	2,308,446
Property, plant and equipment, net	1,561,957	1,729,770	1,814,641	1,899,849	1,991,438
Interest in net assets of foundations	12,330	14,647	17,749	17,567	16,473
Perpetual trusts held by others	46,877	51,260	57,526	56,233	52,306
Total assets	$4,509,160	$4,905,932	$5,536,810	$ 5,746,176	$ 5,703,327
Liabilities					
Accounts payable and accrued expenses	$388,337	$408,232	$399,286	$ 425,413	$ 458,988
Advanced receipt of sponsored research	23,472	19,440	24,927	12,390	9,100
Deferred revenue	50,775	62,623	62,136	62,323	78,894
Third-party settlements payable, net	100,989	116,623	122,623	138,116	154,221
Accrued pension, post-retirement, and post-employment	386,472	375,907	402,166	445,645	572,294
Long-term debt	874,209	910,684	1,126,265	1,216,632	1,203,573
Asset retirement obligation	19,016	22,876	27,241	27,680	29,442
Refundable U.S. Government grants for student loans	16,223	16,386	16,187	16,321	16,459
Total liabilities	$1,859,493	$1,932,771	$2,180,831	$2,344,520	$2,522,971
Net Assets					
Unrestricted	$1,745,673	$1,976,574	$2,188,658	$ 2,191,594	$ 2,072,141
Temporarily Restricted	509,533	584,307	703,531	705,512	586,163
Permanently Restricted	394,461	412,280	463,790	504,550	522,052
Total net assets	$2,649,667	$2,973,161	$3,355,979	$ 3,401,656	$ 3,180,356
Total liabilities and net assets	$4,509,160	$4,905,932	$5,536,810	$ 5,746,176	$ 5,703,327

Operating Budget

The University's annual operating budget for the following fiscal year is reviewed and approved by the Strategic and 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, hospital patient care revenues and expenditures, 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 2016-17 capital budget for the University's projects totals $239 million. This amount includes construction of pediatric operating rooms and a pediatric intensive care unit in Golisano Children's Hospital; expansion of clinical laboratories; renovations of offsite leasehold improvements to support community-based medical facilities; major utility infrastructure projects to accommodate growth across the University; and several technology upgrades including replacement of the University's student system.

The capital plan includes a list of potential projects for fiscal years 2018 and 2019 which totals $522 million, much of which is assumed to be funded by from operations,a limited amount of debt, and gifts. These projects will undergo further review and prioritization and it is likely not all of the projects will be undertaken. Multi-year capital projections guide the University's planning of facilities projects and borrowing. Projects ultimately approved will be funded using a process for its capital planning which is designed to keep future borrowings within the institution's debt capacity.

Investments

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

The University of Rochester's Board of Trustees has delegated the authority for investment decisions to its Investment Committee. The University of Rochester's Office of Institutional Resources, under the supervision of the Investment Committee, provides investment management services to the University of Rochester and related organizations. Assets are held in custodial accounts or in limited partnerships within the University's Long-Term Investment Pool (LTIP) consisting of the University's endowment and similar funds and other funds intended to be invested over long time periods.

The University's Investment Policy for the LTIP is to manage a balanced fund using external managers for domestic and international equity, commodities, and fixed income investments and various partnerships for hedge funds, real estate and private equity. The assets are managed to maximize long-term real investment returns commensurate with the risk tolerance of the University. The investment return on the University's long term investment pool for the last five years was as follows:

Fiscal Year	Market Value of Endowment & Similar Funds	Investment Return
2011-12	$1.60 billion	1.8 %
2012-13	1.75 billion	12.0
2013-14	2.04 billion	18.7
2014-15	2.07 billion	4.3
2015-16	1.97 billion	(3.1)

Investments

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% by fiscal year 2021 has been established. The pattern of spending over the past five years is as follows:

Endowment Support of Academic Operations
(dollars in thousands)

Fiscal Year	Endowment Spending*	As a Percentage of Five Year Moving Average of Endowment Market Value
2011-12	$88,390	5.9%
2012-13	86,766	5.9
2013-14	85,729	5.9
2014-15	87,946	5.8
2015-16	93,576	5.7

*Excludes endowment spending of Strong Memorial Hospital and the Memorial Art Gallery

Employee Benefits

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.

University Retirement Plans

The University provides defined contribution retirement plans to its employees. The University of Rochester's Retirement Program is administered by TIAA. Under this plan, the University made contributions of $89.4 million and $84.4 million in 2016 and 2015, 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 $17.4 million and $10.8 million for the years ended June 30, 2016 and 2015, respectively, which is recorded in fringe benefits expense on the Consolidated Statement of Activities.

Postretirement plan expense for the years ended June 30 includes the following components:

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

	2015	2016
Service cost – benefits earned	$ 3,506	$ 6,082
Interest cost	5,922	7,560
Amortization of Prior Service Cost	796	724
Amortization of Net Actuarial Loss	536	3,019
Net periodic postretirement benefit cost	$ 10,760	$ 17,385

A one percentage-point increase in the health care cost trend rate would increase the accumulated post-retirement benefit obligation as of June 30, 2016 by approximately $19.9 million and the aggregate service and interest components of net periodic postretirement benefit cost by approximately $1.8 million. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 3.50% at June 30, 2016 and 4.00% at June 30, 2015.

University Indebtedness

As of June 30, 2016 the University reported $1,203.6 million in consolidated long term debt. Approximately $126.2 million represented the long term debt of related entities, for which the University has no legal obligation. The consolidated financial statements and notes thereto contained in Appendix B to this Official Statement show further details concerning the consolidated long term debt.

Approximately $174.7 million of the University's consolidated debt outstanding is hedged with interest rate swaps as of June 30, 2016. The majority ($148.6 million) of this amount relates to interest rate exchange agreements that the University has entered into for 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. 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 and 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(c) and note 8(g) of the notes to the financial statements of the University included as Appendix B hereto for further information. The remaining $26.1 million of hedged debt outstanding relates to the University's related entities that have executed interest rate exchange agreements which are explained in notes 8(d), 8(i) and 8(p).

Indebtedness Incurred Since June 30, 2016

In March, 2017, the University entered into a commitment with a financial institution to enter into a uncommitted Master Note Facility ("Master Note Facility") providing for total availability of up to $100 million in principal amount. It is anticipated that the financial institution will purchase approximately $49.3 million of Senior Notes (the "Notes") under the Master Note Facility in April, 2017. The Notes will be issued by the University as a general unsecured obligation, bear interest at a rate of 3.56% and mature on July 1, 2047. The University has no current plans on drawing down the remaining portion of the Master Note Facility which expires in 2020.

Bank Facilities:

The University has a $75 million line of credit with JPMorgan Chase Bank, N.A. and a $50 million line of credit with U.S. Bank, N.A., both for short term emergency purposes, and a $50 million line of credit with The Northern Trust Company for liquidity funding. Key Bank will replace Northern Trust after March 2017. There were no amounts outstanding on these facilities as of June 30, 2016.

The University has $1.9 million in standby letters of credit with JP Morgan Chase Bank, N.A. to cover potential liabilities related to the construction of the Imaging Science Building. Under this agreement, no amounts were outstanding at June 30, 2016.

The University has $534 thousand in standby letters of credit with JPMorgan Chase, N.A. to cover potential liabilities of other financial obligations. Under this agreement, no amounts were outstanding at June 30, 2016.

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, foundations and interested individuals. For the year ended June 30, 2016, approximately $266 million was spent on research funded by federal grants and contracts.

The following table shows the amounts received from grants and contracts for each of the past five fiscal years:

Total Grant and Contract Program Revenues (dollars in thousands)

	Fiscal Years Ended June 30,				
Federal Agency	**2012**	**2013**	**2014**	**2015**	**2016**
Public Health Service (includes NIH)	$198,001	$186,641	$168,693	$158,799	$164,634
Department of Energy	76,004	73,013	65,400	67,852	67,307
National Science Foundation	13,652	14,483	14,856	13,299	15,194
Department of Defense	8,997	7,211	4,384	5,544	4,614
All Other Federal	13,157	11,802	11,277	11,874	14,240
Total Federal	$309,811	$293,150	$264,610	$257,368	$265,989
New York State	26,727	28,104	20,924	13,626	11,638
Local Government	4,459	4,343	4,048	4,104	3,387
All other sponsors	55,148	75,175	58,186	67,769	88,940
Grand Total	**$396,145**	**$400,772**	**$347,768**	**$342,867**	**$369,954**

Gifts and Pledges

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

Gifts and Pledges (dollars in thousands)

	Fiscal Years Ended June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Unrestricted Net Assets	$25,747	$37,428	$41,314	$34,638	$25,433
Temporarily Restricted Net Assets	49,738	32,197	24,871	30,579	38,135
Permanently Restricted Net Assets	36,320	11,783	40,467	35,986	15,408
Total	$111,805	$81,408	$106,652	$101,203	$78,976

In 2016 the University successfully completed its *Meliora Challenge*: The Campaign for the University with the specific goals of increased support of students and faculty primarily through endowed scholarships, fellowships and professorships, new facilities, campus renovations, and priority programs throughout the University. The $1.2 billion capital campaign concluded with $1.37 billion pledged.

Subsequent Events

PricewaterhouseCoopers LLP has not audited, reviewed, compiled, or performed any procedures with respect to the preliminary financial data relating to any period subsequent to June 30, 2016 presented in APPENDIX A. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect to such preliminary financial data. This subsequent events data is the responsibility of management.

Subsequent to June 30, 2016, the date of the University's most recent audited financial statements, the University's net assets have increased from $3.18 billion at June 30, 2016 to approximately $3.27 billion at the close of the quarter ended December 31, 2016 on an unaudited basis. The increase is due to improvement in capital markets and continued positive hospital and patient care margins. As of December 31, 2016, the University had $756.2 million in cash and short-term investments and substantial amounts of committed bank facilities for liquidity purposes.

The University's endowment performance, net of all fees, over the six months through December 31, 2016 was 4.1% (unaudited). The portfolio was allocated 35.2% to public equities, 25.1% to hedge funds, 11.5% to real assets, 19.8% to private equity, 3.0% to fixed income and 5.4% to short-term investments. The estimated market value of endowment and similar funds as of December 31, 2016 was $2.01 billion.

In December 2009, the University entered into a New Market Tax Credit (NMTC) financing arrangement for the renovation and construction of an addition for the Eastman Theatre. The NMTC program awards tax incentives to private sector investors who provide investment capital to entities that create economic growth and jobs in distressed neighborhoods. Investors receive a tax credit against federal income taxes over a seven-year period, also known as the 'compliance period'. The seven year compliance period for the Eastman Theatre NTMC program ended in December 2016 at which time an exit agreement was executed between all parties resulting in a reduction of debt of $38.3 million, a reduction of notes receivable of $28.5 million and non-operating gain of $9.8 million.

Subsequent to the anticipated issuance of the Series 2017 Bonds, the University intends to borrow up to $12 million on an existing line of credit to provide a bridge loan to an affiliated entity, High Tech Rochester. The loan will be repaid through a combination of gift receipts and grant funding and has a term running through September 1, 2018.

The interim financial results presented above are subject to the completion of the University's financial closing procedures for fiscal year 2017, which have not yet 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.

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THE HOSPITAL/MEDICAL CENTER

General

The University of Rochester Medical Center (URMC) is a part of the University and is under the oversight of the University President and Board of Trustees. The Medical Center 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 Institute for Oral Health ("EIOH"). 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 which operates with the appropriate oversight by Central Administration. 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, Advancement, 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 Institute of Oral Health 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 39,846 discharges and 284,435 patient days in fiscal year 2016, 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	470
Intensive Care	55
Coronary Care	8
Burn Care	7
Pediatric	60
Maternity	45
Psychiatric	93
Rehabilitation	20
Pediatric Intensive Care Unit	12
Neonatal/ICU	68
Total	838

The Hospital has been authorized by the New York State Department of Health, through its Certificate of Need ("CON") 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 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 890 residents and fellows in 84 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, Neurology, Child Neurology, Neurosurgery, Obstetrics/Gynecology, Ophthalmology, Orthopaedics, Otolaryngology, Pathology, Pediatrics, Physical Medicine & Rehabilitation, Preventive Medicine, Psychiatry, Radiation Oncology, Diagnostic Radiology, Surgery, Surgery – Cardiothoracic, Surgery – Plastic, Surgery – Vascular, Urology, Anesthesiology – Adult Cardiothoracic, Anesthesiology – Critical Care, Anesthesiology – Pain Medicine, Anesthesiology – Pediatric, Medicine – Allergy/Immunology, Medicine – Cardiovascular Disease, Medicine – Clinical Cardiac Electrophysiology, Medicine – Critical Care, Medicine – Hospice & Palliative Care, Medicine – Interventional Cardiology, Medicine – Endocrinology, Medicine – Gastroenterology, Medicine – Geriatric Medicine, Medicine – Hematology/Medical Oncology, Medicine – Infectious Diseases, Medicine – Nephrology, Medicine – Pulmonary/Critical Care, Medicine – Rheumatology, Neurology – Clinical Neurophysiology, Neurology – Neuromuscular Medicine, Neurology – Epilepsy, Neurology – Sleep Medicine, Maternal Fetal Medicine, Urogynecology, Orthopaedics – Foot & Ankle, Orthopaedics – Hand, Orthopaedics – Sports Medicine, Orthopaedics – Trauma, Pathology – Cytopathology, Pathology – Hematopathology, Pathology – Neuropathology, Pediatrics – Adolescent Medicine, Pediatrics – Cardiology, Pediatrics – Critical Care, Pediatrics – Developmental, Pediatrics – Gastroenterology, Pediatrics – Hematology-Oncology, Pediatrics – Infectious Disease, Pediatrics – Nephrology, Pediatrics – Nephrology, Pediatrics – Neonatology, Pediatrics – Pulmonary, Pediatrics – Rheumatology, Psychiatry – Geriatric, Psychiatry – Forensic, Neuroradiology, Pediatric Radiology, Musculoskeletal Radiology, Vascular Interventional Radiology, Complex General Surgical Oncology, Surgery Critical Care, Advanced Education in General Dentistry, Oral and Maxillofacial Surgery, Pediatric Dentistry, Orthodontics, Prosthodontics, and Periodontics.

In May 2015 the Medical Center dedicated its new $145 million children's hospital located adjacent to Strong Memorial Hospital. The eight story Golisano Children's Hospital provides over 245,000 square feet of space and 126 beds dedicated to children and their families. The new hospital is named for Tom Golisano, a Rochester entrepreneur and philanthropist.

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 fiscal year 2016, the Hospital discharged 39,846 inpatients and cared for 1,420,208 outpatients and 129,369 Emergency Department patients. Some 62% of inpatients come from Monroe County, the primary service area, 22% from the secondary service area of surrounding counties including Livingston, Ontario, Wayne, Genesee, Orleans, Steuben, Seneca and Yates and the remaining 16% from other parts of the State and nation.

URMC Strategic Plan Overview
The CEO of URMC and UR Medicine is currently leading senior administrative and faculty leaders in an ongoing process to refine and operationalize a comprehensive, missions-wide strategic plan. The overall plan charts a course through pivotal decisions and opportunities facing research, education and patient care in the 21st century. Much progress is being made in the academic plans as the School of Medicine and Dentistry and School of Nursing strive to maintain research competitiveness and demonstrate their ability to produce health professionals and scientists steeped in inter-professional teamwork and adept with tomorrow's technologies.

The most dynamic component of the plan involves the Medical Center's response to a rapidly evolving patient care environment. Amid pressure to reduce national health care costs, ensure uniformly high quality, and provide access to millions without health insurance, the Affordable Care Act transforms the way that health care is delivered and financed. As a result, the Medical Center, like all academic medical centers and health networks, must prepare to function in both the traditional fee-for-service payment environment and tomorrow's world of population health management. Facing rapid provider consolidation and evolving payment models, URMC's Strategic Plan provides the framework for making prompt yet discerning decisions.

Mission
To develop a high-quality, cost-effective, patient-centered and innovative academic health system led by our world-class researchers, educators and clinicians.

Vision
To be nationally recognized for improving health through transformative approaches in compassionate care, education, and research.

Goals
As the foundation to our strategic planning process, URMC has formed four aspirational goals that lead us toward our vision.

