UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2020 and 2019

Report of Independent Auditors

To the Board of Trustees of the 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, 2020 and 2019, 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, 2020 and 2019, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it accounts for leases in 2020. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Rochester, New York
October 13, 2020

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Balance Sheets
June 30, 2020 and 2019
(dollars in thousands)

Assets	2020	2019
Cash and cash equivalents	$ 664,069	$ 326,128
Short-term investments	463,986	463,734
Accounts receivable, net	500,462	533,756
Inventories, prepaid expenses, and deferred charges	94,633	80,267
Contributions receivable, net	91,628	100,395
Notes receivable, net	17,293	20,221
Other assets	79,597	69,473
Investments held for long-term purposes	2,655,624	2,636,841
Property, plant and equipment, net	2,321,438	2,274,661
Right of use assets	216,299	-
Investments in perpetual trusts held by others	43,996	60,650
Total assets	$ 7,149,025	$ 6,566,126
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 691,759	$ 601,467
Deferred revenue	97,767	60,383
Third-party settlements payable, net and other	388,176	169,541
Accrued pension, post-retirement, and post-employment	685,711	611,431
Long-term debt	1,180,147	1,226,285
Right of use liabilities	216,256	-
Asset retirement obligation	38,225	37,677
Refundable U.S. Government grants for student loans	9,084	14,825
Total liabilities	3,307,125	2,721,609
Net Assets:		
Without donor restrictions	2,469,223	2,472,333
With donor restrictions	1,372,677	1,372,184
Total net assets	3,841,900	3,844,517
Total liabilities and net assets	$ 7,149,025	$ 6,566,126

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
For The Year Ended June 30, 2020
(dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Tuition and fees	$ 293,163	$ -	$ 293,163
Grants and contracts	553,820	-	553,820
Gifts and pledges	27,120	55,918	83,038
Hospital and faculty practice patient care	3,538,537	-	3,538,537
Auxiliary enterprises	104,753	-	104,753
Interest income and appreciation of short-term investments	20,999	-	20,999
Educational activities	16,356	-	16,356
Other sources	57,674	-	57,674
Long-term investment income and gains allocated to operations	110,779	-	110,779
Net assets released from restriction	73,184	(73,184)	-
Total operating revenues	4,796,385	(17,266)	4,779,119
Operating Expenses:			
Salaries and wages	2,306,592	-	2,306,592
Fringe benefits	602,824	-	602,824
Total compensation	2,909,416	-	2,909,416
Supplies	837,675	-	837,675
Business and professional	290,398	-	290,398
Utilities	60,134	-	60,134
Maintenance and facilities costs	159,872	-	159,872
Depreciation	251,987	-	251,987
Interest	44,985	-	44,985
Other	116,962	-	116,962
Total operating expenses	4,671,429	-	4,671,429
Change in net assets from operating activities	124,956	(17,266)	107,690
Non-operating activities:			
Long-term investment activities:			
Investment income	9,532	(449)	9,083
Net appreciation	36,325	19,301	55,626
Total long-term investment activities	45,857	18,852	64,709
Long-term investment income and gains allocated for operations	(110,779)	-	(110,779)
Other changes, net	(63,144)	(1,988)	(65,132)
Change in valuation of annuities	-	895	895
Change in net assets from non-operating activities	(128,066)	17,759	(110,307)
Change in net assets	(3,110)	493	(2,617)
Beginning net assets	2,472,333	1,372,184	3,844,517
Ending net assets	$ 2,469,223	$ 1,372,677	$ 3,841,900

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
For The Year Ended June 30, 2019
(dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Tuition and fees	$ 280,679	$ -	$ 280,679
Grants and contracts	463,822	-	463,822
Gifts and pledges	33,860	70,222	104,082
Hospital and faculty practice patient care	3,486,050	-	3,486,050
Auxiliary enterprises	121,339	-	121,339
Interest income and appreciation of short-term investments	28,906	-	28,906
Educational activities	16,614	-	16,614
Other sources	52,195	-	52,195
Long-term investment income and gains allocated to operations	108,053	-	108,053
Net assets released from restriction	85,453	(85,453)	-
Total operating revenues	4,676,971	(15,231)	4,661,740
Operating Expenses:			
Salaries and wages	2,197,252	-	2,197,252
Fringe benefits	597,315	-	597,315
Total compensation	2,794,567	-	2,794,567
Supplies	787,223	-	787,223
Business and professional	283,670	-	283,670
Utilities	61,349	-	61,349
Maintenance and facilities costs	159,770	-	159,770
Depreciation	245,904	-	245,904
Interest	44,724	-	44,724
Other	127,138	-	127,138
Total operating expenses	4,504,345	-	4,504,345
Change in net assets from operating activities	172,626	(15,231)	157,395
Non-operating activities:			
Long-term investment activities:			
Investment income	10,701	1,599	12,300
Net appreciation	62,157	64,919	127,076
Total long-term investment activities	72,858	66,518	139,376
Long-term investment income and gains allocated for operations	(108,053)	-	(108,053)
Other changes, net	(26,342)	(1,079)	(27,421)
Change in valuation of annuities	-	1,151	1,151
Change in net assets from non-operating activities	(61,537)	66,590	5,053
Change in net assets before change in accounting principle	111,089	51,359	162,448
Cumulative effect of change in accounting principle	(23,239)	-	(23,239)
Change in net assets	87,850	51,359	139,209
Beginning net assets	2,384,483	1,320,825	3,705,308
Ending net assets	$ 2,472,333	$ 1,372,184	$ 3,844,517

See accompanying notes to consolidated financial statements.

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

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ (2,617)	$ 139,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	251,987	245,904
Net appreciation on investment activities	(79,569)	(139,016)
Gifts of property, plant, equipment and other	(903)	(1,632)
Bond discount amortization	(6,236)	(6,307)
Loss on disposals of property, plant, and equipment	6,161	1,982
Change in funded status of pension plan	48,359	18,390
Cumulative effect of change in accounting principle	-	23,239
Contributions for long-term investment, net	(64,685)	(74,400)
(Increases)/decreases in:		
Accounts receivable, net	33,294	(30,571)
Inventories, prepaid expenses and deferred charges	(14,258)	(4,956)
Contributions receivable, net	13,314	9,935
Other assets	(10,431)	(5,615)
Increases/(decreases) in:		
Accounts payable and accrued expenses	92,918	64,414
Deferred revenues	37,384	(22,645)
Third-party settlements payable, net	218,635	17,464
Accrued pension, post-retirement, and post-employment	25,921	31,267
Net cash provided by operating activities	549,274	266,662
Cash flows from investing activities:		
Purchases of property, plant and equipment	(281,848)	(339,356)
Purchases of investments	(757,331)	(1,269,276)
Proceeds from the sale of investments	792,552	1,338,905
Decrease in investments in perpetual trusts held by others	16,654	205
Decrease/(increase) in notes receivable, net	2,928	(2,095)
Net cash used in investing activities	(227,045)	(271,617)
Cash flows from financing activities:		
Borrowings on lines-of-credit	54,534	32,988
Payments on lines-of-credit	(37,136)	(41,420)
Payments of long-term debt	(63,752)	(60,976)
Proceeds from issuance of long-term debt	2,224	64,468
Deferred financing costs	898	926
(Decrease)/increase in refundable U.S. Government grants for student loans	(5,741)	194
Contributions for long-term investment, net	64,685	74,400
Net cash provided by financing activities	15,712	70,580
Net increase/(decrease) in cash and cash equivalents	337,941	65,625
Cash and cash equivalents, beginning of period	326,128	260,503
Cash and cash equivalents, end of period	$ 664,069	$ 326,128
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on long-term debt	$ 46,577	$ 45,583
Operating cash flows from operating leases	50,206	-
Non-cash activities:		
Decrease in construction related payables	$ 1,327	$ 4,479
Right of use assets obtained in exchange for operating leases	102,435	-
Right of use assets obtained in exchange for finance leases	20,726	5,662

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The University of Rochester (the University) is a private not-for-profit institution of higher education based in Rochester, New York. The University provides education and training, 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., The Memorial Hospital of William F. and Gertrude F. Jones, Inc. and St. James Hospital.