- Develop a clinical network with the scale, quality, and infrastructure that enables the University to be the preferred health care delivery system in upstate New York and that assures that the Medical Center and its delivery network can thrive in a risk-based, population health environment.
- Assure that no one must leave the region to receive state-of-the-art treatment for any disease, and also assure that for most diseases people can receive the highest quality, cost-effective care in their own communities.
- Grow the stature of the UR as a research-intensive university by having five of its many research programs identified as international leaders and by developing a research funding model that is sustainable and less reliant on clinical margins.
- Be widely recognized and emulated as a leader in restructuring the educational system to assure that our graduates are ideally positioned to lead in changing clinical and research environments.

Governance

The University's Board of Trustees has delegated authority for governing the Hospital and the Eastman Institute for Oral Health 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 EIOH, 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 and the Eastman Institute for Oral Health. 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 or EIOH, (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 42 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 members of the Board of 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 University's Senior Vice President for Health Sciences/Chief Executive Officer of the Medical Center, the Medical Center Vice President/Chief Medical Officer, the Medical Center Vice President/Chief Operating Officer, the Medical Center Senior Vice President/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, the Director of the Eastman Institute for Oral Health, the Chief Executive Officer of the Medical Faculty Group, the Associate Director for

Clinical Services of the Eastman Institute for Oral Health, 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 six times a year and has eight standing committees: Executive, Audit and Risk Assessment, Advancement, Finance, Facilities, Nominations and Board Practices, Compliance and Compensation Committee and Quality of Care. The Executive Committee meets six times a year.

The current elected members of the Medical Center Board are:

Richard T. Aab *
Chairman
RTA Association, LLC

Martin Birmingham
CEO
Five Star Bank

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.

Elaine Del Monte, CIMA
CEO & CIO
EJ Del Monte Corporation

Lauren Dixon
CEO & Owner
Dixon Schwabl

Joan L. Feinbloom
Community Volunteer

David M. Flaum *
Chairman, Founder & CEO
Flaum Management Company, Inc.

Anne B. Francis, MD
Private Physician

Roger B. Friedlander *
Community Volunteer

Emerson U. Fullwood
2009-2010 Minett Professor
Rochester Institute of Technology

George W. Hamlin, IV
Chairman
The Canandaigua National Bank &
Trust Company

Holly Hilberg
Community Volunteer

Susan R. Holliday
Former President and Publisher
Rochester Business Journal

Robert Hurlbut
President
Hurlbut Care Communities

Alan Illig, Esq.
Financial Specialist
Lifespan of Rochester

Richard A Kaplan
CEO
CurAegis Technologies, Inc.

William Kenyon, Esq.
Partner
Kenyon & Kenyon

Diana R. Kurty, CPA
Principal
Lumina Partners

Robert N. Latella, Esq.
Office of Counsel
Barclay Damon, LLP

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 *
Community Volunteer

Lori Van Dusen
Founding Principal and CEO
LVW Advisors

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

Robert Witmer *
Senior Counsel
Nixon Peabody, LLP †

* University Trustee

† The firm of Nixon Peabody LLP provides legal services to the University

Management

Mark B. Taubman, M.D., Chief Executive Officer, University of Rochester Medical Center and UR Medicine; Dean of the School of Medicine and Dentistry, and Senior Vice President for Health Sciences. A board-certified cardiologist, Dr. Taubman came to the Medical Center as chief of the Cardiology Unit and Paul N. Yu Professor in Cardiology in 2003. He became the chair of the Department of Medicine and Charles E. Dewey Professor of Medicine in 2007 and served in that role until being named as dean in 2010. He was appointed to the CEO role in 2015. 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, the Association of University Cardiologists, and the Association of American Medical Colleges. He 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.

David A. Kirshner, MBA, CPA, Senior Vice President and Chief Financial Officer, University of Rochester Medical Center. Before joining URMC in 2015, Mr. Kirshner was Vice President, Corporate and Business Development of Valence Health, a population health management technology company. Prior to Valance, Mr. Kirshner was Senior Vice President and Chief Financial Officer at Boston Children's Hospital for 14 years, where he also served as the Medical Center's Treasurer. Past roles also include Treasurer and Chief Financial Officer of Winchester Healthcare Management; Vice President of Finance, Anna Jaques Hospital in Newburyport, MA; and Co-CFO at Sturdy Memorial Hospital in Attleboro, MA. Mr. Kirshner is a member of the Board of Trustees of Noble and Greenough School and Chairman of its Audit Committee. He is a graduate of University of Pittsburgh (BA) and Boston University (MBA).

Steven I. Goldstein, President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; President, Long-Term Care Division, 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 was recently appointed to a three-year term to the Accreditation Council of Graduate Medical Education and the American Hospital Association – Committee on Clinical Leadership. Mr. Goldstein recently completed a three-year term as 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 and Senior Associate Dean for Clinical Affairs. 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 of 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 began 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 H. Rideout, EdD, PPCNP-BC, FNAP, Vice President, University of Rochester Medical Center and Dean of the School of Nursing. Dr. Rideout earned her bachelor's degree in nursing from Indiana University of Pennsylvania in 1979 and her master's degree from the University of Pittsburgh in 1983. In 1986, she joined the School of Nursing as a lecturer and senior associate and began work as an advanced pediatric nurse at Golisano Children's Hospital. In 1995, she earned her doctorate of education from the University of Rochester Warner School of Education. She was named associate dean for academic affairs in 2005. Dr. Rideout was appointed the fifth dean of the University of Rochester School of Nursing in July 2012 and was reappointed for an additional five years in 2016.

Michael F. Rotondo, MD, FACS, is Vice Dean for Clinical Affairs, CEO of the University of Rochester Medical Faculty Group, and Professor in the Division of Trauma and Acute Care Surgery in the Department of Surgery, The School of Medicine and Dentistry at the University of Rochester. Prior to joining the University in 2013 he served as Professor and Chairman of the Department of Surgery, The Brody School of Medicine at East Carolina University and Director of the Centre of Excellence for Trauma and Surgical Critical Care at Vidant Medical Centre in Greenville, North Carolina for 14 years. Dr. Rotondo graduated from Georgetown University School of Medicine in 1984 and then undertook postgraduate training at the Thomas Jefferson University Hospital, Philadelphia, and the Hospital of the University of Pennsylvania (Fellowship in Traumatology and Surgical Critical Care). He gained his board certification from the American Board of Surgery in 1990 and also holds a Special Certificate in Surgical Critical Care and is counted among the The Best Doctors in America. Dr. Rotondo has held a number of visiting professorships across the United States and currently serves as the Trauma Director for the American College of Surgeons and is the President-Elect for the AAST. He is a member of the Editorial Review Board for Journal of Trauma and an ad hoc reviewer for many leading journals. Dr. Rotondo is the author of more than 100 articles in peer-reviewed journals and has over 250 publications in total.

Peter G. Robinson, Vice President & Chief Operating Officer, University of Rochester Medical Center and Vice President, Government and Community Relations. Mr. Robinson is the Vice President and Chief Operating Officer of the University of Rochester Medical Center and Vice President, Government and Community Relations for the University. He has responsibility for the University's role in economic development. He 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., and a past Chairman for New YorkBIO and Greater Rochester Enterprise (GRE). 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.

Adam P. Anolik, Senior Director for Finance and Chief Financial Officer, Strong Memorial and Highland Hospitals and Associate Vice President, University of Rochester Medical Center. Mr. Anolik joined the Hospital in 1999 as Director of Financial Operations and assumed his present position in 2014. Prior to arriving at the University, Mr. Anolik served as Vice President of Finance and Internal Services at Planned Parenthood of the Rochester/Syracuse Region. Mr. Anolik also served as Senior Vice President and Chief Financial Officer at St. Mary's Hospital. From 1988 to 1992 he was with the international public accounting firm, KPMG Peat Marwick, where he specialized in audits of universities and health care providers. Mr. Anolik currently serves on the Board of University of Rochester Medicine Home Care, Vice President of the Board of Directors of The Advocacy Center, Chair of the Retirement Committee at the Jewish Home of Rochester and Chair of the Finance and Audit Committees of the Medical Center Insurance Company, Inc. Mr. Anolik is a cum laude graduate of Franklin and Marshall College, where he received his Bachelor of Arts degree in Accounting.

Utilization

Beginning with results reported in 2015 management changed the fiscal year end from December 31 to June 30. As such, there is a six-month overlap in the 2014 and 2015 results.

The following is a summary of discharges by major clinical departments for calendar years 2012 through 2014 and fiscal year 2015 and 2016.

PERCENT OF HOSPITAL DISCHARGES*

	Calendar Year			Fiscal Year (June 30)	
	2012	**2013**	**2014**	**2015**	**2016**
Medicine	39.5%	39.8%	43.7%	43.5%	45.1 %
Surgery	23.7	22.5	18.8	18.9	18.1
Obstetrics and Gynecology	10.1	10.1	10.1	9.9	9.4
Pediatrics*	9.7	10.1	10.8	10.9	10.1
Orthopedics	4.7	5.2	4.6	4.7	4.7
Neurology	4.5	4.9	4.8	4.9	4.9
Comprehensive Epilepsy Program	0.9	0.8	0.9	0.8	0.9
Psychiatry	5.8	5.6	5.3	5.3	5.7
Rehabilitation	1.1	1.0	1.0	1.1	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%

* Excludes nursery discharges.

A summary of historical utilization data for calendar years 2012 through 2014 and fiscal year 2015 and 2016, is presented in the following table:

HOSPITAL UTILIZATION DATA

	Calendar Year			Fiscal Year (June 30)	
	2012	**2013**	**2014**	**2015**	**2016**
Certified Beds	800	800	830	838	838
Discharges*	40,740	39,597	39,149	39,224	39,846
Patient Days*	266,495	275,347	279,071	286,160	284,435
Average Length of Stay (Days)	6.4	6.9	7.1	7.1	7.0
Emergency Room Visits	101,085	100,920	110,208	118,254	129,369
Outpatient Clinic Visits	292,721	371,522	442,208	458,517	513,630
Observation Cases	10,815	11,967	12,682	13,364	16,093
Ambulatory Surgery Visits	22,112	23,099	22,753	22,841	24,780
Faculty Practice Visits	848,217	848,639	810,994	834,980	868,434
Average % Occupancy†:					
Medicine & Surgery	99.2%	102.2%	98.1%	97.9%	98.3%
Obstetrics	67.9	68.1	67.1	63.3	57.8
Gynecology	92.6	94.0	84.9	84.5	92.5
Pediatrics	85.4	85.6	91.3	92.5	85.9
Psychiatry	85.8	88.3	90.4	88.9	76.7
Rehabilitation	88.9	89.2	90.2	91.8	85.6

*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 2016:

AREA HOSPITAL UTILIZATION DATA

	Acute Beds	2016 Discharges	2016 % Occupancy†	2016 Newborns
Strong Memorial Hospital	838	39,265	94.56%	2,282
Rochester General Hospital (1)	528	28,834	89.45	1,939
Highland Hospital*	261	15,791	83.47	3,043
Unity Health System (1)	311	16,500	82.05	1,571
FF Thompson Hospital*	113	4,979	52.21	691
Nicholas Noyes Hospital*	67	1,994	34.01	374
Jones Memorial Hospital*	70	1,618	27.95	415

* Affiliate of the Hospital

† Based on licensed beds.

(1) Data presented above for Rochester General Hospital and Unity Health System are calendar 2015 results from HUGS reports, which is the latest available information.

Sources of Revenue

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2016, the Hospital received approximately 83% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for calendar years 2012 through 2014 and for fiscal year 2015 and 2016 are as follows:

SOURCES OF HOSPITAL'S PATIENT SERVICES REVENUE

	Calendar Year			Fiscal Year (June 30)	
	2012	2013	2014	2015	2016
Blue Cross	30.2%	30.7%	29.5%	29.9%	30.5%
Medicare	33.4	33.6	34.9	35.4	34.7
Preferred Care	5.6	4.7	5.4	5.4	5.2
Medicaid	17.3	18.6	18.7	18.6	18.2
Commercial Insurance	9.0	9.2	8.5	7.9	8.5
Self-Pay and Other	4.5	3.2	3.0	2.8	2.9
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 completed and settlements finalized through December 31, 2007.

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, 2017. 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 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 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, payers are required to fund a pool used for indigent care and other state priorities 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.

Hospital Finances

The Hospital accounts for approximately 44% of the University’s operating revenues and 42% of operating expenses. The table below presents the operating results of the Hospital for calendar years 2012 through 2014 and fiscal years 2015 and 2016.

Hospital Operating Results
(dollars in thousands)

	Calendar Year			Fiscal Year (June 30)	
	2012	**2013**	**2014**	**2015**	**2016**
Operating Revenues:					
Net Patient Services Revenue	$1,096,497	$1,201,480	$1,273,608	$1,303,699	$1,411,800
Other Operating Revenue	83,358	85,126	134,653	155,464	190,436
Total Operating Revenue	1,179,855	1,286,606	1,408,261	1,459,163	1,602,236
Operating Expenses:					
Salaries, Wages & Fringe Benefits	589,244	633,244	688,694	713,331	799,351
Supplies and Other Expenses	432,485	464,086	536,847	576,633	645,594
Interest	7,007	7,659	7,468	6,715	10,169
Depreciation	54,990	58,336	58,934	59,852	67,578
Total Operating Expenses	1,083,726	1,163,325	1,291,943	1,356,531	1,522,692
Gain from Operations	96,129	123,281	116,318	102,632	79,544
Non-Operating Gains (Losses)	(936)	31,968	2,661	(2,648)	(24,962)
Revenues in Excess of Expenses	$ 95,193	$ 155,249	$ 118,979	$ 99,984	$ 54,582

Management's Discussion of Financial Performance

For fiscal year 2016, the Hospital generated an operating margin of $79,544 or 5% on revenues of $1,602,236 over expenses of $1,522,692. Operating revenue growth of 9.8% from 2015 to 2016 was the result of increases in net patient service revenue related to volume increases and increased payment rates. Operating revenue growth is also related to increase in other operating revenue related to increases in specialty and contract pharmacy operations. Operating expense growth was attributed to increases in staff salaries and benefits as well as medical supplies as the result of growth in volumes and increased pharmaceutical expense related to increase in specialty, contract and ambulatory pharmacy operations. At June 30, 2016, the Hospital had 117 days cash on hand and 31 days in patient accounts receivable.

Through the six months ending December 31, 2016, the Hospital continues its track record of strong operating performance. The six month operating margin is at $36.3 million or 4.2%, as compared to $25.6 million or 3.3% for the same period in the prior year. Inpatient discharges are up 11.8% from the same period last year, and most outpatient volumes continue to grow, particularly in the Emergency Department, Oncology, Ambulatory clinics, Cardiology, and Laboratory.

PricewaterhouseCoopers LLP has not audited, reviewed, compiled, or performed any procedures with respect to the preliminary financial data relating to any period subsequent to June 30, 2016 presented in APPENDIX A. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect to such preliminary financial data. This subsequent events data is the responsibility of management.

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 of various contractual obligations of the Medical Center including 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 in this official statement, 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 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, otherwise known as the Medicare Advantage (MA) program or Medicare Part C. Enrollment in a Medicare Advantage 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 MA products for the Medicare population. The Medicare Modernization Act of 2003 changed the name of the Medicare+ Choice program to the Medicare Advantage program.

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

Federal Health Reform Law

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.

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 organizations 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 organization approved hospitals.

Patient Portability and Affordable Care Act (PPACA)

Healthcare reform as introduced by the PPACA encourages new and innovative provider payment and methodologies. Of major importance to providers is the concept of Population Health Management (PHM). This new payment structure will shift incentives from volume to value (cost and quality) driving care models dependent on highly-integrated team based approaches to care. This will require improved information technology infrastructures to provide patient data to help these clinical teams manage large populations with an emphasis on prevention and coordinated care of the chronically-ill. Consequently, in order to be rewarded for "bending the cost curve", it is likely providers and payers will move away from a strictly fee-for-service payment structure and explore payment models focused on a single payment to the health care team for the care of specific populations (Accountable Care Networks) or an entire period of care (bundles).

Centers for Medicaid & Medicaid Services ("CMS") has implemented a few payment programs designed to incentivize providers to improve quality, increase patient satisfaction and reduce utilization costs. Currently, all the value-based payment programs but one are penalizing in nature, that is, payment rates are reduced for either non-compliance or failing to achieve specified targets. One of the payment programs can be either rewarding or penalizing depending on where the individual institution compares to all other providers. In all, up to 3% of the hospital's Medicare payments are at risk if quality, satisfaction and cost metrics are not achieved.

It is difficult to fully project the financial effects of these changes on the hospital but they are not expected to have a significant adverse effect.

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.

Pursuant to a waiver from CMS, the State recently created the Delivery System Reform Incentive Payment program, which is designed to transform the Medicaid program. At the end of five years, if not sooner, providers are expected to have formed integrated delivery networks and to transition to value-based payment methodologies for their Medicaid population. The rules of this program continue to evolve. Therefore, there remains regulatory and financial uncertainty associated with this program.

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 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 changes and enforcement actions by Medicare and Medicaid, including audits and litigations seeking recoupment of Medicare and Medicaid payments alleged to have been improperly billed. This is also an active area for qui tam litigations – healthcare fraud cases under the False Claims Act.

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. More recently the Health Resources and Services Administration ("HRSA") has commenced audits of the federal 340B outpatient drug discount program, a program from which the Hospital derives substantial cost savings. Compliance with HRSA guidance is difficult because of its lack of clarity and changing interpretations. 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.

The Hospital is subject to other government agency actions and policy changes such as 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 "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.

Competition

The healthcare industry is in the process of rapid and fundamental change. It 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. In recent years, the State of New York Department of Financial Services has resumed regulation of commercial payer rate filings, limiting the annual increases in premiums that commercial payers may receive. This increased regulation has the potential to reduce the reimbursement third party payers can or will pay to the Hospital for covered services furnished to members enrolled in commercial insurance plans.

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 the Joint Commission through May, 2019. 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 imprisonment for five years, 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 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 (now CMS) issued proposed regulations and commentary interpreting the Stark Law. On January 4, 2001, HCFA 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 Internal Revenue Code of 1986, as amended (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 at 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 a tax-exempt organization, the Hospital is limited with respect to the use of practice income guarantees, reduced rent of 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. Senator 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 2017 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 the 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 an 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. Consolidation within the healthcare industry has increased the antitrust risk as has the formation of large networks to conduct joint contracting for risk and gain sharing contracts. 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, market allocation, 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 materially 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.

Shortages of physicians and nursing and other medical technical personnel may occur, which may impact hospitals and health care systems. Various studies have predicted that physician and nurse shortages will become more acute over time, as practitioners retire and patient volume exceeds the growth in new professionals. As reimbursement amounts are reduced to health care facilities and organizations that employ or contract with physicians, nurses and other health care professionals, pressure to control and possibly reduce wage and benefit costs may further strain the supply of those professionals. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians, billing coders and others may occur. A new influx of patients with insurance coverage, as a result of health care initiatives, may exacerbate personnel issues. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other medical technical personnel shortages, resulting in material adverse impact to hospitals.

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.

Debt Limit Increase

Through legislation, the federal government has created a debt “ceiling” or limit on the amount of debt that may be issued and outstanding by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. Any failure by Congress to increase the federal debt limit may impact the federal government’s ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs. The 2015 Budget Act suspended the debt limit until March 15, 2017.Management is unable to predict what impact any future failure to increase the federal debt limit may have on the operations and financial condition of the Hospital, although such impact could be material and adverse. Additionally, the market price or marketability of the Bonds in the secondary market may be materially adversely impacted by any failure of Congress to increase the federal debt limit.

Violations and Sanctions

The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal, monetary and other penalties, including suspending essential hospital and other health care provider payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force health care providers to enter into monetary settlements in exchange for releases of liability for past conduct, as well as agreements imposing prospective restrictions and/or mandated compliance requirements on health care providers. Such negotiated settlement terms may have a materially adverse impact on hospital and other health care provider operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements for alleged intentional misconduct, fraud or false claims are not uncommon in the health care industry. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Many large hospital and other health care provider systems are likely to be adversely impacted.

Technical and Clinical Developments

New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations, lower utilization of hospital service and/or new sources of competition for hospitals.

Pension and Benefit Funds

As large employers, health systems may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Plans are often underfunded or may become underfunded and funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.Organizations that are controlled by or under common control with other entities may be jointly and severally liable for the defined benefit pension plan obligations of these entities, by virtue of the "controlled group" rules under the Internal Revenue Code of 1986, as amended and the Employee Retirement Income Security Act of 1974, as amended. To the extent that a plan sponsor is unable to or does not meet the plan's minimum funding standards or if there are unfunded liabilities upon plan termination, members of the controlled group are jointly and severally liable, and any excise tax applicable to the unpaid required minimum funding contributions can be levied against the controlled group. The rules permit the Pension Benefit Guaranty Corporation ("PBGC"), the federal agency charged with insuring and monitoring defined benefit plans, to impose a lien on the controlled group if required minimum funding contributions and unpaid amounts total more than $1 million. The PBGC also has the authority to recover from the members of the plan sponsor's controlled group amounts that the PBGC pays, or assumes the obligation to pay, to plan participants and beneficiaries in connection with a termination of an underfunded plan. The PBGC may also attach a lien to the assets of the plan sponsor's controlled group members to secure its claims for recovery.

Class Actions

Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

Facility Damage

Hospitals and health systems are highly dependent on the condition and functionality of their physical facilities. Damage from earthquakes, floods, fires, other natural causes, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on operations, financial conditions and results of operations.

Cybersecurity, Security Breaches and Unauthorized Releases of Personal Information

Like many other large organizations, the Hospital relies on digital technologies to conduct its customary operations. In the past several years, a number of entities have sought to gain unauthorized access to digital systems of large organizations for the purpose of misappropriating assets or information or cause operational disruptions. These attempts include highly sophisticated efforts to electronically circumvent network security as well as more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The Hospital maintains a network security system designed to stop "cyber-attacks" by third parties, and minimize its impact on operations; however, no assurances can be given that such network security systems will be completely successful.

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed.

State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, as discussed with respect to the HITECH Act above, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Environmental Laws and Regulations

Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

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 2017 Bonds. Likewise, the University is not responsible for the obligations of the Affiliated Entities unless it has agreed otherwise. The Affiliated Entities are as follows:

Strong Partners Health System, Inc. and Affiliates

In June 1997, Highland Hospital and its affiliates and the University became affiliated through the restructuring of a corporation now known as Strong Partners Health System, Inc. ("SPHS"), of which the University is the sole member. SPHS, a not-for-profit corporation, now serves as the corporate parent of Highland Hospital and the University's long term care affiliates.

A brief description of the SPHS 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 20 outpatient extension clinics, providing primary care, prenatal care, radiology, and/or therapeutic radiology services.

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 apartments, 36 independent living cottages, 60 enriched housing units, a community common area, a dining room, sitting areas, recreational areas, a wellness center, and a community center. HCDC also owns and operates Laurelwood at the Highlands, an assisted living facility including 68 apartments located on the same campus as The Highlands at Pittsford.

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.

The Highlands at Brighton

The Meadows at Westfall, Inc. d/b/a The Highlands at Brighton ("HAB") is a not-for-for profit corporation which owns and operates a 145-bed skilled nursing facility in Brighton, Monroe County, New York.

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, Inc.

Highland Hospital is the sole shareholder of Medical Administrative Associates, Inc., d/b/a Highland South Wedge Pharmacy, which is a for-profit corporation which owns and operates a retail pharmacy in Rochester, New York.

The Highland Foundation, Inc.

The Highland Foundation, Inc. is a not-for-profit corporation controlled by Highland Hospital which solicits, receives and maintains funds for the support of Highland Hospital and the long term care affiliates.

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

The University affiliated with Visiting Nurse Foundation, Inc. in April 1999, which is a not-for-profit corporation now known as Strong Home Care Group ("SHCG"). The University is the sole corporate member of SHCG. SHCG is the sole member of two not-for-profit home health care providers, Visiting Nurse Service of Rochester and Monroe County, Inc. ("VNS"), which operates a certified home health agency, and Community Care of Rochester, Inc. d/b/a VNS Signature Care, which operates a licensed home care services agency. In October 2014, Finger Lakes Visiting Nurse Service, Inc., which operates a certified home health agency, and Finger Lakes Home Care, Inc., which operates a licensed home care services agency, became University affiliates. VNS is the sole corporate member of the Finger Lakes home health affiliates.

F.F. Thompson Health System, Inc. and Affiliates

In September 2012, the University affiliated with F.F. Thompson Health System, Inc. ("FFTHS"), which is the corporate parent of a hospital and other affiliates located in Canandaigua, Ontario County, New York. The University is the sole member of FFTHS.

A brief description of the FFTHS affiliates follows:

The Frederick Ferris Thompson Hospital
The Frederick Ferris Thompson Hospital is a 113-bed not-for-profit acute care hospital. Its services include medical/surgical care, intensive care, maternity and emergency care. In addition, the hospital owns and operates 10 extension clinics, 9 of which provide primary health care service and 1 of which provides outpatient physical and occupational therapy.

M.M. Ewing Continuing Care Center
M.M. Ewing Continuing Care Center Inc. is a not-for-profit corporation that operates a 188-bed skilled nursing facility and adult day care program adjacent to F.F. Thompson Hospital.

F.F.T. Senior Communities, Inc.
F.F.T. Senior Communities, Inc. is a not-for-profit corporation that operates Ferris Hills at Westlake, a residential community consisting of 84 independent living units and Clark Meadows, consisting of 48 enriched living units.

The F.F. Thompson Foundation, Inc.
The F.F. Thompson Foundation, Inc. is a not-for-profit corporation which solicits, maintains, receives and maintains funds for the support and benefit of FFTHS and its affiliates.

FFTH Properties and Services, Inc. (Properties)
FFTH Properties and Services, Inc. is a for-profit New York State business corporation organized for the purpose of owning, developing and operating unregulated real property for the benefit of FFTHS and its affiliates. Properties owns and operates a medical office building in Canandaigua, New York and a medical office building in the town of Farmington, New York.

Finger Lakes Community Care Network, Inc. (FLCCN)
Finger Lakes Community Care Network, Inc. is a for-profit New York State business corporation originally organized for the purpose of coordinating services among the Hospital, participating physicians and insurance industry representatives. FLCCN is currently inactive. FFTHS management is reviewing the corporate structure, function and future of the corporation.

Eastman Dental Center Foundation, Inc. (EDCF)
The Eastman Dental Center Foundation, Inc. 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. EDCF is not controlled by the University but is closely aligned with its Eastman Institute of Oral Health, a division of the University of Rochester Medical Center.

Excell Partners, Inc.
Excell Partners, Inc. is a not-for-profit corporation that supports 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 Excell Partners.

Excell Technology Ventures, Inc. (ETV)
Excell Technology Ventures, Inc. is a New York for-profit business corporation that is the general partner of Excell Innovate NY Fund, LP (the "LP"), which provides seed stage funding to regional high tech companies. ETV also serves as the manager of the LP, through Excell Partners, Inc. RBC (see below) is the sole shareholder of ETV.

Rochester Bioventure Center, Inc. (RBC)
Rochester Bioventure Center, Inc. is a not-for-profit corporation 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 RBC.

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

Managed Care Organization
The University, through Strong Partners Health System, Strong Memorial 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.

Accountable Health Partners, LLC ("AHP") and Accountable Health Partners - IPA, LLC
Accountable Health Partners, LLC ("AHP") and Accountable Health Partners - IPA, LLC is a network of physicians employed by the University and its affiliated hospitals, community based physicians, and other affiliated hospitals that are clinically integrated and negotiate reimbursement contracts with local payers and self-insured businesses. The University, through Strong Memorial Hospital, owns 25% of AHP, with the balance owned by other hospitals, University-employed physicians, affiliated hospital-employed physicians, and community physicians.

Livingston Health Care System, Inc.

On January 1, 2016, the University became the sole corporate member of Livingston Health Care System, Inc. including Noyes Memorial Hospital and subsidiaries (Noyes). Noyes is a 67-bed facility located in Dansville, New York. Services include birth center, cardiology, infusion center, diagnostic imaging, emergency care, hospice care, inpatient care, laboratory, prenatal, rehabilitation therapy, respiratory therapy, surgery and sleep lab.

Memorial Hospital of William F. and Gertrude F. Jones, Inc.
On January 1, 2016, the University became the sole corporate member of the Memorial Hospital of William F. and Gertrude F. Jones, Inc. (Jones). Jones is a 70-bed acute care facility located in Wellsville, NY. The hospital's services include medical/surgical care, intensive care, maternity and pediatric care.

Debt of Related Entities
The external debt of the Related Entities as of December 31, 2016, which is not an obligation of the University, is as follows:

Highland Hospital and HFDC
Total long-term indebtedness amounted to $48,621,000.

Highland Community Development Corporation
Total long-term indebtedness amounted to $5,845,000.

F.F. Thompson Health System, Inc.
Total long-term indebtedness amounted to $56,410,000. FFT Thompson Health System issued new debt amounting to $868,000 to refinance an existing mortgage during the first quarter of fiscal year 2017 and entered into a $146,000 capital lease to finance equipment during the second quarter of fiscal year 2017.

Noyes Memorial Hospital
Total long-term indebtedness amounted to $8,412,000. Noyes Memorial Hospital issued $211,000 in capital leases to finance equipment during the second quarter of fiscal year 2017.

Memorial Hospital of William F. and Gertrude F. Jones, Inc.
Total long-term indebtedness amounted to $2,713,000.

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, 2016 and 2015

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2016 and 2015

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Report of Independent Auditors

To the Board of Trustees
University of Rochester

We have audited the accompanying consolidated financial statements of the University of Rochester and its related entities (the "University"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Rochester and its related entities as of June 30, 2016 and 2015, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Rochester, New York
October 20, 2016

PricewaterhouseCoopers LLP, 1200 Bausch & Lomb Place, Rochester, NY 14604-2705
T: (585) 232-4000, F: (585) 454-6594, www.pwc.com/us

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

Assets	**2016**	**2015**
Cash and cash equivalents	$ 277,221	$ 450,595
Short-term investments	426,593	317,703
Accounts receivable, net	380,951	311,114
Inventories, prepaid expenses, and deferred charges	71,453	71,200
Contributions receivable, net	88,526	100,827
Notes receivable, net	49,482	49,994
Other assets	40,438	25,317
Investments held for long-term purposes	2,308,446	2,445,777
Property, plant and equipment, net	1,991,438	1,899,849
Interest in net assets of foundations	16,473	17,567
Investments in perpetual trusts held by others	52,306	56,233
Total assets	$ 5,703,327	$ 5,746,176
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 458,988	$ 425,413
Advanced receipt of sponsored research revenues	9,100	12,390
Deferred revenue	78,894	62,323
Third-party settlements payable, net	154,221	138,116
Accrued pension, post-retirement, and post-employment	572,294	445,645
Long-term debt	1,203,573	1,216,632
Asset retirement obligation	29,442	27,680
Refundable U.S. Government grants for student loans	16,459	16,321
Total liabilities	2,522,971	2,344,520
Net Assets:		
Unrestricted	2,072,141	2,191,594
Temporarily restricted	586,163	705,512
Permanently restricted	522,052	504,550
Total net assets	3,180,356	3,401,656
Total liabilities and net assets	$ 5,703,327	$ 5,746,176

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
Year Ended June 30, 2016
(dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Tuition and fees	$ 458,446	$ -	$ -	$ 458,446
Less: scholarships and fellowships	(189,123)	-	-	(189,123)
Net tuition and fees	269,323	-	-	269,323
Grants and contracts	369,954	-	-	369,954
Gifts and pledges	25,433	38,135	15,408	78,976
Hospital and faculty practice patient care activities	2,638,925	-	-	2,638,925
Auxiliary enterprises	117,439	-	-	117,439
Interest income and appreciation of operating investments	(3,223)	-	-	(3,223)
Educational activities	14,486	-	-	14,486
Royalty income	23,113	-	-	23,113
Other sources	64,169	-	-	64,169
Long-term investment income and gains allocated to operations	93,576	-	-	93,576
Net assets released from restriction	98,429	(99,802)	1,373	-
Total operating revenues	3,711,624	(61,667)	16,781	3,666,738
Operating expenses:				
Salaries and wages	1,750,538	-	-	1,750,538
Fringe benefits	532,365	-	-	532,365
Total compensation	2,282,903	-	-	2,282,903
Supplies	562,358	-	-	562,358
Business and professional	235,287	-	-	235,287
Utilities	55,171	-	-	55,171
Maintenance and facilities costs	128,095	-	-	128,095
Depreciation	206,974	-	-	206,974
Interest	45,072	-	-	45,072
Other	134,818	-	-	134,818
Total operating expenses	3,650,678	-	-	3,650,678
Change in net assets from operating activities	60,946	(61,667)	16,781	16,060
Non-operating activities:				
Long-term investment activities:				
Investment income (loss)	11,624	3,829	(93)	15,360
Net depreciation	(41,867)	(57,317)	(1,585)	(100,769)
Total long-term investment activities	(30,243)	(53,488)	(1,678)	(85,409)
Long-term investment income and gains allocated for operations	(93,576)	-	-	(93,576)
Loss on extinguishment of debt	(559)	-	-	(559)
Other changes, net	(84,453)	1,539	(80)	(82,994)
Change in valuation of annuities	-	(6,508)	181	(6,327)
Change in net assets from non-operating activities	(208,831)	(58,457)	(1,577)	(268,865)
Change in net assets before cumulative effect of acquisition	(147,885)	(120,124)	15,204	(252,805)
Cumulative effect of acquisition	28,432	775	2,298	31,505
Change in net assets	(119,453)	(119,349)	17,502	(221,300)
Beginning net assets	2,191,594	705,512	504,550	3,401,656
Ending net assets	$ 2,072,141	$ 586,163	$ 522,052	$ 3,180,356