(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, and University of Rochester Medical Faculty Group. Included also are SPHS, Eastman Dental Center Foundation, Inc., Strong Home Care Group, Excell Partners, Inc., Rochester BioVenture Center, Inc., NextCorps, F.F. Thompson Health System, Inc., Accountable Health Partners, LLC., Livingston Health Care System, Inc., The Memorial Hospital of William F. and Gertrude F. Jones, Inc. and St. James Hospital. All significant interorganizational balances and transactions have been eliminated.

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries: Highland Hospital Foundation, Inc., Highland Facilities Development Corp., and 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 of Rochester and its subsidiaries.

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 UR Medicine Home Care and Subsidiaries (URMHCS) (formerly Visiting Nurse Service of Rochester and Monroe County, Inc.) and Community Care of Rochester. URMHCS 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 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 NextCorps, which is a not-for-profit economic development organization that promotes the creation and growth of technology companies through support services and incubation facilities and provides consulting services for manufacturers.

The University is the sole corporate member of 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 subsidiaries 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 payors 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.

The University is the sole corporate member of Livingston Health Care System, Inc. (including Noyes Memorial Hospital and subsidiaries); the Memorial Hospital of William F. and Gertrude F. Jones, Inc.; and St. James Hospital and subsidiaries.

(c) Basis of Accounting and Use of Estimates

The consolidated financial statements of the University are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States of America and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Accordingly, the University classifies resources into two categories based on the existence or absence of donor imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions are free of explicit donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All operating expenses are reported as decreases in net assets without donor restrictions.

Net Assets With Donor Restrictions are subject to explicit donor-imposed restrictions that will be met either by actions of the University or the passage of time. These net assets include donor restricted endowments, unconditional pledges, split-interest agreements, and investments in perpetual trusts held by others. Generally, the donor-imposed restrictions of these assets permit the University to use all or part of the income earned on related investments only for certain general or specific purposes.

Expirations of donor restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the consolidated statements of activities.

Measure of Operations - The University's measure of operations as presented in the consolidated statements of activities includes revenue and expenses related primarily to educational and training programs, research activities, hospital and patient care activities provided by the University and its related entities, unconditional gifts and pledges, the allocation of endowment spending for operations and other revenues.

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.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingencies at the dates of the consolidated financial statements and revenues and expenses during the reporting periods. Management's assumptions are primarily related to the appropriate discount rate for the purposes of retirement and post-retirement plan valuations, the inputs utilized in determining the fair value of investments, allowances for doubtful accounts, self-insured risks, and third-party payor contractual adjustments and allowances. Actual results may differ from those estimates.

(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. Unrelated activities and income, including certain laboratory and facility rentals and income from limited partnerships in the long term investment pool, are subject to federal and state unrelated business income tax.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act impacts the University in several ways, including a new excise tax on executive compensation and new rules to calculate unrelated business taxable income. The University regularly evaluates its tax position and does not believe it has any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements based on currently available regulatory guidance.

(e) Fair Value Measurements

Fair value measurements reflected in the consolidated financial statements represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University’s assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are described briefly as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly at the measurement date.

Level 3 – Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability. In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

The requirement to disclose the hierarchy level does not apply to alternative investments measured at net asset value (NAV). 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 performs significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value.

(f) Cash and Cash Equivalents

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. Short-term highly liquid investments held within the endowment and similar investment pools are classified as investments rather than cash equivalents and restricted cash is defined as that which is legally restricted to withdrawal and usage.

(g) Short-Term 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.

(h) Inventories

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

(i) Long-term Investments

The University's investments are comprised of the assets of the University's endowment and other investments held for general operating purposes. The University reports investments at fair value as described further in Note 6. Investment expenses are netted against investment return and reported in the same net asset category as investment return.

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) Endowment

The University's endowment consists of approximately 2,700 individual endowments established for a variety of purposes including donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Although NYPMIFA does not preclude the University from spending below the original gift value of donor restricted endowment 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 2020, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.7% (5.7% during fiscal year 2019) 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.

(k) 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 the carrying value of the assets is adjusted for changes in the fair value of the trust assets. For fiscal years 2020 and 2019, the fair values for split-interest agreements assets are $124,432 and $126,023, respectively. Contribution revenue is recognized at the dates the agreements are established. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments 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. Interest rates in subsequent periods remain unchanged. For fiscal years 2020 and 2019, deferred gift liabilities of $70,852 and $71,868, respectively, are included in accounts payable and accrued expenses.

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.

(l) 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. Construction in progress costs are capitalized if the costs increase the square footage and/or useful life of the asset. The University capitalizes interest during periods of construction. Expenses incurred to restore property, plant, and equipment to like new condition or extend the useful life of the asset are capitalized. Minor renovations are expensed as incurred and are recorded within the University's consolidated statements of activities. The University reviews property, plant, and equipment for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

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 lesser of the estimated useful lives of the assets or the lease term. Land is not subject to depreciation. Estimated useful lives for non-research assets are as follows:

	Years
New building construction	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 net assets without donor restrictions 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 net assets with donor restrictions. 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.

(m) Leases

The University determines if an arrangement is or contains a lease at inception of the contract and classifies leases as either operating or finance depending upon the terms and conditions set forth in the contract. The University uses an incremental borrowing rate to determine the present value of lease payments when the implicit rate in the lease is not readily available. The current treasury rate and the University's current borrowing rate are factored into the incremental borrowing rate calculation.

The University recognizes operating lease expense within maintenance and facilities costs on the statements of activities on a straight-line basis over the lease term. On the consolidated balance sheets, right of use assets represent the University's right to use the underlying assets for the lease term and right of use liabilities represent the University's obligation to make lease payments arising from the leases. Right of use assets and right of use liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Right of use assets are reduced each period by an amount equal to the difference between the operating lease expense and the amount of interest expense on the lease liability utilizing the effective interest method.

Finance lease assets are amortized on a straight-line basis within depreciation on the statements of activities over the lease term. Interest expense associated with finance leases is recorded using the effective interest method and is included in interest expense on the statements of activities. The University recognizes variable expenses, other than those related to rates or indices, in operating expenses in the period in which the obligation is incurred.

(n) 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.

(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 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, disability benefits, and benefits provided under various other programs.

(p) Derivative Instruments and Hedging Activities

Derivative instruments related to the University's long-term debt are included in accounts payable and accrued expenses or in accounts receivable, net on the consolidated balance sheets. The change in the fair value of the derivative instruments is included in the net appreciation/depreciation 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.

(q) 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 were loaned to qualified students and were re-loaned after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying consolidated balance sheets. The Federal Perkins Loan Program ended June 30, 2018. Institutions receive guidance from the Department of Education on an annual basis with instructions for returning the federal portion of funding, based on the most recent Fiscal Operations Report and Application to Participate. Refer to Note 5 for further information.