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
Year Ended June 30, 2015
(dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Tuition and fees	$ 437,659	$ -	$ -	$ 437,659
Less: scholarships and fellowships	(177,804)	-	-	(177,804)
Net tuition and fees	259,855	-	-	259,855
Grants and contracts	342,867	-	-	342,867
Gifts and pledges	34,638	30,579	35,986	101,203
Hospital and faculty practice patient care activities	2,419,776	-	-	2,419,776
Auxiliary enterprises	118,667	-	-	118,667
Interest income and appreciation of operating investments	5,326	-	-	5,326
Educational activities	15,602	-	-	15,602
Royalty income	23,634	-	-	23,634
Other sources	40,203	-	-	40,203
Long-term investment income and gains allocated to operations	87,946	-	-	87,946
Net assets released from restriction	57,553	(61,654)	4,101	-
Total operating revenues	3,406,067	(31,075)	40,087	3,415,079
Operating expenses:				
Salaries and wages	1,631,055	-	-	1,631,055
Fringe benefits	483,241	-	-	483,241
Total compensation	2,114,296	-	-	2,114,296
Supplies	504,287	-	-	504,287
Business and professional	202,783	-	-	202,783
Utilities	57,036	-	-	57,036
Maintenance and facilities costs	125,626	-	-	125,626
Depreciation	196,698	-	-	196,698
Interest	35,041	-	-	35,041
Other	92,995	-	-	92,995
Total operating expenses	3,328,762	-	-	3,328,762
Change in net assets from operating activities	77,305	(31,075)	40,087	86,317
Non-operating activities:				
Long-term investment activities:				
Investment income	10,496	3,212	(1,200)	12,508
Net appreciation	43,714	31,024	2,141	76,879
Total long-term investment activities	54,210	34,236	941	89,387
Long-term investment income and gains allocated for operations	(87,946)	-	-	(87,946)
Loss on extinguishment of debt	(10,880)	-	-	(10,880)
Other changes, net	(29,753)	(609)	(325)	(30,687)
Change in valuation of annuities	-	(571)	57	(514)
Change in net assets from non-operating activities	(74,369)	33,056	673	(40,640)
Change in net assets	2,936	1,981	40,760	45,677
Beginning net assets	2,188,658	703,531	463,790	3,355,979
Ending net assets	$ 2,191,594	$ 705,512	$ 504,550	$ 3,401,656

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)

	2016	2015
Cash flows from operating activities:		
Change in net assets after cumulative effect of acquisition	$ (221,300)	$ 45,677
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	206,974	196,698
Net depreciation / (appreciation) on long-term investment activities	100,769	(76,879)
Gifts of property, plant, equipment and other	(1,306)	(2,372)
Bond discount amortization	(2,297)	(1,423)
Loss on the extinguishment of debt	559	10,880
Provision for bad debts	36,654	41,497
Loss on disposals of property, plant, and equipment	3,169	1,702
Cumulative effect of acquisition	(31,505)	-
Contributions for long-term investments	(66,169)	(58,236)
(Increases) / decreases in:		
Accounts receivable, net	(92,172)	(19,575)
Inventories, prepaid expenses, and deferred charges	1,545	(16,147)
Contributions receivable, net	17,331	(3,436)
Other assets	(9,951)	(16,736)
Increases / (decreases) in:		
Accounts payable and accrued expenses	27,827	26,358
Advanced receipt of sponsored research revenues	(3,290)	(12,537)
Deferred revenues	11,194	187
Third-party settlements payable, net	14,915	15,493
Accrued pension, post-retirement, and post-employment	112,012	43,479
Net cash provided by operating activities	104,959	174,630
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(273,538)	(279,099)
Purchases of investments	(1,463,883)	(1,036,838)
Proceeds from the sale of investments	1,413,025	971,517
Increase in investments in perpetual trusts held by others	(58)	(110)
(Increase) / decrease in notes receivable, net	512	(1,264)
Cash received in acquisition	3,908	-
Net cash used in investing activities	(320,034)	(345,794)
Cash flows from financing activities:		
Net borrowings / (repayments) on lines-of-credit	-	(660)
Principal repayments of long-term debt	(65,279)	(69,818)
Proceeds from issuance of long-term debt	41,034	168,319
Deferred financing costs	(361)	(2,071)
Increase in refundable U.S. Government grants for student loans	138	134
Contributions for long-term investments	66,169	58,236
Net cash provided by financing activities	41,701	154,140
Net decrease in cash and cash equivalents	(173,374)	(17,024)
Cash and cash equivalents, beginning of year	450,595	467,619
Cash and cash equivalents, end of year	$ 277,221	$ 450,595
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest on long-term debt	$ 43,294	$ 42,436
Non-cash investing and financing activities:		
(Decrease) / increase in construction related payables	$ (11,013)	$ 868
Assets acquired under capital leases	$ 274	$ -

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, Strong Home Care Group, the various entities included in Strong Partners Health System, Inc. (SPHS), F.F. Thompson Health System, Inc., Livingston Health Care System, Inc. and The Memorial Hospital of William F. and Gertrude F. Jones, Inc.

(b) Basis of Presentation

The accompanying consolidated financial statements include all of the integrated divisions of the University – 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, University of Rochester Medical Faculty Group (URMFG), and UR Investment, LLC. Included also are Strong Partners Health System, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Crittenden Boulevard Housing Company, Inc., Excell Partners, Inc., Rochester BioVenture Center, Inc. (including its subsidiaries), High Tech Rochester, Inc., University of Rochester Real Estate Corporation, UR Equity Holdings, Inc., F.F. Thompson Health System, Inc. (including its subsidiaries), Accountable Health Partners, LLC., Livingston Health Care System, Inc. and The Memorial Hospital of William F. and Gertrude F. Jones, Inc. All significant interorganizational balances and transactions have been eliminated.

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries 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. 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. (VNS) and Community Care of Rochester. VNS is the sole corporate member of Finger Lakes Visiting Nurse Service, Inc. and Finger Lakes Home Care, Inc.

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

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

The University is the sole corporate member of Rochester BioVenture Center, Inc. (including its subsidiary Excell Technology Ventures, 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 member of University of Rochester Investment, LLC, which was formed for the purpose of holding certain University investments.

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.

The University is the sole stockholder of UR Equity Holdings, Inc., a for-profit corporation that was formed for the purpose of holding the University's equity interests in startup companies.

The University is the sole corporate member of F.F. Thompson Health System, Inc. (THS) (including its subsidiaries The Frederick Ferris Thompson Hospital (FFT Hospital), M.M. Ewing Continuing Care Center (CCC), F.F.T. Senior Communities, Inc. (FFTSC), FFTH Properties and Services, Inc. (FFTH Properties), and The F.F. Thompson Foundation, Inc. (FFTF). THS remains the sole member of FFT Hospital, CCC, FFTSC, and FFTF and the sole shareholder of FFTH Properties. The University, THS and THS's affiliates continue as separate and distinct corporations.

Accountable Health Partners, LLC (AHP), a New York State limited liability company, was formed in January 2013, partly in response to the Patient Protection and Affordable Care Act of 2010. Through AHP, the members hope to harness the collective expertise of physicians and hospitals to work with third party payers to provide quality comprehensive and cost-effective patient care to the Greater Rochester New York community. The University has a controlling financial interest through direct and indirect ownership of a majority voting interest in AHP.

On January 1, 2016, the University became the sole corporate member of Livingston Health Care System, Inc., including Noyes Memorial Hospital and subsidiaries (Noyes) and the Memorial Hospital of William F. and Gertrude F. Jones, Inc. (Jones). The alignment was accounted for as an acquisition under the Merger and Acquisition guidance for not-for-profit entities. In connection with the acquisition, the University recorded approximately $31,505 in the cumulative effect of acquisition line in the consolidated statement of activities and statement of cash flows as of June 30, 2016. The book value of assets acquired, which approximate fair value, and liabilities assumed were $84,097 and $52,592, respectively.

(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: permanently restricted, temporarily restricted, and unrestricted, based upon the existence or absence of donor-imposed restrictions.

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

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Investment income and gains and losses on permanently restricted net assets are reported as temporarily restricted until appropriated for expenditure in accordance with donor-imposed stipulations. Under NYPMIFA, the appropriation and spending of such income is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i). When a donor restriction expires, that is, when a stipulated time restriction ends or spending restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required 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.

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

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

Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are placed in service.

(d) Income Taxes

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

(e) Operations

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

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

Non-operating activities consist primarily of investment income and appreciation from long-term investments in excess of amounts utilized for operations. Other changes, net consists primarily of adjustments in pension, post-retirement, and post-employment obligations based on actuarially determined liabilities.

(f) Cash and Cash Equivalents and Short-Term 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.

Short-term 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 2% to 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 and Spending Policy

The University's investments are comprised of the assets of the University's endowment and other investments held for general operating purposes. The University reports those investments at fair value as described further in note 12.

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

(dollars in thousands)

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Although NYPMIFA does not preclude the University from spending below the original gift value of permanently restricted funds, the University's policy is to spend no more than a stated percentage of fair value of its investment portfolio over time. Accordingly, during fiscal year 2016, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.7% (5.8% during fiscal year 2015) 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 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.

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

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

(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 research building components is recorded using the straight-line method over the useful lives of the components ranging from 4 to 50 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 museum collections. If purchased, collection items are capitalized at cost, and if donated, at their appraised or fair value on the accession date (the date on which the item is accepted by the Board of Trustees). There is no depreciation recorded on collection items.

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2016 and 2015, the fair values for split interest agreements assets are $111,804 and $95,266, 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

Strong Memorial Hospital, Highland Hospital, and FFT Hospital, Noyes Memorial Hospital and

Memorial Hospital of William F. and Gertrude F. Jones, Inc. (collectively, the Hospitals) have agreements with third-party payors that provide for payments to the Hospitals 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 Hospitals receive 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 Hospitals also receive 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 Hospitals' Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2007 for Strong Memorial Hospital; December 31, 2008 for Highland Hospital; December 31, 2011 for FFT Hospital; December 31, 2015 for Memorial Hospital of William F. and Gertrude F. Jones, Inc. and December 31, 2013 for Noyes Memorial Hospital.

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).

Under HCRA, Medicaid, workers compensation, and no-fault payors payment 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 Hospitals' established charges. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate payment rates utilizing All Patient Refined DRGs (APR-DRGs). APR-DRGs used revised service intensity weights (SIWs) to adjust each APR-DRG for patient acuity. 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.

Revenue from Excellus Blue Cross and MVP accounted for approximately 30% and 5%, respectively, of the Hospitals' net patient service revenue for the year ended June 30, 2016, and 31% and 6%, respectively, for the year ended June 30, 2015.

Revenue from Medicare and Medicaid programs, including Medicare Advantage and Medicaid Managed Care plans, accounted for approximately 36% and 17%, respectively, of the Hospitals' net patient revenue for the fiscal year ended June 30, 2016, and 39% and 19%, respectively, for the year ended June 30, 2015. 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 Hospitals believe that they are in compliance, in all material respects, with all applicable laws and regulations and are 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 NYS 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 Hospitals have 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 Hospitals have 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 and cannot be reasonably estimated, 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 2016 and 2015, the Hospitals recognized approximately $11,899 and $11,033 of net patient service revenue as a result of changes in estimates related to third party settlements. In addition, the Hospitals recognized additional third party payables of approximately $21,672 and $11,761 related to fiscal years 2016 and 2015, respectively.

There are various other proposals at the federal and NYS 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, 2016, over 1,319 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 868,434 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 32,480 hospital admissions, as well as participated in the coverage of the emergency department handling over 129,369 visits (includes 15,888 new ED visits at Strong West). Payments for these services are derived primarily from third-party insurers including Managed Care companies (14.82%), Medicare (19.81%), Blue Shield (25.93%), Medicaid (13.74%), commercial (11.80%), other (4.11%), and self-pay (9.79%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 435 University medical students and 813 residents and fellows.

(q) Charity Care and Provision for Bad Debts

As further described in Note 17, the University provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the University does not pursue collection of amounts determined to qualify as charity care, these are not reported as revenue or patient accounts receivable.

The University grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and State governmental healthcare coverage and other collection indicators.

(r) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Management's assumptions are primarily related to the appropriate discount rate for the purposes of fair value calculations, allowances for doubtful accounts, self-insured risks, and third-party payor contractual adjustments and allowances. Actual results may differ from those estimates.

(s) Investment in Net Assets of Foundations

The University accounts for its interest in the net assets of the James P. Wilmot Foundation, Inc. and the Pluta Cancer Center Foundation, Inc. in accordance with not-for-profit guidance. The guidance establishes standards for transactions in which a donor transfers assets to a not-for-profit organization or charitable trust, which then agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. Under the accounting guidance, the University is required to recognize the net assets and its share of the change in the net assets of the Foundations. The Foundations support cancer research and various medical services provided to the community.

(t) 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 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.

(u) 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.

(v) Reclassification

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

(w) New Authoritative Pronouncements

For the fiscal year ended June 30, 2016, the University elected to "early adopt" the disclosure changes required by Accounting Standards Update (ASU) 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). Investments that are measured using net asset value will no longer be categorized in the fair-value hierarchy. The effects of adopting the ASU are reflected in Note 12 and the prior year disclosures have been adjusted to conform to this new presentation.

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic

606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2019.

In April 2015, the FASB issued ASU 2015-03 - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability.

The standard is effective for fiscal years beginning after December 15, 2016. The University is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2018.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for the fiscal year ended June 30, 2021. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14 - Presentation of Financial Statements for Not-for-Profit Entities. Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification and eliminating the disclosure of investment expenses that are netted against investment returns. The standard is effective for the fiscal year ended June 30, 2019. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

(dollars in thousands)

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	2016	2015
Designated:		
University divisions	$ 1,284,769	$ 1,362,559
Highland Hospital and affiliates	20,106	46,743
Eastman Dental Center Foundation	29,493	29,454
Total designated	1,334,368	1,438,756
Net investment in property, plant, and equipment	758,423	655,576
Undesignated	(20,650)	97,262
Total unrestricted net assets	$ 2,072,141	$ 2,191,594

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

	2016	2015
Accumulated appreciation on permanently restricted net assets subject to board appropriation and/or purpose restrictions	$ 469,391	$ 534,420
Interest in net assets of foundations	16,473	17,567
Other gifts and income subject to:		
Purpose restrictions	3,074	50,775
Time restrictions:		
Contributions receivable	49,384	56,136
Split-interest agreements	47,841	46,614
Total temporarily restricted net assets	$ 586,163	$ 705,512

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

	2016	2015
Perpetual endowment funds	$ 425,386	$ 405,992
Interests in perpetual trusts held by others	52,306	56,233
Split-interest agreements	1,400	2,647
Perpetual loan funds	3,818	3,633
Contributions receivable	39,142	36,045
Total permanently restricted net assets	$ 522,052	$ 504,550

(dollars in thousands)

Endowment net assets consist of the following at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds:				
True endowments	$ -	$ 459,688	$ 425,386	$ 885,074
Term endowments	-	9,703	-	9,703
	-	469,391	425,386	894,777
Funds functioning as endowment (quasi)	964,017	-	-	964,017
Total endowment funds	$ 964,017	$ 469,391	$ 425,386	$ 1,858,794

Rollforward of endowment net assets from July 1, 2015 to June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	$ 1,040,729	$ 534,420	$ 405,992	$ 1,981,141
Investment return:				
Investment income, net of fees	8,527	7,568	74	16,169
Net (depreciation) appreciation	(41,056)	(36,462)	(5,300)	(82,818)
Total investment return	(32,529)	(28,894)	(5,226)	(66,649)
New gifts and additions	8,333	1,259	22,845	32,437
Amounts appropriated for expenditure	(48,321)	(44,853)	-	(93,174)
Other changes and reclassifications	(4,195)	7,459	1,775	5,039
Endowment net assets, June 30, 2016	$ 964,017	$ 469,391	$ 425,386	$ 1,858,794

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015
(dollars in thousands)

Endowment net assets consist of the following at June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds:				
True endowments	$ -	$ 532,696	$ 405,992	$ 938,688
Term endowments	-	1,724	-	1,724
	-	534,420	405,992	940,412
Funds functioning as endowment (quasi)	1,040,729	-	-	1,040,729
Total endowment funds	$ 1,040,729	$ 534,420	$ 405,992	$ 1,981,141

Rollforward of endowment net assets from July 1, 2014 to June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 1,033,785	$ 538,825	$ 369,033	$ 1,941,643
Investment return:				
Investment income, net of fees	8,019	7,031	44	15,094
Net appreciation	36,088	30,767	4,008	70,863
Total investment return	44,107	37,798	4,052	85,957
New gifts and additions	13,882	150	32,933	46,965
Amounts appropriated for expenditure	(46,515)	(40,938)	-	(87,453)
Other changes and reclassifications	(4,530)	(1,415)	(26)	(5,971)
Endowment net assets, June 30, 2015	$ 1,040,729	$ 534,420	$ 405,992	$ 1,981,141

(dollars in thousands)

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2016	2015
Patient care and related activities, net of allowances for doubtful accounts of $26,410 and $25,537	$ 222,778	$ 173,339
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of $1,046 and $1,000	83,138	68,744
Student receivables, net of allowances for doubtful accounts of $4,487 and $4,196	4,211	8,503
Reinsurance recoveries and other	70,824	60,528
Total accounts receivable	$ 380,951	$ 311,114

(4) Contributions

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

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	$ 10,813	$ 16,962
One year to five years	50,047	58,618
More than five years	68,760	65,886
Subtotal	129,620	141,466
Less unamortized discount and allowance for uncollectible amounts	(41,094)	(40,639)
Total contributions receivable, net	$ 88,526	$ 100,827

At June 30, 2016, the University had also received $236,648 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 generally will 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 $38,693 and $37,493 for University relations and development for the years ended June 30, 2016 and 2015, respectively.

(dollars in thousands)

(5) Notes Receivable

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

	2016		
	Gross Receivable	Allowance	Net Receivable
Federal student loans	$ 18,137	$ 904	$ 17,233
Institutional student loans	4,373	606	3,767
Other note receivable	28,482	-	28,482
Total	$ 50,992	$ 1,510	$ 49,482

	2015		
	Gross Receivable	Allowance	Net Receivable
Federal student loans	$ 17,976	$ 904	$ 17,072
Institutional student loans	5,046	606	4,440
Other note receivable	28,482	-	28,482
Total	$ 51,504	$ 1,510	$ 49,994

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

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

Student loans are often subject to unique restrictions and conditions and, therefore, it is not practical to determine their fair values. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

The other note receivable represents a $28,482 note receivable of the University of Rochester Real Estate Corporation (wholly-owned by the University) for a loan to the Chase NMTC Eastman Theatre Investment Fund LLC (a non-consolidated entity), which matures in December 2049. The University receives interest only, at 1.0% 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 (m) for further information.

(6) Investments Held for Long-Term Purposes

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

	2016	2015
Endowment and similar purposes	$ 1,970,524	$ 2,071,665
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	27,606	20,128
Bond proceeds not yet expended	135,687	190,567
Other	882	948
Total property, plant, and equipment purposes	164,175	211,643
Other purposes	173,747	162,469
Total investments held for long-term purposes	$ 2,308,446	$ 2,445,777

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 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, 2016 and 2015.

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.

Investment fees were $55,953 and $66,309 for the years ended June 30, 2016 and 2015, respectively.

(7) Property, Plant, and Equipment

As of June 30, 2016 and 2015, the University's investment in property, plant, and equipment is as follows:

	2016	2015
Buildings and improvements	$ 2,781,836	$ 2,525,546
Land improvements	67,425	63,927
Completed projects under leasehold agreements	46,632	33,458
Equipment owned	1,253,345	1,131,865
Library books	188,513	180,323
Subtotal	4,337,751	3,935,119
Less accumulated depreciation	2,526,241	2,303,421
Subtotal	1,811,510	1,631,698
Land	12,745	11,655
Museum collections	35,994	34,981
Construction in progress	131,189	221,515
Total property, plant, and equipment, net	$ 1,991,438	$ 1,899,849

(dollars in thousands)

(8) Long-term Debt

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

	2016	2015
Obligations under capital leases, 0.00% to 7.00%	3,448	4,557
Urban Development Corporation loan (a)	833	1,000
Notes payables - 2.48% to 5.45%	1,690	945
Mortgage payables - 2.98% to 5.04%	7,624	4,710
Bond payable - DASNY Series 1994B, 5.50% (b)	6,490	7,095
Bond payable - DASNY Series 2003, 3.97% (c)	77,330	85,180
Bond payable - OCIDA Series 2003, 3.05% (d)	9,800	10,200
Bond payable - COMIDA, 3.13% to 5.45%		
(net of unamortized premium of $262 in 2015) (e)	-	20,702
Bond payable - LCIDA Series 2005, 5.00% to 6.00%		
(net of unamortized premium of $244 in 2016) (f)	5,964	-
Bond payable - DASNY Series 2006, 3.92% (g)	71,295	86,540
Bond payable - DASNY Series 2007, 4.00% to 5.00%		
(net of unamortized discount of $403 in 2016 and $365 in 2015) (h)	73,098	74,646
Bond payable - LCIDA Series 2007, LIBOR + 110% (i)	2,755	-
Bond payable - DASNY Series 2009, 2.50% to 5.00%		
(net of unamortized premium of $1,090 in 2016 and $1,193 in 2015) (j)	81,234	83,231
Bond payable - DASNY Series 2010, 2.00% to 5.20%		
(net of unamortized discount of $49 in 2016 and $53 in 2015) (k)	9,496	9,872
Bond payable - OCLDC Series 2010, 4.64% (l)	26,970	27,695
Notes payable - Eastman Theatre Renovation, 0.74% to 2.73% (m)	38,300	38,300
Bond payable - MCIDC Series 2011, 2.00% to 5.00%		
(net of unamortized premium of $10,866 in 2016 and $11,514 in 2015) (n)	149,310	155,875
Notes payable - Manufacturers and Traders Trust Bank, 3.28% (o)	6,107	6,911
Bond payable - DASNY Series 2012, 3.00% (p)	13,565	13,950
Bond payable - MCIDC Series 2013, .05% to 5.31%		
(net of unamortized premium of $4,529 in 2016 and $4,740 in 2015) (q)	257,939	263,225
Bond payable - MCIDC Series 2015, 0.87% to 5.00%		
(net of unamortized premium of $24,530 in 2016 and $25,697 in 2015) (r)	319,976	321,998
Bond payable - MCIDC Series 2015, 3.00% to 4.125%		
(net of unamortized premium of $1,704 in 2016) (s)	40,349	-
Total long-term debt	1,203,573	1,216,632

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

(a) 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.

(b) Bonds Payable – DASNY Series 1994B

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and Dormitory Authority State of New York (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 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.

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 for $6,597 which expires July 2020.

(c) Bonds Payable – DASNY Series 2003

Pursuant to an agreement with the University and DASNY dated October 29, 2003, DASNY issued and sold $164,425 of bonds known as the University of Rochester Revenue Bonds, Series 2003, consisting of $32,550 Series 2003A bonds, $49,650 Series 2003B bonds and $82,225 Series 2003C bonds.

Series 2003A bonds were issued to finance (1) an expansion of the Laboratory for Laser Energetics building to accommodate the construction of a federally funded laser expansion; (2) renovation of space to house a functional MRI; (3) deferred maintenance remediation in various buildings and (4) renovation and information technology upgrades in various faculty offices, laboratory space and student residential buildings. A portion of the proceeds from Series 2003A 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 refinanced the 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 refinanced a portion of the University of Rochester Series 1994 bonds.

On July 31, 2003, the University executed interest rate swaps with third parties. The University entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty pays the University a variable interest rate equal to 61.50% 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 individual letters of credit in place for DASNY Series 2003A and 2003C that total $61,196 with JP Morgan Chase Bank, N.A. which expire in March 2017. Of this total, no amounts were outstanding at June 30, 2016 and 2015.

The University has a letter of credit in place for DASNY Series 2003B in the amount of $20,830 with HSBC Bank, N.A. which expires in September 2018. Of this total, no amounts were outstanding at June 30, 2016 and 2015.

(d) Bonds Payable – OCIDA Series 2003

Pursuant to an agreement with a University related entity (F. F. Thompson Health Systems, Inc. and affiliates) and Ontario County Industrial Development Agency (OCIDA), OCIDA issued and sold $4,000 of Series 2003A Variable Rate Civic Facility Revenue Refunding Bonds and $12,800 of Series 2003B Variable Rate Refunding Bonds.

Series 2003A bonds were used to retire outstanding debt that F. F. Thompson Health System, Inc. and affiliates owed to the Dormitory Authority of the State of New York (DASNY). These bonds matured July 2013.

Series 2003B bonds were used to construct an addition to and renovate portions of the F. F. Thompson Hospital for the new emergency department and expanded diagnostic imaging, surgery, registration and lobby space.

In October 2008, the related entity executed interest rate swaps with third parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 3.05%. 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 2018.

The bonds are secured by a direct pay letter of credit for $9,898 with Key Bank, N. A. which expires in July 2018. The related entity entered into a lease agreement with OCIDA, which also acts as collateral for payment of the bonds. Additional collateral is provided by a guaranty agreement under which the related entity is jointly and severally responsible for payment of the bonds.

(e) Bonds Payable – COMIDA

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the County of Monroe Industrial Agency (COMIDA) dated June 23, 2005, COMIDA issued and sold $20,000 of fixed rate Civic Facility Revenue Refunding Bonds and $14,920 of fixed rate Civic Facility Revenue Project Bonds. The COMIDA Refunding Bonds were issued at a premium of $912 and were used to refund a portion of Series 1997A debt. These Refunding Bonds are collateralized by amounts in a debt service reserve fund. The COMIDA Project Bonds were issued at a premium of $362 and were issued to finance (1) the Park Ridge Oncology Project; (2) the Bariatric Surgery Project; (3) the Orthopedic Operating Room Project; and (4) various renovation projects throughout Highland Hospital. These 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.

During fiscal year 2016, the COMIDA Series 2004 bonds were refinanced under Series 2015. A loss on extinguishment due to bond refinancing of $471 was recognized.

(f) Bonds Payable – LCIDA Series 2005

Pursuant to an agreement with a University related entity (Livingston Health Care System, Inc.) and Livingston County Industrial Development Agency (LCIDA), LCIDA issued and sold $9,050 of bonds known as Series 2005 Civic Facility Revenue Bonds. These bonds were issued at a premium of $422, resulting in proceeds of $9,472.

The bond issue is collateralized by substantially all assets and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

(g) Bonds Payable – DASNY Series 2006

Pursuant to an agreement between the University and DASNY dated March 16, 2006, DASNY issued and sold $111,180 of bonds known as the University of Rochester Revenue Bonds, Series 2006, consisting of $94,130 Series 2006A-1 bonds and $17,050 Series 2006B-1 bonds. The Series 2006A-1 bonds were issued to refinance the University of Rochester Series 1999A bonds and portions of the University of Rochester Series 1997A bonds, the University of Rochester Series 1998A bonds and the University of Rochester Series 2000A bonds. The Series 2006B-1 bonds were issued to refinance portions of the University of Rochester Series 1999B bonds.

On March 16, 2006, the University executed interest rate swaps with a third party. The University entered into an interest rate swap agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.92%. 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 University has individual letters of credit in place for DASNY Series 2006A-1 and 2006B-1 that total $88,332 with Barclays Bank, PLC, which expires in August 2019. The letter of credit has a renewal option that can be exercised. Of this total, no amounts were outstanding as of June 30, 2016 and 2015.

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

(h) Bonds Payable – DASNY Series 2007

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 James P. Wilmot Cancer Center; (2) the acquisition and renovation of a new University Data Center; (3) an upgrade to the central utilities chilled water capacity and expansion; (4) the construction of a new animal facility and the renovation of existing laboratory space at the Aab Cardiovascular Research Institute; (5) the construction of the University Health Service building; and (6) various deferred maintenance projects and renovations of laboratories, office space and student residential buildings. The Series 2007A-1 bonds were refinanced under Series 2015A during fiscal year 2015.

Series 2007A-2 bonds were issued to finance (1) the renovation of the University Advancement and Alumni Center; and (2) the construction of the Robert B. Goergen Hall for Biomedical Engineering and Optics. A portion of the Series 2007A-2 bonds were refinanced under Series 2015A during fiscal year 2015.

Series 2007B bonds were issued to finance (1) the construction of Hospital's portion of the James P. Wilmot 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. A portion of the Series 2007B bonds were refinanced under Series 2015A during fiscal year 2015.

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. A portion of the Series 2007C bonds were refinanced under Series 2013C during fiscal year 2014.

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

(i) Bonds Payable – LCIDA Series 2007

Pursuant to an agreement with a University related entity (Livingston Health Care System, Inc.) and LCIDA, LCIDA issued and sold $5,025 of bonds known as Series 2007A Industrial Development Tax Exempt Revenue Bonds and $2,385 of bonds known as Series 2007B Industrial Development Taxable Revenue Bonds.

In December 2007, the related entity executed interest rate swaps with third parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 110.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 3.05%. 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 2019.

The bonds are secured by a direct pay letter of credit for $2,834 with HSBC Bank, N.A. which expires in July 2018. The bond issue is collateralized by substantially all assets and revenues and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

(j) Bonds Payable – DASNY Series 2009

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

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

Series 2009B bonds were issued to refinance the remaining outstanding bonds for Series 1997A, Series 1998A, and Series 2000A. A portion of the Series 2009B bonds were refinanced under Series 2013C during fiscal year 2014.

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. The bondholders received final payment in July 2013.

Series 2009E bonds were issued to finance a portion of the construction of the Saunders Research Building. A portion of the Series 2009E bonds were refinanced under Series 2013C during fiscal year 2014.

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

(k) Bonds Payable – 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.

(l) Bonds Payable – OCLDC Series 2010

Pursuant to an agreement with a University related entity (F. F. Thompson Health Systems, Inc. and Ontario County Local Development Corp. (OCLDC)), OCLDC issued and sold $29,700 of bonds known as Series 2010 Revenue Bonds.

Series 2010 bonds were issued to finance the Frederick Ferris Thompson Hospital expansion and renovation project. Key Bank and First Niagara Bank have agreed to purchase $19,700 and $10,000 of the bonds, respectively.

The bond issue is collateralized by an interest in certain buildings and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

(m) 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 (NMTC) program. This transaction resulted in $53,782 in new external consolidated debt and $28,482 in new external notes receivable to the University.

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

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

During fiscal year 2015, the ordinary bank loan was paid in full from proceeds of Series 2015C.

(n) Bonds Payable – MCIDC Series 2011

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

Series 2011A bonds were issued to finance (1) the renovation of Danforth Dining Center; (2) the construction of the Ronald Rettner Hall for Media Arts and Innovation to house the University's digital media center and fabrication lab; (3) renovations to laboratories and offices throughout the River Campus and Medical Center campuses; (4) various renovations for Fauver Stadium; (5) various deferred maintenance and renovation projects at the Eastman School of Music and related residential halls; (6) the construction of O'Brien Hall to house undergraduate students; (7) the renovation of various undergraduate and graduate residential facilities; (8) construction of the Raymond F. LeChase Hall to house the University's Warner School of Education; (9) improvements and expansion of the central utilities plant; (10) renovation and modernization of the Medical Center storm sewer infrastructure; and (11) a portion of the James P. Wilmot Cancer Center Vertical Expansion improvements. A portion of Series 2011A was also used to refinance all of the outstanding bonds for Series 2001A. Additionally, a portion of the Series 2011A bonds was refinanced under Series 2013C during fiscal year 2014.

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

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

(o) Notes Payable – Manufacturers and Traders Trust Bank

Pursuant to an agreement between the University and the Manufacturers and Traders (M & T) Bank dated June 5, 2012, M & T Bank issued $9,000 of term notes. The note was issued to partially finance the purchase of the Lac de Ville facility. The University is repaying the indebtedness at a fixed rate of 3.28%, maturing April 2026.

The M & T Bank term notes are general, unsecured obligations of the University.