(r) 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.

(s) Tuition and Fees

Tuition and fees revenue is derived from degree programs as well as executive and continuing education programs. Tuition and fees are recognized as operating revenue in the period in which the University satisfies its performance obligations to provide education to students. Given the timing of each year's academic sessions, nearly all performance obligations on behalf of the University are completed within the fiscal year. The University recognizes tuition on a straight-line basis over each academic session based on published rates, net of explicit price concessions such as institutional aid. Institutional aid, in the form of grants and scholarships, includes amounts funded by the endowment and gifts, and reduces the published price of tuition for students receiving such aid. Tuition and fees have been reduced by certain grants and scholarships in the amount of $260,892 in 2020 and $242,414 in 2019.

The timing(s) of billings, cash collections and revenue recognition results in accounts receivable and deferred revenue on the consolidated balance sheets. Receivables are recognized only to the extent that is it probable that the University will collect substantially all of the consideration to which it is entitled in exchange for goods and services transferred to the student. Receipts received in advance of goods and services performed are recorded as deferred revenue.

(t) Grants and Contracts

The University receives sponsored program grant and contract revenue from governmental and other sources generally for research activities and training programs. The funding may represent a nonreciprocal, non-exchange transaction in which the resources provided are for the benefit of the University, the funding organization's mission or the public at large or it may be reciprocal transaction in exchange for an equivalent benefit in return.

Revenues from exchange transactions are recognized as performance obligations are satisfied which in some cases mirrors the timing of when related costs are incurred. Revenues from non-exchange transactions may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments.) The University recognizes revenue earned from conditional non-exchange transactions when the barrier is satisfied, typically as related costs are incurred. At June 30, 2020, the University has grants or contracts for which it has not yet met all obligations to recognize revenue, or the right to recognize revenue is dependent on future events. These open commitments totaled $318,426 and $285,533 as of June 30, 2020 and 2019, respectively. It is expected that revenue will be recognized as the University fulfills its obligations over several years.

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.

(u) Gifts and Pledges and Contributions Receivable

Gifts and pledges include revenues from unconditional non-exchange agreements with private sources and foundations. Unconditional gifts and pledges are recognized as revenue in the period received and reported as increases in the appropriate net asset category based on the presence or absence of donor-imposed restrictions. The University has elected the simultaneous release option for unconditional non-exchange transactions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted gifts and pledges whose purpose restrictions are met in the same reporting year as the revenue is recognized.

(dollars in thousands)

Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return of assets received/promised and a barrier to entitlement. Conditional agreements are not recognized until the conditions and barriers on which they depend are met.

Contributions receivable after one year are discounted to their present value using an interest rate for the year in which the promise was received and considers market and credit risk as applicable. Subsequent years' accretion of the discount is included in contribution revenue and used in accordance with any donor-imposed restrictions on the contributions. Allowance is made for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

(v) Auxiliary Enterprises

Auxiliary services exist to furnish goods or services to students, faculty, patients, staff, or incidentally to the general public. Auxiliary services revenue includes revenue from contracts with customers to provide student housing, food services, parking services and other miscellaneous activities and is recognized over the period during which the services are provided. Fees charged for auxiliary services are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary services is that they are managed as a self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

The majority of auxiliary services revenue includes revenue from contracts with students for housing and dining services. Operating revenue is recognized in the academic period in which the University satisfies its performance obligations to provide housing and dining services. Given the timing of each year's academic sessions, all performance obligations on behalf of the University are completed within the fiscal year. The University recognizes housing and dining revenue on a straight-line basis over each academic session based on published rates.

(w) Hospital and Faculty Practice Patient Care

Hospital and faculty practice patient care revenue consists of net patient service revenues derived from contracts with patients in which the University's performance obligation is to provide various health care services as follows:

	2020	2019
Hospital services	$ 2,468,035	$ 2,491,830
Faculty practice patient care	458,295	452,507
Long-term care	58,320	59,693
Home health services	53,996	46,661
Ancillary and other services	499,891	435,359
Total	$ 3,538,537	$ 3,486,050

The University recognizes patient service revenue in the period in which performance obligations under contracts are met by providing healthcare services to patients. The University determines its performance obligations based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. This method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or outpatient services. The performance obligation is measured from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. The transaction price represents the amount of consideration expected from patients, third-party payors and others in exchange for providing the health care services rendered. Estimated net realizable amounts represent amounts due, net of explicit and implicit price concessions. Explicit price concessions include estimates of contractual adjustments that are determined based on contractual agreements, discount policies and historical experience. Implicit price concessions, primarily consisting of self-insured and copayment balances, are based on management's assessment of expected collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators using a portfolio approach as a practical expedient to account for patients as a collective group rather than individually. After satisfaction of amounts due from insurance and reasonable efforts to collect from patients have been exhausted, the University follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the University. Accounts receivable from patients are written off after collection efforts have been followed in accordance with University policy. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in current year operations.

Since all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Strong Memorial Hospital, Highland Hospital, FFT Hospital, Noyes Memorial Hospital, Memorial Hospital of William F. and Gertrude F. Jones, Inc., and St. James Mercy Hospital (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 a fiscal intermediary.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS) through March 31, 2023. 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. Payments for outpatient payments are connected to Ambulatory Payment Groups (APGs) which use outpatient service intensity weights based on types of service and resource consumption. 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.

(dollars in thousands)

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.

Laws and regulations 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.

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.

Hospital and faculty practice patient care revenue by major payor source is as follows:

	2020	2019
Medicare	$ 1,052,293	$ 1,055,055
Medicaid	456,753	483,572
Commercial third-party payors	1,313,133	1,339,979
Self-pay	86,522	91,482
Other	629,836	515,962
Total	$ 3,538,537	$ 3,486,050

Charity Care

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, they are not reported as revenue. The University calculates the cost of charity care by applying the ratio of cost to gross charges to the gross uncompensated charges under the charity care policy. The University maintains records to identify and monitor the level of charity care it provides. The cost of services and supplies furnished under the University's charity care policy were approximately $32,588 and $26,843 in 2020 and 2019, respectively. The University received reimbursements of approximately $25,107 and $22,410 from New York State in 2020 and 2019, respectively, related to providing charity care to patients.

(x) New Authoritative Pronouncements

ASU 2014-09 - Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers, and has subsequently issued supplemental and/or clarifying ASUs (collectively ASC 606). These standards outline a five-step framework that supersedes the principles for recognizing revenue (previously ASC 605) and eliminated industry-specific guidance. The core principle of the guidance of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, timing and uncertainty of revenue that is recognized. The University adopted ASC 606 for fiscal year 2019 using a modified retrospective application for contracts that were not completed as of the date of the initial application and the practical expedient for contract modifications.

The adoption of ASC 606 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to adoption, a portion of the University's doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to the University by patients with insurance. Under the provisions of ASC 606, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are required to be reflected as a direct reduction to operating revenues as opposed to the previous reporting as an operating expense.

In addition, the adoption of ASC 606 required the reversal of refundable residency fees previously amortized into income at two related entities, Highland Community Development Corporation and F.F.T. Senior Communities, Inc. Accordingly, in fiscal year 2019, the University recorded a change in accounting principle of $23,239 and a contract liability for the same amount in accounts payable and accrued expenses on the consolidated balance sheet as of June 30, 2019.

ASU 2016-02 - Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842), and has subsequently issued supplemental and/or clarifying ASUs (collectively, ASC 842) The standards were issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. The University adopted these standards in fiscal year 2020 using a modified retrospective transition approach and recorded operating lease right of use assets and right of use liabilities of $198,192 and $199,169, respectively, as of July 1, 2019. For periods prior to July 1, 2019, the University accounted for leasing transactions under ASC 840.

The University elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The University also elected the policy exemption that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. Refer to Notes 8 and 9 for further information.

ASU 2016-18 – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 – Restricted Cash. This standard required statements of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. It has been the University's policy to consider short-term highly liquid investments held within the endowment and similar investment pools as investments rather than cash equivalents, and has defined restricted cash as that which is legally restricted as to withdrawal and usage. There was no cash within investments as of June 30, 2020 and 2019. The adoption of ASU 2016-18 did not have a material impact on the University's financial statements for the fiscal years ended June 30, 2020 and 2019.

ASU 2017-07 - Compensation - Retirement Benefits (Topic 715)

In March 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires the service cost component of net periodic benefit cost for pension and other postretirement benefits to be presented as operating expenses. The other components of net periodic benefit costs such as interest, expected return on plan assets and amortization of other actuarially determined amounts, are required to be presented as non-operating changes in net assets without restrictions. The University adopted this standard retrospectively in fiscal year 2020, including a $14,402 reclassification on the fiscal year 2019 consolidated statement of activities of non-service related components of net period benefit costs from benefits expense to non-operating other changes, net. The amount included in non-operating other changes, net for the fiscal year ending June 30, 2020 was $19,759.

(y) Reclassification

Certain other June 30, 2019 balances and amounts previously reported have been reclassified to conform to the June 30, 2020 presentation.

(dollars in thousands)

(2) Liquidity and Availability

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

The following resources could be available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt as of June 30:

	2020	2019
Financial Assets:		
Cash and cash equivalents	$ 664,069	$ 326,128
Short-term investments	463,986	463,734
Accounts receivable	438,780	483,464
Pledge payments available for operations	22,287	21,605
Other assets	474	801
Long-term investments appropriated for spending in the following year	117,033	111,989
Financial assets available within one year	1,706,629	1,407,721
Liquidity Resources:		
Bank lines and letters of credit (undrawn)	387,861	205,259
Financial assets and liquidity resources available within one year	$ 2,094,490	$ 1,612,980

The University's cash flows have seasonal variations during the year attributable to tuition billing, patient service billings, and concentration of contributions received at calendar and fiscal year ends. Based on historical experience, only the portion of contributions receivable for operations expected to be received within one year is considered liquid. The University invests cash in excess of daily requirements in short-term investments. Cash withdrawals from long-term investments generally coincide with the endowment spending distribution, but may be adjusted higher or lower based on the timing of gift receipts, capital calls, income and capital distributions, operating expenses and other factors affecting available cash. Endowment funds appropriated for spending are distributed to University department and program budgets for spending, subject to donor restrictions where applicable.

To help manage unanticipated liquidity needs, the University has committed bank lines and letters of credit in the amount of $413,761 and $213,761 with several banks as of June 30, 2020 and 2019 that can be drawn upon as needed during the year to manage cash flows. Amounts outstanding under lines of credit amounted to $25,900 and $8,502 at June 30, 2020 and 2019, respectively. On July 10, 2020, the University repaid $22,400 of the amount outstanding as of June 30, 2020.

In addition, the University has funds functioning as endowment (FFAE) of $1,110,247 and $1,101,863 as of June 30, 2020 and 2019, respectively. Although the University does not intend to spend from its FFAE funds other than amounts appropriated for expenditure as part of its annual budget approval process, these funds could be made available if necessary, subject to certain investment lock-up provisions as discussed in Note 6.

(dollars in thousands)

(3) Accounts Receivable

Accounts receivable, net at June 30 consist of the following:

	2020	2019
Patient accounts receivable	$ 270,162	$ 329,555
Governments, foundations and companies	84,677	80,312
Reinsurance recoveries	58,575	48,168
Retail pharmacy	42,174	36,304
Student receivables	5,783	2,232
Other	39,091	37,185
Total accounts receivable, net	$ 500,462	$ 533,756

The University grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The related receivables at June 30, 2020 and 2019 include approximately 48% from governmental payors, 39% from commercial third-party payors, and 13% self-pay patients and other sources.

(4) Contributions

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

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	$ 33,151	$ 32,915
One year to five years	35,299	40,601
More than five years	56,076	64,623
	124,526	138,139
Unamortized discount and allowance for uncollectibles	(32,898)	(37,744)
Total contributions receivable, net	$ 91,628	$ 100,395

Discount rates used to calculate the present value of contributions receivable ranged from 2% to 6% at June 30, 2020 and 2019. At June 30, 2020, the University had also received $312,866 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 $39,782 and $40,224 for University relations and development for the years ended June 30, 2020 and 2019, respectively.

(dollars in thousands)

(5) Notes Receivable

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

	2020		
	Gross Receivable	Allowance	Net Receivable
Federal student loans	$ 9,848	$ 917	$ 8,931
Institutional student loans	3,838	918	2,920
Other note receivable	5,442	-	5,442
Total	$ 19,128	$ 1,835	$ 17,293

	2019		
	Gross Receivable	Allowance	Net Receivable
Federal student loans	$ 12,490	$ 904	$ 11,586
Institutional student loans	3,799	606	3,193
Other note receivable	5,442	-	5,442
Total	$ 21,731	$ 1,510	$ 20,221

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 sheets as refundable U.S. Government grants for student loans. The Federal Perkins Loan Program ended June 30, 2018. Institutions are awaiting further guidance from the Department of Education with instructions for unwinding the Federal Perkins Loan program and returning the federal portion of funding. For fiscal years 2020 and 2019, the University refunded $4,622 and $0, respectively, to the U.S. Department of Education to reduce the Perkins Loan Program.

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.

(6) Investments

Investments were held for the following at June 30:

	2020	2019
Endowment and similar purposes	$ 2,392,299	$ 2,364,773
Property, plant, and equipment purposes:		
Debt service reserve held by trustees under debt agreements	23,424	24,899
Bond proceeds not yet expended	3,315	23,620
Other	1,026	455
Total property, plant, and equipment purposes	27,765	48,974
Other purposes	235,560	223,094
Total investments held for long-term purposes	$ 2,655,624	$ 2,636,841
Short-term investments	$ 463,986	$ 463,734
Total investments	$ 3,119,610	$ 3,100,575

(dollars in thousands)

For investment purposes, substantially all investments held for endowment and similar purposes participate in one of several pools, each with its own investment policy and objectives. The investment pool assets are owned by the separate endowment and similar funds within each pool based on the percent ownership of each fund to the pool. Income, realized and unrealized gains and losses are distributed based on the percent ownership of the pooled assets measured at fair value.

The 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, 2020 and 2019. Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the consolidated financial position of the University.