(p) Bonds Payable – DASNY Series 2012

Pursuant to a loan agreement between a University related entity (F. F. Thompson Health System, Inc. and affiliates) and DASNY dated September 12, 2012; DASNY issued and sold $14,680 of bonds known as F.F.T. Senior Communities, Inc. Revenue Bonds, Series 2012. Series 2012 bonds were issued to refinance the remaining outstanding bonds for Series 2000B.

In November 2015, the related entity executed interest rate swaps with third parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 1.62%. 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 November 2025.

The related entity has a letter of credit in place in the amount of $13,721 with HSBC Bank USA, which expires in September 2021, at which time the letter of credit is subject to annual renewal and approval.

The proceeds from the Series 2012 bonds and all funds and accounts established, including the mortgage, gross receipts security agreement and the assignment of rents and leases are pledged as security for the payment of the principal, sinking fund installments and interest on the bonds. The obligations of the related entity under the loan agreement are secured by a mortgage on the property and a security interest in the fixtures, furnishings and equipment of the related entity.

(q) Bonds Payable – MCIDC Series 2013

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated September 19, 2013, MCIDC issued and sold $264,490 of bonds known as the University of Rochester Revenue Bonds, Series 2013, consisting of $118,855 Series 2013A bonds, $74,905 Series 2013B bonds, and $70,730 Series 2013C bonds. The Series 2013 bonds were issued at a premium of $5,125 resulting in proceeds of $269,615.

Series 2013A bonds were issued to finance (1) renovations and waterproofing of Rush Rhees Library; (2) improvements to the Data Center B-Side electrical system; (3) renovations to laboratories and offices throughout the River Campus and Medical Center campuses; (4) various renovations for Fauver Stadium; (5) various deferred maintenance and renovation projects at the Eastman School of Music and related residential halls; (6) modernization of the Laboratory for Laser Energetics consisting of the acquisition of new chillers and necessary infrastructure upgrades; (7) the renovation of various undergraduate and graduate residential facilities; (8) construction of the College Town parking garage; (9) improvements to the central utilities plant and infrastructure; (10) renovation and modernization of the Hospital electrical transformers; (11) renovations to the Security Building; (12) renovations to the Middle Campus chiller plant and necessary infrastructure upgrades; (13) construction of the Southside parking lot; and (14) modernization of the Eastman Institute of Oral Health Prosthodontics Program. A portion of Series 2013A was used to refinance a portion of the outstanding bonds for Series 2004A.

Series 2013B bonds were issued to finance (1) construction of the Golisano Children's Hospital at Strong; (2) the relocation of the Hospital Pharmacy; and (3) the acquisition of the former Lakeside Health System (Strong West) campus.

Series 2013C bonds were issued to finance (1) the purchase of the Women's Health Center building; (2) renovations and expansion of the Second Data Center; (3) construction of the new Barnes & Noble bookstore located at College Town; (4) construction of office space located within College Town; (5) the replacement of the University's current financial records system; and (6) various deferred maintenance and renovation projects at the Eastman School of Music and related residential halls. A portion of Series 2013C was used to refinance (1) all of the outstanding 2003 Direct Note Obligation notes; (2) all of the outstanding 2004 COMIDA bonds; (3) a portion of the outstanding bonds for Series 2007C; (4) a portion of the outstanding bonds for Series 2009B; (5) a portion of the outstanding bonds for Series 2009E; and (6) a portion of the outstanding bonds for Series 2011A. A portion of Series 2013C was used to reimburse the University for all or a portion of the amounts paid to bondholders on July 1, 2013 for amounts owed under Series 2007C, 2009B, 2009A, and 2011A.

(r) Bonds Payable – MCIDC Series 2015

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated June 24, 2015, MCIDC issued and sold \$296,320 of bonds known as the University of Rochester Revenue Bonds, Series 2015, consisting of \$174,665 Series 2015A bonds, \$48,120 Series 2015B bonds, and \$73,535 Series 2015C bonds. The Series 2015 bonds were issued at a premium of \$25,773 resulting in proceeds of \$322,093.

Series 2015A bonds were issued to finance (1) renovation and modernization of the Engineering Quadrangle; (2) renovation and relocation of the engineering departments throughout the River Campus and the replacement of the Hopeman Engineering building emergency generator; (3) renovations to Frederick Douglass Dining and Student Center; (4) modernization of the Digital Humanities Center within Rush Rhees Library; (5) improvements to the central utilities plant and infrastructure; (6) renovation of various offices, classrooms, and laboratories throughout the River Campus, Memorial Art Gallery and the Eastman School of Music; (7) replacement of the University Public Safety dispatch system; (8) construction of research space for the Aab Cardiovascular Research Institute; and (9) modernization of the Eastman Dental Center and office space at the Eastman Institute for Oral Health. A portion of Series 2015A was used to refinance (1) all of the outstanding bonds for Series 2004A; (2) all of the outstanding bonds for Series 2007A-1; and (3) a portion of the outstanding bonds for Series 2007A-2.

Series 2015B bonds were issued to finance (1) construction of the Imaging Sciences Building on the South Campus; (2) renovation and modernization of the sterile processing department; and (3) construction for the neonatal intensive care unit within Strong Memorial Hospital. A portion of Series 2015B was used to refinance a portion of the outstanding bonds for Series 2007B.

Series 2015C bonds were issued to finance (1) the renovation and modernization of various off-site leasehold improvements; (2) construction of Wegmans

(dollars in thousands)

Hall, which will house the Goergen Institute for Data Science; (3) renovation of the boat storage facility and student space facilities at Brooks Crossing; (4) installation and acquisition of telephones and security cameras within College Town; and (5) various unit renovation projects within Strong Memorial Hospital. A portion of Series 2015C was used to reimburse the University for amounts owed under the ordinary bank loan to JP Morgan Chase, which was a component of the New Market Tax Credit financing structure.

(s) Bonds Payable – MCIDC Series 2015

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and MCIDC dated September 1, 2016; MCIDC issued and sold $38,645 of bonds known as Tax-Exempt Revenue Bonds, Series 2015. The Series 2015 bonds were issued at a net premium of $1,825 resulting in proceeds of $40,470.

Series 2015 bonds were issued to finance the following: (1) the construction and equipping of an approximately 38,500 square foot expansion of the hospital facility; (2) the construction of various areas in the operating and post-anesthesia care units; (3) construction of future space for a possible additional interventional radiology room and a platform for a possible replacement of the existing MRI machine within the hospital; and (4) acquisition of various equipment and fixtures for the hospital. A portion of Series 2015 refinanced the outstanding bonds for the Series 2004 COMIDA bonds.

(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, 2021 and thereafter are as follows:

	Principal portions of lease payments	Principal portions of debt	Total
2017	1,360	84,877	86,237
2018	1,070	55,156	56,226
2019	767	56,804	57,571
2020	205	57,077	57,282
Thereafter	46	946,211	946,257
Total	**$ 3,448**	**$ 1,200,125**	**$ 1,203,573**

The University incurred $45,072 and $35,041 of interest expense for the years ended June 30, 2016 and 2015, respectively, net of interest capitalization of $5,092 and $7,656 for the years ended June 30, 2016 and 2015, 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 $181,942, $65,578, $57,865, $57,511, and $840,677 for the five year period ending June 30, 2021 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 $1,456,720 and $1,268,397 at June 30, 2016 and 2015, respectively. The University's debt is classified as Level 2 in the fair-value hierarchy.

(9) Benefits Plans

(a) 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, 2016 were discounted by 1.50% and amounted to $54,718 (2.35% and $49,133 in 2015). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $14,289 at June 30, 2016 ($12,377 at June 30, 2015). 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 surety bond with Liberty Mutual Insurance Company to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was $11,668 and $11,837 as of June 30, 2016 and 2015, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

(b) Retirement Plan – University

The University provides a defined contribution retirement plan to its employees. The University of Rochester's Retirement Program is administered and recordkept by TIAA-CREF. Under this plan, the University made contributions of $89,401 and $84,382 in 2016 and 2015, respectively, which were vested for the benefit of the participants.

(c) 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 $17,385 and $10,760 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 includes the following components:

		2016		2015
Change in benefit obligation:				
Benefit obligation at beginning of year	$	159,213	$	153,478
Service cost		6,082		3,506
Interest cost		7,560		5,922
Plan participants' contributions		3,189		3,153
Amendments/curtailments/special termination		-		(995)
Actuarial (gain)/loss		48,917		6,122
Benefits paid		(11,962)		(12,566)
Medicare Part D prescription drug federal subsidy		596		593
Benefit obligation at end of year	$	213,595	$	159,213
Change in plan assets:				
Fair value of plan assets at beginning of year	$	-	$	-
Employer contributions		8,177		8,820
Plan participants' contributions		3,189		3,153
Medicare Part D prescription drug federal subsidy		596		593
Benefits paid		(11,962)		(12,566)
Fair value of plan assets at end of year	$	-	$	-
Components of accrued benefit:				
Funded status	$	(213,595)	$	(159,213)
Net actuarial loss		74,265		28,366
Prior service cost		2,208		2,932
Accrued benefits	$	(137,122)	$	(127,915)
Amounts recognized in the consolidated balance sheets consist of:				
Accrued post-retirement benefit cost	$	(127,915)	$	(125,975)
Net post-retirement benefit expense		(17,385)		(10,760)
Employer contributions		8,177		8,820
Accrued benefits	$	(137,123)	$	(127,915)
Amount recorded in unrestricted net assets		(76,472)		(31,298)
Net amount recognized in the consolidated balance sheet	$	(213,595)	$	(159,213)
Components of net periodic benefit cost:				
Service cost	$	6,082	$	3,506
Interest cost		7,560		5,922
Amortization of prior service cost		724		796
Amortization of net actuarial loss		3,019		536
Net periodic benefit cost	$	17,385	$	10,760
Amounts recorded in unrestricted net assets:				
Net (gain)/loss during period	$	48,917	$	6,122
Amortization recognition		(3,743)		(1,332)
Prior service cost/(credit)		-		(995)
Total amount recognized in other non-operating expense	$	45,174	$	3,795

(dollars in thousands)

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2017 are $3.0 and $0.7 million, respectively.

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

	Estimated Contributions / Benefit Payments	Estimated Rx Subsidy Payments
2017	$ 10,964	$ 736
2018	11,638	778
2019	11,989	820
2020	12,435	857
2021	12,815	892
2022 to 2026	67,667	4,858

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

	2016	2015
Discount rate for obligation	3.50%	4.00%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate -		
Initial pre age 65	7.50%	7.75%
Initial post age 65	6.00%	6.00%
Initial prescription drug	10.50%	8.50%
Health care cost trend rate -		
Final	3.89%	3.89%
Year final trend rate is reached	2075	2075

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	$ 1,785	$ (1,467)
Effect on post-retirement benefit obligation	$ 19,924	$ (16,604)

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

Employers are required to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. In addition, employers are required to measure the funded status of the plan as of the consolidated balance sheet date.

(d) Post-employment Benefits – University

Accrued post-employment benefits of the University amounted to $73,471 and $66,104 at June 30, 2016 and 2015, respectively.

(e) Self-insurance Plans – Highland Hospital and Affiliates

Highland Hospital is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $8,884 is maintained as security for workers compensation claims. Included in accrued pension, post-retirement, and post-employment at June 30, 2016 and 2015 are accruals of approximately $10,854 and $17,374, 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 $3,055 and $4,802 at June 30, 2016 and 2015, respectively. This liability has been discounted by 1.25% and 2.00% at June 30, 2016 and 2015, respectively.

(dollars in thousands)

(f) Retirement Plan – Highland Hospital and Affiliates

The retirement plan of Highland Hospital 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 funding policy is to contribute, annually, an amount consistent with the requirement of the Employee Retirement Income Security Act.

Retirement plan expense of $10,807 was incurred for the fiscal year ended June 30, 2016 and is recorded in fringe benefits in the consolidated statements of activities. In addition, a pension related benefit (charges) other than net periodic pension cost of $(39,107) for the fiscal year ended June 30, 2016 was recorded in other changes on the consolidated statement of activities.

The following tables present the changes in the Plan benefit obligation and the fair value of the Plan assets for the year ended June 30, 2016 and the funded status of the Plan at June 30, 2016.

Change in benefit obligation:		
Benefit obligation at beginning of year	$	202,659
Service cost		5,249
Interest cost		8,747
Actuarial loss		8,049
Change due to discount rate		22,771
Benefits paid		(6,118)
Benefit obligation at end of year	$	241,357

Change in plan assets:		
Fair value of plan assets at beginning of year	$	124,821
Actual return on plan assets		(5,096)
Employer contribution		9,221
Benefits and expenses paid		(6,118)
Fair value of plan assets at end of year	$	122,828

Amounts recognized in the balance sheet consists of:		
Accrued benefit cost	$	(10,060)
Amount recognized in unrestricted net assets (other non-operating expense)		(108,470)
Funded Status	$	(118,530)

Components of net periodic benefit cost:		
Service cost	$	5,249
Interest cost		8,747
Expected return on plan assets		(9,550)
Amortization of unrecognized loss		6,360
Net periodic benefit cost	$	10,806

The assumptions used for the plan at the measurement date are as follows:	
Discount rate for obligation	3.61%
Discount rate for pension expense	4.38%
Future compensation increase rate	3.60%
Long-term rate of return on plan assets	7.50%

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

The weighted-average asset allocation for the pension plan as of June 30, 2016, by asset categories is as follows:

Asset category:	
Equity securities	58%
Fixed income securities	20%
Cash and other investments	22%
Total	100%

(dollars in thousands)

Estimated future benefit payments for the years ending June 30:

2017	$	6,233
2018		7,024
2019		7,861
2020		8,697
2021		9,650
2022 to 2026		60,380
Total estimated future payments	**$**	**99,845**

Highland Hospital expects to contribute $10,675 to the plan in 2017.

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

Asset Category:	
Equity securities	57%
Fixed income securities	38%
Cash and other investments	5%
Total	100%

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 Highland Hospital as of June 30, 2016 and 2015, respectively. Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar assets and/or inputs other than quoted prices that are observable for the asset or liability.

In addition, Highland Hospital has a 403(b) plan and the cost was $1,286 in 2016 and is recorded in benefits expense on the consolidated statement of operations and changes in net assets.

(dollars in thousands)

The following assets were recorded at fair value within the plan assets of Highland Hospital as of June 30:

Description	Level 1	Level 2	Level 3	NAV	2016 Total Fair Value
Cash	$ 3,338	$ -	$ -	$ -	$ 3,338
Mutual fund – Global Asset Allocation	58,865	-	-	-	58,865
Mutual fund – Multi Asset	-	-	-	60,625	60,625
Total	$ 62,203	$ -	$ -	$ 60,625	$ 122,828

(g) Retirement Plan – F.F. Thompson Health System, Inc.

F.F. Thompson Health System, Inc. sponsors a noncontributory defined benefit pension plan, the Thompson Health Pension Plan (the Plan), covering all eligible employees. Benefits under the Plan are based on each participant's years of service and compensation, as defined by the Plan document. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2015 and 2014 was $(16,504) and $(17,387), respectively.

(h) Retirement Plan – Visiting Nurse Service of Rochester and Monroe County, Inc.

VNS has a noncontributory defined benefit cash balance pension plan covering many of its employees, past and present. This plan was frozen in December 2002. There will be no new participants and no new annual contributions for existing participants. Accounts for existing participants will continue to be credited annually for interest earned. VNS will have an ongoing requirement for funding of the plan.

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2015 and 2014 was $(3,818) and $(3,130), respectively.

(i) Retirement Plan – The Memorial Hospital of William F. and Gertrude F. Jones, Inc.

The Hospital sponsors a noncontributory defined benefit pension plan (plan) covering all eligible employees. The plan was amended to state that Hospital employees hired after December 31, 2006 were no longer eligible to participate in the plan. Additionally, the plan was amended to freeze benefit accruals effective March 31, 2011 for all participants. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2015 and 2014 was $(11,029) and $(11,538), respectively.

(j) Retirement Plan – Livingston Health Care System, Inc. D/B/A Noyes Health

The System has a noncontributory defined benefit pension plan that covers all eligible employees as of November 30, 2002. Effective November 2002, the Plan was amended to freeze participation and benefit accruals. The System's policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Security Act of 1974. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2015 and 2014 was $(3,608) and $(2,429), respectively.