The following tables present the fair value of investments recorded on the consolidated balance sheets as of June 30:

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	NAV as Practical Expedient (NAV)	2020 Total Fair Value
Cash equivalents	$ 101,323	$ -	$ -	$ 101,323
Domestic bonds	207,074	105,251	-	312,325
Common equity				
Domestic	72,794	-	199	72,993
Foreign	255	-	-	255
Equity				
Absolute return	-	-	638,414	638,414
Global	54,600	-	-	54,600
Domestic	60,585	49,356	238,902	348,843
Foreign	1,378	329,425	185,999	516,802
Private	-	-	764,305	764,305
Real estate	235	-	86,272	86,507
Real assets	35,672	-	98,788	134,460
Other	79,454	9,329	-	88,783
Total short and long term investments	$ 613,370	$ 493,361	$ 2,012,879	$ 3,119,610

(dollars in thousands)

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	NAV as Practical Expedient (NAV)	2019 Total Fair Value
Cash equivalents	$ 78,459	$ -	$ -	$ 78,459
Domestic bonds	209,033	135,448	-	344,481
Common equity				
Domestic	104,865	-	199	105,064
Foreign	-	-	-	-
Equity				
Absolute return	-	-	694,656	694,656
Global	51,588	-	-	51,588
Domestic	53,993	50,657	140,129	244,779
Foreign	1,691	381,009	138,227	520,927
Private	2,145	-	688,359	690,504
Real estate	212	-	103,092	103,304
Real assets	42,005	-	140,636	182,641
Other	74,158	10,014	-	84,172
Total short and long term investments	$ 618,149	$ 577,128	$ 1,905,298	$ 3,100,575

(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.

(c) Net Asset Value

The net asset value (NAV) represents the University's ownership interest in certain alternative investments. 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.

(dollars in thousands)

The following tables provide information about alternative investments at NAV.

Strategy	2020 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Equity:				
Absolute return	$ 638,414	$ 29,667	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Domestic	238,902	-	Monthly, Quarterly, 1 to 3 Year Rolling Lock-ups	45 - 180 Days
Foreign	185,999	-	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Private	764,305	188,976	1 to 12 years	NA
Real estate	86,272	44,491	1 to 12 years	NA
Real assets	98,788	29,813	1 to 12 years	NA
Direct investments	199	-	NA - held to maturity	NA
Total alternative investments	$ 2,012,879	$ 292,947		

Strategy	2019 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Equity:				
Absolute return	$ 694,656	$ 7,000	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Domestic	140,129	20,000	Monthly, Quarterly, 1 to 3 Year Rolling Lock-ups	45 - 180 Days
Foreign	138,227	14,500	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Private	688,359	179,308	1 to 12 years	NA
Real estate	103,092	56,883	1 to 12 years	NA
Real assets	140,636	37,063	1 to 12 years	NA
Direct investments	199	-	NA - held to maturity	NA
Total alternative investments	$ 1,905,298	$ 314,754		

(7) Property, Plant, and Equipment

As of June 30, 2020 and 2019, the University's investment in property, plant, and equipment is as follows:

	2020	2019
Buildings and improvements	$ 3,315,635	$ 3,178,383
Land improvements	77,705	77,652
Leasehold improvements	129,061	101,152
Equipment owned	1,627,814	1,532,060
Library books	228,211	217,768
Subtotal	5,378,426	5,107,015
Less accumulated depreciation	(3,264,605)	(3,050,911)
Subtotal	2,113,821	2,056,104
Land	18,502	18,821
Museum collections	41,555	40,613
Construction in progress	147,560	159,123
Total property, plant and equipment, net	$ 2,321,438	$ 2,274,661

(dollars in thousands)

(8) Long-Term Debt

The following is a summary of the University's long-term indebtedness as of June 30, including unamortized premiums of $71,812 and $78,049 and bond issuance costs of $8,799 and $9,756, respectively:

University of Rochester:	**Fiscal year maturity**	**Interest rate**	**2020**	**2019**
Fixed Rate:				
DASNY Series 2009	2039	2.50%-5.00%	$ 9,276	$ 9,829
MCIDC Series 2011; 2013; 2015; 2017	2022 - 2047	0.47% - 5.31%	852,425	892,778
Private Placement Notes	2047-2049	3.26% - 3.56%	92,675	96,358
Other Notes	2026	0.00% - 3.26%	4,024	4,673
Obligations under finance leases	2022 -2027	0.85% - 4.21%	21,836	5,001
Variable rate:				
DASNY Series 2003 & 2006	2027-2033	3.92% - 3.97%	81,683	97,125
Total University			1,061,919	1,105,764
Highland Hospital of Rochester:				
Fixed Rate:				
DASNY Series 2010	2032	2.00% - 5.20%	$ 7,617	$ 8,020
MCIDC Series 2015	2045	3.00% - 4.13%	35,099	36,353
Variable rate:				
DASNY Series 1994B	2023	5.50%	3,628	4,401
Total Highland Hospital			46,344	48,774
F. F. Thompson Health System, Inc.:				
Fixed Rate:				
OCLDC Series 2017	2040	2.79% - 3.30%	$ 33,426	$ 34,483
Other Notes	2020 - 2031	3.55% -7.71%	7,040	4,717
Obligations under finance leases	2023	2.72% - 5.97%	67	147
Variable rate:				
DASNY Series 2012	2039	3.00%	11,915	12,345
Total F. F. Thompson Health System, Inc			52,448	51,692
Livingston Health Care System, Inc.:				
Fixed Rate:				
LCIDA Series 2005	2030	5.00% - 6.00%	$ 4,387	$ 4,654
Obligations under finance leases	2019 - 2022	3.21% - 10.51%	1,020	796
Variable rate:				
LCIDA Series 2007	2023	LIBOR+ 110%	-	375
Total Livingston Health Care System, Inc			5,407	5,825
Memorial Hospital of William F. and Gertrude F. Jones, Inc.				
Fixed Rate:				
Obligations under finance leases	2022	5.60%	569	570
Total Memorial Hospital of William F. and Gertrude F. Jones, Inc.			569	570
St. James Mercy Hospital:				
Fixed Rate:				
New Market Tax Credit Loans	2041	1.05%	$ 7,680	$ 7,563
Other Notes	2028	0.00% - 3.85%	5,780	6,097
Total St. James Mercy Hospital			13,460	13,660
Total Long-term debt			$ 1,180,147	$ 1,226,285

(dollars in thousands)

(a) Interest Rate Swaps

The University maintains interest rate swap agreements with third-parties to exchange variable debt for a fixed rate obligation, which were entered into during July 2003 for the DASNY Series 2003 bonds and March 2006 for the DASNY Series 2006 bonds. These swaps have a combined notational amount of $81,915. The interest rate swaps on the DASNY Series 2003 and Series 2006 bonds terminate on July 1, 2033 and July 1, 2027, respectively.

F. F. Thompson Health System, Inc. executed interest rate swaps with third-parties. These swaps have a combined notational amount of $11,915 and the contractual relationship under this agreement will last until November 1, 2025.

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.

Depreciation of interest rate swaps was $1,554 and $1,794 for the years ended June 30, 2020 and 2019, respectively, and are included in non-operating net appreciation on the consolidated statements of activities. Activity related to interest rate swaps affect net assets without donor restrictions and, in the consolidated statement of cash flows, are included in changes in accounts payable and accrued expenses in the operating activities section.

(b) Collateral

The University has individual letters of credit in place for DASNY Series 2003 and DASNY Series 2006. Highland Hospital of Rochester has a letter of credit in place for DASNY Series 1994B. F. F. Thompson Health System, Inc. has a letter of credit in place for DASNY Series 2012.

(c) Finance Leases

During fiscal year 2020, the University issued $19,948 in finance lease obligations for various equipment. The leases are being repaid at various rates with maturity dates through April 2027.

The University leases equipment for educational, research, and patient care purposes under finance leases expiring through 2027.

Lease cost recognized in the consolidated statement of activities is summarized as follows:

	2020	2019
Finance lease cost:		
Amortization of right-of-use assets	$ 4,330	$ 2,871
Interest on lease liabilities	1,048	177
Total lease cost	$ 5,378	$ 3,048

(dollars in thousands)

	2020	2019
Finance leases:		
Property, plant, and equipment, net	$ 27,236	$ 10,373
Total finance lease assets	$ 27,236	$ 10,373
Long-term debt	$ 23,492	$ 6,514
Total finance lease liabilities	$ 23,492	$ 6,514
Weighted Average Remaining Lease Term - finance leases	5.27	years
Weighted Average Discount rate - finance leases	3.77%	

(d) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount or premium and bond issuance costs, for each of the years in the five-year period ending June 30, 2025 and thereafter are as follows:

	Principal portions of lease payments	Principal portions of debt	Total
2021	$ 5,439	$ 68,971	$ 74,410
2022	5,187	63,980	69,167
2023	3,980	60,708	64,688
2024	2,564	68,567	71,131
2025	2,323	68,288	70,611
Thereafter	3,999	826,141	830,140
Total	$ 23,492	$ 1,156,655	$ 1,180,147

The University incurred $ 44,985 and $44,724 of interest expense for the years ended June 30, 2020 and 2019, respectively, net of interest capitalization of $314 and $839 for the years ended June 30, 2020 and 2019, respectively.

(9) Operating Leases

The University leases laboratories, office space, medical offices, and equipment for educational, research, and patient care purposes under operating leases expiring through 2035. The real estate lease agreements typically have initial terms of five to twenty years and may include one or more options to renew, which can extend the lease term five to ten years. The exercise of lease renewal options is at the University's sole discretion. When determining the lease term, the University includes options to extend or terminate the lease when the option to exercise is certain.

(dollars in thousands)

The components of lease expense included in maintenance and facilities cost on the statement of activities for the year ended June 30 were as follows:

	2020
Operating lease cost	$ 51,504
Variable lease cost	1,047
Total	$ 52,551
Weighted Average Remaining	
Operating leases	6.53 years
Weighted Average Discount Rate	
Operating leases	5.0%

Maturities of operating lease liabilities were as follows:

Year ending June 30,	University	Related Entities	Total
2021	$ 41,825	$ 4,630	$ 46,455
2022	37,469	4,195	41,664
2023	33,933	3,642	37,575
2024	28,416	2,913	31,329
2025	19,845	2,493	22,338
Thereafter	48,967	14,442	63,409
Total lease payments	$ 210,455	$ 32,315	$ 242,770
Less imputed interest	(17,537)	(8,977)	(26,514)
Total	$ 192,918	$ 23,338	$ 216,256

The adoption of ASC 842 in fiscal year 2020 using the modified retrospective approach required the following disclosures for periods prior to adoption.

Future minimum payments under non-cancelable operating leases, with initial or remaining terms of one year or more, as of June 30, 2019 were as follows:

	University	Related Entities	Total
2020	$ 40,265	$ 7,457	$ 47,722
2021	36,404	6,288	42,692
2022	32,820	5,637	38,457
2023	28,755	5,576	34,331
2024	21,746	4,412	26,158
Thereafter	55,599	11,565	67,164
Total minimum lease payments	$ 215,589	$ 40,935	$ 256,524

Rental expense for the fiscal year ending June 30, 2019 totaled $63,992 and is included in the accompanying consolidated statements of activities.

(10) 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, 2020 were discounted by 1.3% and amounted to $66,214 (2.0% and $61,158 in 2019). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $17,967 at June 30, 2020 ($15,622 at June 30, 2019). 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 $14,811 and $17,128 as of June 30, 2020 and 2019, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheets and have not been discounted.

(b) Self-insurance Plans – Highland Hospital and its Subsidiaries

Highland Hospital and its subsidiaries are 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. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2020 were discounted by 0.5% and amounted to $7,859 (2.0% and $7,863 in 2019). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $1,899 at June 30, 2020 ($2,233 at June 30, 2019). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheets.

(c) Post-employment Benefits – University

The University's accrued post-employment benefits, inclusive mostly of workers' compensation and disability benefits, amounted to $73,641 and $74,479 at June 30, 2020 and 2019, respectively, and are recorded in accrued pension, post-retirement and post-employment on the consolidated balance sheets.

(d) 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 $19,878 and $17,631 for the years ended June 30, 2020 and 2019, respectively. Due to the University's implementation of ASU 2017-07 in fiscal year 2020, the service cost component of post-retirement plan expense is recorded in fringe benefits expense on the consolidated statements of activities, as in past years, while the remaining non-service cost items are recorded in other changes, net as non-operating activities.

(dollars in thousands)

The benefit obligation for this plan for the years ended June 30, 2020 and 2019 includes the following components:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 227,873	$ 223,103
Service cost	8,861	7,141
Interest cost	7,997	8,591
Plan participants' contributions	5,704	5,606
Actuarial loss/(gain)	26,513	(1,033)
Benefits paid	(16,577)	(16,087)
Medicare Part D prescription drug federal subsidy	567	552
Benefit obligation at end of year	$ 260,938	$ 227,873
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	10,306	9,929
Plan participants' contributions	5,704	5,606
Medicare Part D prescription drug federal subsidy	567	552
Benefits paid	(16,577)	(16,087)
Fair value of plan assets at end of year	$ -	$ -
Components of accrued benefit:		
Funded status	$ (260,938)	$ (227,873)
Net actuarial loss	80,125	56,303
Prior service cost	198	527
Accrued benefits	$ (180,615)	$ (171,043)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	$ (171,043)	$ (163,341)
Net periodic benefit cost	(19,878)	(17,631)
Employer contributions	10,306	9,929
Accrued benefits	(180,615)	(171,043)
Amount recorded in unrestricted net assets	(80,323)	(56,830)
Net amount recognized in the consolidated balance sheets	$ (260,938)	$ (227,873)
Components of net periodic benefit cost:		
Service cost	$ 8,861	$ 7,141
Interest cost	7,997	8,591
Amortization of prior service cost	330	330
Amortization of net actuarial loss	2,690	1,569
Net periodic benefit cost	$ 19,878	$ 17,631
Amounts recorded in unrestricted net assets:		
Net loss/(gain) during period	$ 26,513	$ (1,033)
Amortization recognition	(2,690)	(1,569)
Prior service cost/(credit)	(330)	(330)
Total amount recognized in other non-operating expense	$ 23,493	$ (2,932)

(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 cost in fiscal 2021 are $3,673 and $301 respectively. Estimated future contributions, benefit payments, and prescription subsidy receipts are as follows:

	Estimated Contributions / Benefit Payments	Estimated Prescription Subsidy Receipts
2021	$ 13,030	$ 461
2022	13,531	476
2023	13,858	480
2024	14,106	484
2025	14,338	488
2026 to 2030	74,025	1,516

Benefits are valued based upon the projected unit cost method. The weighted average assumptions used at the measurement date, June 30, are as follows:

	2020	2019
Discount rate for obligation	2.75%	3.50%
Health care cost trend rate -		
Initial pre age 65	6.50%	6.75%
Initial post age 65	4.40%	4.75%
Initial post age 65 (Medicare Advantage)	4.40%	4.75%
Initial prescription drug	6.75%	9.00%
Health care cost trend rate - Final	3.78%	3.78%
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	$ 2,250	$ (1,847)
Effect on post-retirement benefit obligation	$ 24,255	$ (20,276)

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 sheets and to recognize changes in that funded status in the year in which the changes occur through changes in net assets without donor restrictions. In addition, employers are required to measure the funded status of the plan as of the consolidated balance sheet date.