(dollars in thousands)

(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 7% 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 financial information for the captive for years ended December 31 is summarized below:

Results of operations	**2015 Unaudited**	**2014 Unaudited**
Net earned premiums	$ 230,160	$ 218,548
Expenses	(303,913)	(265,892)
Investment income and realized gains on sales of marketable securities	112,008	69,125
Net income	38,255	21,781
Other comprehensive income / (loss)	(93,057)	560
Comprehensive income / (loss)	(54,802)	22,341
Net capital additions from shareholders	(21,965)	30,949
Change in shareholders' equity	$ (76,767)	$ 53,290
Financial position		
Total assets	$ 1,652,310	$ 1,878,793
Total liabilities	1,152,734	1,302,451
Shareholders' equity	$ 499,576	$ 576,342

(11) Professional Liability Claims

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is $271,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

The insurance claims receivable, as calculated by the actuaries, was approximately $39,678 and $44,255 as of June 30, 2016 and 2015, respectively, and has been included in other accounts receivable as shown in note 3. A corresponding increase to the accrued professional liability cost has been included in accounts payable and accrued expenses.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred but not reported claims were $30,914 and $29,657 as of June 30, 2016 and 2015, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheet.

(dollars in thousands)

(12) Fair Value of Financial Instruments

The following tables present the fair value of the financial instruments recorded on the consolidated balance sheet as of June 30:

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	2016 Total Fair Value
Assets					
Total Cash and cash equivalents	$ 123,124	$ -	$ -	$ -	$ 123,124
Short and long-term investments:					
Cash and cash equivalents	212,962	15,817	-	-	228,779
Debt securities					
Asset backed securities	-	24,408	-	-	24,408
Bank loans	-	19,964	-	-	19,964
Bond funds	76,901	10,147	-	-	87,048
Corporate bonds	-	128,725	-	-	128,725
Government bonds & securities	805	73,490	-	-	74,295
Mortgage backed bonds	-	-	-	-	-
Other	10,720	24,645	-	-	35,365
Common, mutual fund & preferred stock					
Common stock	284,950	-	-	200	285,150
Equity exchange traded funds	1,025	-	-	-	1,025
Mutual funds (domestic)	11,531	74,811	-	-	86,342
Mutual funds (international)	67,557	259,806	-	-	327,363
Real assets	-	-	-	239,236	239,236
Private equity	-	-	-	422,372	422,372
Hedge funds	-	70,445	-	621,750	692,195
Other	24,861	9,472	-	48,439	82,772
Total short and long-term investments:	691,312	711,730	-	1,331,997	2,735,039
Interest in net assets of foundations	-	-	16,473	-	16,473
Trusts held by others	-	-	52,306	-	52,306
Total assets at fair value	$ 814,436	$ 711,730	$ 68,779	$ 1,331,997	$ 2,926,942
Liabilities					
Interest rate swap payable	$ -	$ 23,789	$ -	$ -	$ 23,789
Total liabilities at fair value	$ -	$ 23,789	$ -	$ -	$ 23,789

(dollars in thousands)

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	2015 Total Fair Value
Assets					
Total Cash and cash equivalents	$ 106,699	$ -	$ -	$ -	$ 106,699
Short and long-term investments:					
Cash and cash equivalents	279,469	87,379	-	-	366,848
Debt securities					
Asset backed securities	-	29,088	-	-	29,088
Bank loans	-	-	-	-	-
Bond funds	140,039	2,035	-	-	142,074
Corporate bonds	-	60,211	-	-	60,211
Government bonds & securities	804	32,908	-	-	33,712
Mortgage backed bonds	-	-	-	-	-
Other	6,607	6,274	-	-	12,881
Common, mutual fund & preferred stock					
Common stock	335,616	-	-	200	335,816
Equity exchange traded funds	2,473	-	-	-	2,473
Mutual funds (domestic)	13,031	60,418	-	-	73,449
Mutual funds (international)	88,556	342,252	-	-	430,808
Real assets	323	-	-	215,306	215,629
Private equity	-	-	-	408,749	408,749
Hedge funds	-	49,400	-	531,256	580,656
Other	22,624	6,484	-	41,978	71,086
Total short and long-term investments:	889,542	676,449		1,197,489	2,763,480
Interest in net assets of foundations	-	-	17,567	-	17,567
Trusts held by others	-	-	56,233	-	56,233
Total assets at fair value	$ 996,241	$ 676,449	$ 73,800	$ 1,197,489	$ 2,943,979
Liabilities					
Interest rate swap payable	$ -	$ 22,154	$ -	$ -	$ 22,154
Total liabilities at fair value	$ -	$ 22,154	$ -	$ -	$ 22,154

(a) Fair Value Level 1

Level 1 investments consist of cash and cash equivalents, equity, and fixed-income securities with observable market prices. Fair value for Level 1 is based upon quoted market prices in active markets.

(b) Fair Value Level 2

Investments that are classified as Level 2 include domestic and foreign equities, as well as fixed income securities that trade in markets that are not considered to be active. Fair value 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.

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.

The fair value of interest rate swaps in the consolidated balance sheets:

	Notional Amount	2016 Level 2 Fair Value	2015 Level 2 Fair Value
Accounts payable	$ 171,450	$ 23,789	$ 22,154

The effect of interest swaps on the consolidated statements of activities:

	2016 Unrealized Gains/(Losses)	2015 Unrealized Gains/(Losses)
Non-operating net appreciation / (depreciation)	$ (1,682)	$ 2,113

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)

(c) Fair Value Level 3

Level 3 investments have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the University's interest in net assets of foundations and trusts held by others as discussed in Note 1. Changes to the fair values using unobservable inputs as of June 30, 2016 and 2015 are included in the table below. All net realized and unrealized gains/(losses) are reflected in net appreciation /(depreciation) of long-term investment activities in the accompanying statement of activities.

	Interest in net assets of foundations	Investments in perpetual trusts held by others	Total fair value
Balance June 30, 2015	$ 17,567	$ 56,233	$ 73,800
Realized Gains/(Losses)	365	33	398
Unrealized Gains/(Losses)	(1,330)	(4,018)	(5,348)
Purchases	5,054	640	5,694
Sales	(5,183)	(582)	(5,765)
Balance June 30, 2016	$ 16,473	$ 52,306	$ 68,779

	Interest in net assets of foundations	Investments in perpetual trusts held by others	Total fair value
Balance June 30, 2014	$ 17,749	$ 57,526	$ 75,275
Realized Gains/(Losses)	(1)	12	11
Unrealized Gains/(Losses)	75	(1,415)	(1,340)
Purchases	11,367	497	11,864
Sales	(11,623)	(387)	(12,010)
Balance June 30, 2015	$ 17,567	$ 56,233	$ 73,800

(d) Net Asset Value

For the fiscal year ended June 30, 2016, the University has adopted the disclosure changes required by Accounting Standards Update (ASU) 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). As a result of the adoption, investments reported at net asset value (NAV), as a practical expedient, are no longer included within 1, 2, or 3 in the fair value hierarchy. Application is retrospective and therefore, prior period financial data has been restated to conform to current year presentation.

The net asset value (NAV) column above represents the University's ownership interest in certain alternative investments. As a practical expedient, the University uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value, and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The NAV of these investments is determined by the general partner and is based upon appraisal or other estimates that require judgment. If no public market exists for the investment securities, the general partner will take into consideration, among other things, prices of recent significant transactions of similar securities, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.

The following tables provide additional information about alternative investments.

(dollars in thousands)

Strategy	2016 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	$ 249,675	$ -	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	215,530	38,500	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
			Remaining Fund Life	**Drawdown Period**
Private equity:				
Buyouts	221,903	130,674	1 to 10 years	1 to 7 years
Venture capital	154,742	54,007	1 to 12 years	1 to 6 years
Distressed	45,344	46,897	1 to 5 years	1 to 3 years
Real assets:				
Real estate	141,686	67,467	1 to 10 years	1 to 5 years
Natural resources	97,550	134,773	1 to 12 years	1 to 5 years
Total alternative partnerships	1,126,430	472,318		
Other Alternative Investments:				
Commingled funds of public equities	558,297	-	Monthly	15 - 60 days
Commingled funds of fixed income	382	-	NA – held to maturity	NA
Total other alternative investments	558,679	-		
Total alternative investments	$ 1,685,109	$ 472,318		

Strategy	2015 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	$ 251,542	$ -	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	222,682	23,000	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
			Remaining Fund Life	**Drawdown Period**
Private equity:				
Buyouts	208,852	158,081	1 to 10 years	1 to 7 years
Venture capital	162,657	24,540	1 to 12 years	1 to 6 years
Distressed	35,398	29,873	1 to 5 years	1 to 3 years
Real assets:				
Real estate	140,082	93,192	1 to 10 years	1 to 5 years
Natural resources	75,225	178,223	1 to 12 years	1 to 5 years
Total alternative partnerships	1,096,438	506,909		
Other Alternative Investments:				
Commingled funds of public equities	482,219	-	Monthly	15 - 60 days
Commingled funds of fixed income	1,841	-	NA – held to maturity	NA
Total other alternative investments	484,060	-		
Total alternative investments	$ 1,580,498	$ 506,909		

(dollars in thousands)

(13) Lines of Credit

The University has a $50,000 committed line of credit agreement with Northern Trust Company that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2016 and 2015, respectively.

The University has a $75,000 committed line of credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2016 and 2015, respectively.

The University has a $50,000 committed line of credit agreement with U.S. Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2016 and 2015, respectively.

The University has $534 in standby letters of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities of other financial obligations. Under this agreement, no amounts were outstanding at June 30, 2016 and 2015, respectively

The University entered into standby letters of credit with JP Morgan Chase Bank, N.A. during fiscal year 2016 for $1,911. This agreement is subject to annual credit review and renewal to cover potential liabilities related to the construction of the Imaging Science Building. Under this agreement, no amounts were outstanding at June 30, 2016.

(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, 2016, the University has entered into construction contracts and commitments aggregating $984,597 ($852,409 at June 30, 2015) of which $771,774 ($701,543 at June 30, 2015) had been fulfilled.

(15) Leases

The University leases research laboratories, office space, and equipment under operating leases expiring through August 2029. Rental expense for the years ended June 30, 2016 and 2015 totaling $46,909 and $44,430, 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
2017	$ 38,038	$ 1,763
2018	35,024	1,486
2019	28,654	1,790
2020	15,301	160
2021	13,833	11
Thereafter	40,517	-
Total minimum lease Payments	$ 171,367	$ 5,210

(16) Scholarships, Grants, and Fellowships

The University awarded a total of $189,123 and $177,804 in scholarships, grants, and fellowships during fiscal years 2016 and 2015, respectively. In addition, the University awarded $37,863 and $35,853, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, $7,613 and $8,036, 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) Uncompensated Care

The University's policy is to treat patients in need of medical services without regard to their ability to pay for such services. The University maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. In addition to charity care, the University also provides services at rates significantly below the cost of rendering those services. The estimated difference between the cost of services provided to Medicaid patients and the reimbursement from NYS for this patient care is also monitored.

Effective January 1, 2007, the New York State Public Health Law required all hospitals to implement financial aid policies and procedures. The law also required hospitals to develop a summary of its financial aid policies and procedures that must be made publicly available. All standards set forth in the law are minimum standards.

In order to qualify for charity care, patients are expected to submit financial information demonstrating need. In many cases, patients may be unable or unwilling to provide that data. In those cases, the uncompensated care is classified as bad debt expense unless the University is able to obtain information that would indicate the patient appears to be eligible for charity care assistance. In those cases, the uncompensated care is recorded as charity care.

The estimated costs of providing charity services is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The University received funding from NYS to help defray some of the costs of indigent care in the amount of $23,550 and $20,439 in 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, the following levels of uncompensated care were provided:

	2016	2015
Charity care at cost	$ 25,775	$ 26,644
Excess of cost over reimbursement for services provided to Medicaid patients	107,310	71,824
Bad debts expense	35,197	34,963
	$ 142,507	$ 106,787

(18) 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:

	2016	2015
Instruction	$ 401,426	$ 341,290
Research	294,145	299,826
Public service	17,616	16,288
Libraries and other academic support	60,059	61,850
Student services	64,431	60,580
Institutional support	111,625	98,170
Hospital and faculty practice patient care	2,585,635	2,336,849
Auxiliary enterprises	115,741	113,909
Total functional expenses	$ 3,650,678	$ 3,328,762

(19) Subsequent Events

The University has performed an evaluation of subsequent events through October 20, 2016, the date on which the 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 2017 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 Series 2017A Bonds and the Series 2017B Bonds and any Additional Bonds, authorized to be issued pursuant to the Indenture to finance, refinance and/or reimburse 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 2017A Bond Proceeds and the Series 2017B Bond Proceeds.

"Bond Purchase Contract" means the Bond Purchase Contract, dated March 17, 2017, 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 March 8, 2017 authorizing the issuance, execution, sale and delivery of the Series 2017 Bonds and the execution and delivery of Issuer Documents, as such resolution 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 2017A Project Account and the Series 2017B Project Account so designated and 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 2017A Bonds in the aggregate principal amount of $159,485,000 and (ii) Series 2017B Bonds in the aggregate principal amount of $96,125,000.

"Closing" or "Closing Date" means the date of the sale and delivery of the Series 2017 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 Series 2017A Facility and the Series 2017B 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 April 1, 2017, by and among the University, the Trustee and Digital Assurance Certification, L.L.C., 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" means the 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.

"Defeasance Obligations" shall mean (i) cash; (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGS)); (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 Series 2017A Equipment and the Series 2017B 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 Series 2017A Facility and the Series 2017B 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 2017 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 each July 1 and ending on June 30 of the following 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.

"Indenture" means the Indenture of Trust, dated as of April 1, 2017, by and between the Issuer and the Trustee pursuant to which the Series 2017 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 July 1, 2017.

"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 Series 2017A Land and the Series 2017B 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 April 1, 2017, by and between the Issuer and the University pursuant to which the Issuer loans the proceeds of the Series 2017 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 2017 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 2017 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" 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 2017 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 Series 2017A Facility and the Series 2017B 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 April 1, 2017, 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, as may be supplemented, with respect to the offering and sale of the Series 2017 Bonds.

"Project" means, collectively, the Series 2017A Project and the Series 2017B Project.

"Project Costs" means, collectively, the Series 2017A Project Costs and the Series 2017B 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.

"Rating Agency" means any nationally recognized securities rating agency.

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

"Rebate Fund" means the fund so designated pursuant to Section 4.01 of the Indenture.

"Record Date" means the Regular Record Date or the Special Record Date, as the case may be.

"Redemption Date" 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 (15th) 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.

"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.

"Reserved Rights" means the Unassigned Rights.

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

"Series 2017 Bonds" means, collectively, the Series 2017A Bonds and the Series 2017B Bonds.

"Series 2017A Bonds" means the Issuer's $159,485,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017A.

"Series 2017A Bond Proceeds" means the sum of the face amount of the Series 2017A 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 2017A Equipment" means all machinery, equipment and other tangible personal property used and to be used in connection with the Series 2017A Facility and acquired in whole or in part with the Series 2017A Bond Proceeds with such additions thereto and substitutions therefor as may exist from time to time.

"Series 2017A Facility" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2017A Land" means the real property which is the site of the Series 2017A Facility.

"Series 2017A Project" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2017A Project Costs" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2017B Bonds" means the Issuer's $96,125,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017B.

"Series 2017B Bond Proceeds" means the sum of the face amount of the Series 2017B 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 2017B Equipment" means all machinery, equipment and other tangible personal property used and to be used in connection with the Series 2017B Facility and acquired in whole or in part with the Series 2017B Bond Proceeds with such additions thereto and substitutions therefor as may exist from time to time.

"Series 2017B Facility" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2017B Land" means the real property which is the site of the Series 2017B Facility.

"Series 2017B Project" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Series 2017B 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 Unassigned Rights.

"Underwriter" means, collectively, J.P. Morgan Securities LLC, acting on behalf of itself, Barclays Capital Inc. and Morgan Stanley & Co. LLC, 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, NY 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.