(dollars in thousands)

(e) Retirement Plan – University

The University provides a 403(b) defined contribution retirement plan to its employees. The University of Rochester's Retirement Program is administered and record kept by TIAA. Under this plan, the University made contributions of $114,728 and $109,078 in 2020 and 2019, respectively, which were vested for the benefit of the participants.

(f) Retirement Plans – Highland Hospital and Subsidiaries

The defined benefit retirement plan of Highland Hospital covers employees of Highland Hospital, The Highlands Living Center and Highland Community Development Corporation 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. Effective August 3, 2010, participation in the plan was frozen.

Retirement plan expense of $10,612 and $8,876 was incurred for fiscal years ended June 30, 2020 and 2019, respectively. As a result of the adoption of ASU 2017-07, the service cost component of net benefit cost is included within income from operations and is recorded in fringe benefits in the consolidated statements of activities. The other components of net benefit cost are reported in other changes as non-operating activities. In addition, a pension related charge other than net periodic pension cost of $23,874 and $21,444 for the fiscal years ended June 30, 2020 and 2019, respectively, was recorded in other changes on the consolidated statements of activities.

The following tables present the changes in the plan benefit obligation and the fair value of the plan assets for the years ended June 30, 2020 and 2019 and the funded status of the plan at June 30, 2020 and 2019.

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 234,139	$ 207,685
Service cost	5,908	5,557
Interest cost	7,576	8,334
Actuarial loss	26,697	21,356
Benefits paid	(18,136)	(8,793)
Benefit obligation at end of year	$ 256,184	$ 234,139
Accumulated benefit obligation	$ 243,318	$ 222,605

(dollars in thousands)

	2020	2019
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 138,696	$ 133,988
Actual return on plan assets	5,786	4,926
Employer contribution	8,554	8,575
Benefits and expenses paid	(18,136)	(8,793)
Fair value of plan assets at end of year	$ 134,900	$ 138,696
Amounts recognized in the balance sheets consists of:		
Accrued benefit cost	$ (21,814)	$ (19,757)
Amount recognized in unrestricted net assets (other non-operating expense)	99,470	(75,686)
Funded status	$ 77,656	$ (95,443)
Components of net periodic benefit cost:		
Service cost	$ 5,908	$ 5,557
Interest cost	7,576	8,334
Expected return on plan assets	(9,842)	(9,402)
Amortization of unrecognized loss	6,970	4,387
Net periodic benefit cost	$ 10,612	$ 8,876

Benefits are valued based upon the projected unit credit cost method. The assumptions used for the plan at the measurement date are as follows:

	2020	2019
Discount rate for obligation	2.85%	3.67%
Discount rate for pension expense	3.67%	4.31%
Future compensation increase rate	3.00%	3.00%
Long-term rate of return on plan assets	7.00%	7.00%

Discount rates used to determine the benefit obligations are based on the yields on high-grade corporate bonds with maturities similar to the projected benefit payments.

To develop the expected long-term rate on assets assumption, the plan sponsor considered the current level of expected returns on risk free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The Plan assets are managed by an investment manager. The investment manager monitors financial markets and adjusts strategy accordingly. The Plan's overall portfolio mix of fixed income and equity securities was based upon asset allocation modeling taking into consideration historical return patterns and risk factors. The Plan believes that the current mix of plan assets provides an appropriate level of return to achieve current assumed plan return assumptions. For the year ended June 30, 2020, the Plan had target asset allocation ranges of 50% - 75% public equity, 10% - 50% public debt, 0% - 20% private debt and 0% - 25% alternatives. For the year ended June 30, 2019, the Plan had target asset allocation ranges of 57% equity securities, 38% fixed income securities and 5% in cash and other investments.

(dollars in thousands)

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.

Risk mitigation is achieved by diversifying investments across multiple asset classes, by investment in high quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. Market risk inheres in any portfolio but the investment policies and strategies are designed to avoid concentration of risk in one entity, industry, country, or commodity.

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

	2020		
Description	**Level 1**	**NAV**	**Total Fair Value**
Cash and cash equivalents	$ 3,848	$ -	$ 3,848
Mutual and exchange traded funds	19,836	-	19,836
Collective investment trusts		78,538	78,538
Other pooled investment funds	-	21,767	21,767
Limited partnerships	-	10,911	10,911
Total	$ 23,684	$ 11,216	$ 134,900

	2019		
Description	**Level 1**	**NAV**	**Total Fair Value**
Cash	$ 2,770	$ -	$ 2,770
Mutual fund – Global Asset	66,454	-	66,454
Mutual fund – Multi Asset	-	69,472	69,472
Total	$ 69,224	$ 69,472	$ 138,696

Fair value for Level 1 is based upon quoted market prices. As a practical expedient, Highland Hospital uses its ownership interest in the NAV to determine the fair value of the investments.

Highland Hospital expects to contribute $18,064 to the Plan in fiscal year 2021.

(dollars in thousands)

Scheduled estimated future benefit payments for fiscal years ending June 30 are as follows:

	Pension Benefits
2021	$ 9,533
2022	10,248
2023	10,896
2024	11,459
2025	11,979
2026 to 2030	66,464
Total estimated future payments	$ 120,579

In addition, Highland Hospital has a 403(b) defined contribution plan and the cost was $4,700 and $4,088 for fiscal years ending June 30, 2020 and 2019, respectively, and is recorded in benefits expense on the consolidated statements of activities.

(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 FFT Plan), covering all eligible employees. Benefits under the FFT Plan are based on each participant's years of service and compensation, as defined by the FFT Plan document. Effective December 31, 2017, the accrued benefits and participation of employees were frozen. As of that date, no new participants are eligible to participate in the FFT Plan after December 31, 2017, and benefit accruals for participants under the FFT Plan ceased. The funded status of the FFT Plan as of December 31, 2019 and 2018 was $(17,629) and $(17,321), respectively.

(h) Retirement Plan – UR Medicine Home Care and Subsidiaries

UR Medicine Home Care 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. UR Medicine Home Care 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, 2019 and 2018 was $(3,854) and $(3,596), 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 June 30. The funded status of this plan as of June 30, 2020 and 2019 was $(9,729) and $(9,067), 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 annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2019 and 2018 was $(3,222) and $(3,151), respectively.

(11) Investment in Captive Insurance Company

The University, together with other universities and teaching hospitals, has formed a captive insurance company (captive) to insure the professional liability risks of the shareholders. The dissolution provisions of the captive agreement indicate that the University's financial participation (based on percentage of premiums paid) is approximately 7% of the financial results of the captive. Due to the University's significant influence in the captive, the investment in the captive has been recorded under the equity method. For fiscal years 2020 and 2019, the University has recorded $29,622 and $29,889, respectively, in investments held for long-term purposes.

The University'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 University.

(12) 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 University is $225,000 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 $58,575 and $48,168 as of June 30, 2020 and 2019, respectively, and has been included in 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 $37,551 and $35,016 as of June 30, 2020 and 2019, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheets.

(13) Commitments and Contingencies

In the ordinary course of operations, the University is named as a defendant in various lawsuits, or events that 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, 2020, the University has entered into construction contracts and commitments aggregating $1,086,826 ($1,011,606 at June 30, 2019) of which $998,987 ($943,192 at June 30, 2019) had been fulfilled.

(dollars in thousands)

(14) Expenses by Functional and Natural Classification

Expenses are presented by functional classification in accordance with the overall service missions of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation, maintenance, and facilities costs are allocated to functional categories based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which benefited from the proceeds of the external debt.