[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 2017 Bonds to the Trustee and the Trustee shall authenticate the Series 2017 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 2017 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 2017 Bond Proceeds and Allocation Thereof

In connection with the Series 2017 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 2017A Project Account within which there shall be a Capitalized Interest Subaccount and (2) the Series 2017B Project Account within which there shall be a Capitalized Interest Subaccount; (ii) the Bond Fund, within which there shall be two (2) accounts: (1) the Series 2017A Bond Account and (2) the Series 2017B Bond Account; (iii) the Renewal Fund, within which there shall be two (2) accounts: (1) the Series 2017A Renewal Account and (2) the Series 2017B Renewal Account; (iv) the Rebate Fund, within which there shall be two (2) accounts: (1) the Principal Account and (2) the Earnings Account and (v) Earnings Fund, within which there shall be two (2) accounts: (1) the Series 2017A Earnings Account and (2) the Series 2017B Earnings Account. Upon the receipt of the proceeds of the Bonds, the Trustee shall deposit such proceeds (a) in the (1) Series 2017A Bond Account: all accrued interest, if any, paid by the purchaser of the Series 2017A Bonds and (2) Series 2017B Bond Account: all accrued interest, if any, paid by the purchaser of the Series 2017B Bonds and (b) in the (1) Series 2017A Project Account: the balance of the proceeds received from the sale of the Series 2017A Bonds provided that, of such balance of the proceeds of the Series 2017A Bonds, the Trustee shall credit to the Capitalized Interest Subaccount of the Series 2017A Project Account such amount as is certified to the Trustee by the Issuer and (2) Series 2017B Project Account: the balance of the proceeds received from the sale of the Series 2017B provided that, of such balance of the proceeds of the Series 2017B Bonds, the Trustee shall credit to the

Capitalized Interest Subaccount of the Series 2017B Project Account such amount as is certified to the Trustee by the Issuer. (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 (1) the Capitalized Interest Subaccount of the Series 2017A Project Account on the Business Day prior to an Interest Payment Date for the Series 2017A Bonds, for deposit into the Series 2017A Bond Account, such amount, together with amounts already available as is sufficient to pay the interest on the Series 2017A Bonds coming due on such Interest Payment Date (or, if insufficient funds are then on deposit, the balance of such Capitalized Interest Subaccount) and (2) the Capitalized Interest Subaccount of the Series 2017B Project Account on the Business Day prior to an Interest Payment Date for the Series 2017B Bonds, for deposit into the Series 2017B Bond Account, such amount, together with amounts already available as is sufficient to pay the interest on the Series 2017B 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 applicable account of the Project Fund, after making any required transfer to the Rebate Fund, shall be transferred to the applicable account of 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, 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 in 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 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 applicable accounts of 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 applicable account of 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 (i) the Series 2017A Earnings Account of 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 and (ii) the Series 2017B Earnings Account of 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 applicable account of 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 applicable account of 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 applicable account of 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 applicable account of the Bond Fund and applied 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 Series 2017A Bond or Series 2017B 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 Series 2017A Facility or the Series 2017B 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 applicable 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 applicable Completion Date. The amounts deposited in the Rebate Fund Principal Account pursuant to the Indenture shall be withdrawn from the applicable account of 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 applicable Completion Date, deposit it in the applicable account of the Project Fund or, after the applicable Completion Date, deposit it in the applicable account of the Bond Fund.

With respect to (1) the Series 2017A Bonds, 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 Series 2017A Bonds have been paid in full, the balance in the Rebate Fund and (2) the Series 2017B Bonds, 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 (5th) Bond Year and after every fifth (5th) 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 provisions of the Indenture, not later than thirty (30) days after the date on which all Series 2017B 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 and 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. The Trustee may, at the expense of the University, obtain a certificate from an Accountant as to whether the cash or Defeasance Obligations held by the Trustee meet the requirements under the Indenture.

Upon the defeasance of all Outstanding Bonds 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 (except with respect to a proposed optional redemption under the Indenture for which the notice of redemption shall no longer be of force or effect in accordance with the Indenture), 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.

In accordance with the Indenture, 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 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 of interest, 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 Series 2017A Bonds and the Series 2017B Bonds; or

(i) To effect any other change in the Indenture which, in the judgment of the Trustee based on an opinion of Independent Counsel, 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 Holders 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 Holders 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 Holders 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 in 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 Series 2017A Bonds and the Series 2017B 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 of the Series 2017A Bonds and the Series 2017B Bonds, 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 Series 2017A Facility and the Series 2017B Facility, (v) in order to preserve the tax-exempt status of the Series 2017A Bonds and the Series 2017B 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 of the Series 2017A Bonds and the Series 2017B Bonds. 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 of the Series 2017A Bonds and the Series 2017B Bonds in the manner provided in the Indenture and the written approval or consent of the Holders of the Series 2017A Bonds and the Series 2017B Bonds of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Series 2017A Bonds and Series 2017B 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 Series 2017A Bonds and Series 2017B Bonds. (Section 11.03).

[END OF APPENDIX D]

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 applicable Completion Date, and that such completion will be effected in a workmanlike manner, using high-grade materials, free of material 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 2017 Bonds

On the Closing Date, the Trustee shall deposit the proceeds of the Series 2017 Bonds in the applicable account of the Project Fund (i) upon receipt of the Series 2017 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 2017 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 2017 Bonds to the University and the University agrees to pay to the Trustee the principal of and interest on the Series 2017 Bonds and all other amounts due under the Loan Agreement in accordance with the terms of the Loan Agreement, the Indenture and the Series 2017 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 2017 Bonds pursuant to the Loan Agreement, which the Issuer agrees shall be paid by the University directly to the Trustee on or prior to each Bond Payment Date for deposit in the Bond Fund in an amount equal to the sum of (i) the interest then becoming due and payable on the Series 2017 Bonds on such Bond 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 such Bond 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 such Bond Payment Date together with accrued interest to such 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 2017 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 and/or authorized 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 2017 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 2017 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 under the Loan Agreement that it will (i) maintain its corporate 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 and the Paying Agent, 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)

Notice by the University.

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 2017 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 Contract, 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 amount 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 or purchase in lieu of redemption 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 Paying Agent, the Bond Registrar and the Trustee 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 Bond Counsel addressed to the Issuer and the Trustee as to the non-includability in gross income of interest on the Series 2017A Bonds and/or the Series 2017B 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 Bond Counsel, such assignment or transfer shall not cause the interest on the Series 2017A Bonds and/or the Series 2017B 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.

Any consent by the Issuer or the Trustee to any act of assignment or transfer shall be held to apply only to the specific transaction thereby authorized. Such consent shall not be construed as a waiver of the duty of the University, or the successors or assigns of the University, to obtain from the Issuer and the Trustee consent to any other or subsequent assignment or transfer, or as modifying or limiting the rights of the Issuer or the Trustee under the foregoing covenant by the University. (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 Series 2017 Bonds, Harris Beach PLLC, Bond Counsel to the Issuer, proposes to deliver its legal opinion in substantially the following form:

__________, 2017

Monroe County Industrial Development Corporation
8100 CityPlace
50 West Main Street
Rochester, New York 14614

Re: $255,610,000 Monroe County Industrial Development Corporation Revenue Bonds (University of Rochester Project), Series 2017 consisting of: $159,485,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017A and $96,125,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017B

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 $255,610,000 Monroe County Industrial Development Corporation Revenue Bonds (University of Rochester Project), Series 2017 consisting of: (i) $159,485,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017A (the "Series 2017A Bonds") for the purpose of financing or refinancing the Series 2017A Project (as defined below) and (ii) $96,125,000 Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2017B (the "Series 2017B Bonds", and collectively with the Series 2017A Bonds, the "Bonds" or the "Series 2017 Bonds") for the purpose of financing the Series 2017B Project (as defined below, and collectively with the Series 2017A Project, the "Project"), all for the benefit of the University of Rochester, a not-for-profit education corporation organized under the Laws of the State of New York (the "University"), and all located or to be located on the University's campuses or facilities located in the City of Rochester, New York (except as noted below), consisting of: (A) the main campus located at Wilson Boulevard (the "River Campus"); (B) the south campus located at 250 East River Road in the Town of Brighton, New York and 300 and 400 Kendrick Road (collectively, the "South Campus"); (C) the central utilities plant located at 390 Elmwood Avenue (the "Central Utilities Plant"); (D) the University's Memorial Art Gallery located at 500 University Ave (the "Memorial Art Gallery"); (E) the Eastman School of Music located at 26 Gibbs Street ("ESM"), Messinger Hall located at 10 Gibbs Street ("Messinger Hall"), Miller Center located at 389 E. Main Street ("Miller Center") and Eastman Commons located at 100 Gibbs Street ("Eastman Commons", and together with ESM, Messinger Hall and Miller Center, the "ESM Campus"); (F) the University's Strong Memorial Hospital located at 601 Elmwood Avenue and URMC Strong West located at 156 West Avenue in the Village of Brockport/Town of Sweden, New York (collectively, the

"Hospital"); (G) School of Medicine and Dentistry located at 601 Elmwood Avenue ("SMD"); and (H) Eastman Institute for Oral Health located at 625 Elmwood Avenue ("EIOH", and collectively with the Hospital and SMD, the "Medical Center Campus"; the Medical Center Campus, the River Campus, the South Campus, the Central Utilities Plant, the Memorial Art Gallery and the ESM Campus collectively referred to as 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 (the "County Resolution"), (c) a bond resolution (the "Bond Resolution") adopted by the members of the Issuer on March 8, 2017, for the purpose of providing funds to assist in the financing of the Project for the benefit of the University and (d) a certain Indenture of Trust, dated as of April 1, 2017 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee").

The Series 2017A project (collectively, the "Series 2017A Project") consists of: (A) (i) the Series 2017A improvements (collectively, the "Series 2017A Improvements") consisting of: (a) the River Campus improvements (collectively, the "River Campus Facility Improvements") consisting of: (1) the construction and equipping of an approximately 75,000 square foot new seven-story one hundred and fifty (150) bed undergraduate residence hall and athletic space, together with ancillary and related site improvements; (2) the renovation, equipping and modernization of various office, classroom and laboratory facilities throughout the River Campus including, but not limited to, Lattimore Hall, Bausch & Lomb Hall, Morey Hall, Dewey Hall, Meliora Hall, Rush Rhees Library, Gavett Hall, Hopeman Engineering Building, Hutchison Hall, Hylan Building, Computer Studies Building, Goergen Hall for Biomedical Engineering, Rettner Hall and Harkness Hall; (3) the renovation, equipping and modernization of the concourse, press box and fencing of Fauver Stadium, together with ancillary and related site improvements; (4) the designing of up to an approximately 32,000 square-foot two-story to four-story addition to Hutchison Hall, to house additional science building space, together with ancillary and related site improvements; (5) the renovation, equipping and modernization of various classroom facilities at Rush Rhees Library relating to the Writing, Speaking and Argument Program; (6) the renovation, equipping and modernization of various classroom facilities including, but not limited to, Computer Studies Building and Rettner Hall, relating to the Audio and Music Engineering Program; (7) the renovation, equipping and modernization of various office and classroom facilities at the Simon Business School, including, but not limited to, Schlegel Hall and Carol G. Simon Hall; and (8) the deferred maintenance and replacement, renovation and modernization (including, but not limited to, the installation of replacement windows and elevators) of various buildings and facilities throughout the River Campus (including, but not limited to, Strong Auditorium, Wilson Commons, Todd Union, Fraternity Quadrangle) and undergraduate and graduate residential buildings located on the River Campus and South Campus; (b) the central utilities infrastructure improvements consisting of the replacement, renovation, equipping and modernization of various central utilities critical equipment including, but not limited to, chillers, building automation panels, cabling, hot water furnaces/pumps, chilled water distribution main lines and electrical transformers, and related infrastructure upgrades located in various buildings and facilities throughout the River Campus (including, but not limited to, Spurrier Hall, Fauver Stadium and Goergen Athletic Center), the South Campus and the Medical Center Campus; (c) the ESM Campus improvements (collectively, the "ESM Campus Facility Improvements") consisting of the deferred maintenance and renovation, equipping and modernization of various classroom facilities and practice rooms throughout the ESM Campus (including, Messinger Hall, Eastman Commons, Miller Center, Eastman Theatre, East Wing, Eastman School of Music, Old Sibley Library, Annex and East End Garage and (d) the deferred maintenance and renovation, equipping and modernization of various buildings and facilities throughout the Campus; and (ii) the acquisition and installation in and around the Series 2017A Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Series 2017A Equipment", and together with the Series 2017A Improvements, the "Series 2017A Facility"); (B) the refunding of certain maturities of the Dormitory Authority of the State of New York ("DASNY") University of Rochester Revenue Bonds, Series 2007A-2 (the "Refunded DASNY 2007A-2 Bonds"); (C) the refunding of a portion of all maturities of the DASNY University of Rochester Revenue Bonds, Series 2009A (the "Refunded DASNY 2009A Bonds"); (D) the refunding of a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009B (the "Refunded DASNY 2009B Bonds"); (E) the refunding of a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009E (the "Refunded DASNY 2009E Bonds"); (F) the refunding of all or a portion of certain maturities of the Issuer's Tax-Exempt Revenue Bonds (University of Rochester Project), Series 2011A (the "Refunded Series 2011A Bonds"); (G) the funding of capitalized interest on a portion of the Series 2017A Bonds and (H) paying certain costs and expenses incidental to the issuance of the Series 2017A Bonds (the costs associated with items (A) through (H) above being hereinafter collectively referred to as the "Series 2017A Project Costs").

The Series 2017B project (collectively, the "Series 2017B Project") consists of: (A) (i) the renovation, equipping and modernization of the Pediatric Intensive Care Unit and operating rooms within Golisano Children's Hospital adjacent to Strong Memorial Hospital (collectively, the "Children's Hospital Facility Improvements"); (ii) the renovation, equipping and modernization of various clinic and office facilities located throughout EIOH (collectively, the "EIOH Improvements"); (iii) the Strong Memorial Hospital improvements (collectively, the "Strong Memorial Hospital Facility Improvements", and collectively with the Children's Hospital Facility Improvements and the EIOH Improvements, the "Series 2017B Improvements", and collectively with the Series 2017A Improvements, the "Improvements")) consisting of the replacement, renovation, equipping and modernization of various buildings and facilities throughout Strong Memorial Hospital and (iv) the acquisition and installation in and around the Series 2017B Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Series 2017B Equipment", and collectively with the Series 2017A Equipment, the "Equipment") (the Series 2017B Equipment and the Series 2017B Improvements collectively referred to as the "Series 2017B Facility", and collectively with the Series 2017A Facility, the "Facility"); (B) the refunding of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2007C (the "Refunded DASNY 2007C Bonds", and collectively with the Refunded DASNY 2007A-2 Bonds, the "Refunded DASNY 2007 Bonds"); (C) the refunding of a portion of certain maturities of the DASNY University of Rochester Revenue Bonds, Series 2009C (the "Refunded DASNY 2009C Bonds", and collectively with the Refunded DASNY 2009A Bonds, the Refunded DASNY 2009B Bonds and the Refunded DASNY 2009E Bonds, the "Refunded DASNY 2009 Bonds"); (D) the refunding of certain maturities of the Issuer's Tax-Exempt Revenue Bonds (University of

Rochester Project), Series 2011B (the "Refunded Series 2011B Bonds", and collectively with the Refunded Series 2011A Bonds, the "Refunded Series 2011 Bonds", and collectively with the Refunded DASNY 2007 Bonds and the Refunded DASNY 2009 Bonds, the "Refunded Bonds"); (E) the funding of capitalized interest on a portion of the Series 2017B Bonds and (F) paying certain costs and expenses incidental to the issuance of the Series 2017B Bonds (the costs associated with items (A) through (F) above being hereinafter collectively referred to as the "Series 2017B Project Costs", and collectively with the Series 2017A 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, acting on behalf of itself, Barclays Capital Inc. and Morgan Stanley & Co. LLC (collectively, the "Underwriter"), pursuant to a certain Bond Purchase Contract, dated March 17, 2017, 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 April 1, 2017 (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 April 1, 2017, 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 Bond, Schoeneck & King, PLLC, counsel to the University, of even date herewith, as to the matters set forth in such opinion 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 of New York.

(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 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 certain corporations.

The difference between the principal amount of the Series 2017A Bonds maturing on July 1 in the years 2042 and 2047 and the Series 2017B Bonds maturing on July 1 in the years 2032 through 2037, inclusive, and 2039 (collectively, 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.

(g) Under existing law, for so long as interest on the Bonds is and remains excluded from gross income for federal income tax purposes, such interest is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof.

In rendering the opinions set forth in paragraphs (f) and (g) above, we have relied upon, among other things, certain representations and covenants of (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 from and after the date of issuance of the Bonds in order for the interest thereon to be and remain excluded from gross income for federal income tax purposes, and consequently to remain exempt from personal income taxes imposed by the State of New York or any political subdivision thereof. 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 and therefore subject to personal income taxes imposed by the State of New York and any political subdivision thereof, in each case, 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 by the Issuer, the University or any other Person under the Indenture, the Loan Agreement or the Tax Compliance Agreement, or 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 federal, state or local income tax consequences arising with respect to the purchase or ownership of 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 Underwriter 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,

[END OF APPENDIX F]

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MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION • REVENUE BONDS (UNIVERSITY OF ROCHESTER PROJECT), SERIES 2017

UNIVERSITY of ROCHESTER

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