Other components of net periodic benefit cost is a component of other changes, net on the statement of activities and is allocated based on the salaries that benefit the functional area.

Functional expenses for the years ended June 30 consisted of the following:

	2020				
	Academic instruction	Research	Hospital and Patient Care	Admin and Other	Total
Compensation	$ 464,898	$ 191,452	$ 2,109,251	$ 143,815	$ 2,909,416
Supplies	18,091	22,935	794,395	2,254	837,675
Utilities and maintenance	45,504	49,376	106,601	18,525	220,006
Depreciation expense	80,787	21,821	148,577	802	251,987
Interest expense	14,343	9,846	17,474	3,322	44,985
Services and other	10,513	25,928	306,344	64,575	407,360
Total operating expenses	$ 634,136	$ 321,358	$ 3,482,642	$ 233,293	$ 4,671,429
Other components of net benefit pension costs	$ 2,238	$ 832	$ 15,874	$ 815	$ 19,759
Total non-operating activities	2,238	832	15,874	815	19,759
Total functional expenses	$ 636,374	$ 322,190	$ 3,498,516	$ 234,108	$ 4,691,188

	2019				
	Academic instruction	Research	Hospital and Patient Care	Admin and Other	Total
Compensation	$ 454,835	$ 181,342	$ 1,981,232	$ 177,158	$ 2,794,567
Supplies	27,036	24,649	732,329	3,209	787,223
Utilities and maintenance	44,346	50,900	113,311	12,562	221,119
Depreciation expense	80,974	22,533	141,497	900	245,904
Interest expense	14,930	10,555	15,932	3,307	44,724
Services and other	49,216	38,966	260,169	62,457	410,808
Total operating expenses	$ 671,337	$ 328,945	$ 3,244,470	$ 259,593	$ 4,504,345
Other components of net benefit pension costs	$ 2,380	$ 960	$ 10,246	$ 816	$ 14,402
Total non-operating activities	2,380	960	10,246	816	14,402
Total functional expenses	$ 673,717	$ 329,905	$ 3,254,716	$ 260,409	$ 4,518,747

(dollars in thousands)

(15) Net Assets

Net assets consist of the following at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Instruction	$ 439,710	$ 567,362	$ 1,007,072
Student aid	79,127	320,050	399,177
Program support	591,410	270,208	861,618
Total endowment funds	1,110,247	1,157,620	2,267,867
Other Invested Funds			
Net investment in property, plant and equipment	1,100,095	-	1,100,095
University designated	255,332	-	255,332
Purpose restrictions	3,549	27,121	30,670
Contributions receivable	-	91,628	91,628
Interests in perpetual trusts held by others	-	43,996	43,996
Split-interest agreements	-	52,312	52,312
Total other invested funds	1,358,976	215,057	1,574,033
Total net assets	$ 2,469,223	$ 1,372,677	$ 3,841,900

Net assets consist of the following at June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Instruction	$ 445,869	$ 554,685	$ 1,000,554
Student aid	81,133	312,058	393,191
Program support	574,861	271,114	845,975
Total endowment funds	1,101,863	1,137,857	2,239,720
Other Invested Funds			
Net investment in property, plant and equipment	1,010,699	-	1,010,699
University designated	356,330	-	356,330
Purpose restrictions	3,441	20,461	23,902
Contributions receivable	-	100,395	100,395
Interests in perpetual trusts held by others	-	60,650	60,650
Split-interest agreements	-	52,821	52,821
Total other invested funds	1,370,470	234,327	1,604,797
Total net assets	$ 2,472,333	$ 1,372,184	$ 3,844,517

(dollars in thousands)

Rollforward of endowment net assets from June 30, 2018 to June 30, 2020:

		Without Donor Restrictions		With Donor Restrictions		Total
Balance as of June 30, 2018	$	1,106,416	$	1,071,452	$	2,177,868
Investment return, net		64,286		67,779		132,065
Gifts and transfers		(11,896)		49,736		37,840
Amounts appropriated for expenditure		(56,943)		(51,110)		(108,053)
Balance as of June 30, 2019	**$**	1,101,863	$	1,137,857	$	2,239,720
Investment return, net		38,734		39,995		78,729
Gifts and transfers		23,943		36,254		60,197
Amounts appropriated for expenditure		(54,293)		(56,486)		(110,779)
Balance as of June 30, 2020	$	1,110,247	$	1,157,620	$	2,267,867

(16) Student Health Plan

During the fiscal year ended June 30, 2018, the University established a self-funded student health insurance plan under Section 1124 of the New York State Insurance Law (NYSIL). The Student Health Insurance Plan (SHIP) provides health insurance coverage to students at the University. SHIP was developed especially for students (and their dependents) to provide access to convenient and comprehensive care that complements the quality of health services offered on campus. The plan year began on August 1, 2017. The table below presents a summary of SHIP operations occurring during the University's fiscal years ending June 30:

Income:	July 1 - July 31 (prior plan year)	Aug 1 - June 30 (current plan year)	2020 Fiscal year total	July 1 - July 31 (prior plan year)	Aug 1 - June 30 (current plan year)	2019 Fiscal year total
Premium revenue	$ 1,167	$ 11,311	$ 12,478	$ 473	$ 10,976	$ 11,449
Interest income	7	23	30	-	36	36
Total Income	1,174	11,334	12,508	473	11,012	11,485
Expenses:						
Medical and prescription drug expense	916	9,830	10,746	730	8,889	9,619
Administrative fees	140	1,572	1,712	167	1,635	1,802
Contingency	(549)	-	(549)	-	-	-
Total Expenses	507	11,402	11,909	897	10,524	11,421
Net income from health plan operations	$ 667	$ (68)	$ 599	$ (424)	$ 488	$ 64

The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred but not reported (IBNR) is maintained at an amount not less than 18% of expected medical claims and 5% of expected pharmacy drug claims. In addition, a contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. During the current fiscal year, the contingency reserve was reclassed from a liability to reserve as part of net assets. The contingency reserve is maintained at an amount not less than 5% of the total current plan year premiums and is invested. New York State requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. As of June 30, 2020 the contingency fund was invested in a money market fund, which is reported as cash and cash equivalents on the University's balance sheet and included within short-term investments in Note 6.

(dollars in thousands)

The changes in the unearned premiums and SHIP reserves during the fiscal year ended June 30, 2020 are presented below.

	Unearned Premiums	IBNR Reserve	Contingency Reserve
Balance as of July 1	$ 1,056	$ 1,482	$ 549
Balance as of June 30	979	1,728	624
Net Change	$ (77)	$ 246	$ 75

(17) COVID-19

In January 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a Public Health Emergency of International Concern. On March 7, 2020, the Governor of the State of New York declared a state of emergency. On March 22, 2020, the Governor signed the New York State on PAUSE executive order which included a 10 Point Plan that closed all non-essential businesses and services statewide, canceled or postponed all non-essential gatherings of individuals, limited the use of public transportation, and emphasized social distancing practices in business and personal life. Such orders resulted in work-from-home policies, travel restrictions, online education, closure of student residential buildings, and cancellation of events. In addition, the restrictions required rescheduling of elective or non-critical surgical and procedural cases along with non-urgent and routine provider appointments, as well as redeployment of resources to address the novel coronavirus needs. In early May 2020, with the COVID-19 situation stabilizing and beginning to show signs of improvement, and consistent with the guidance from regulatory agencies, the University resumed surgical and professional services that were postponed in March and April. In addition, the University reopened its campus for the fall semester in August 2020 under the University of Rochester Redesigned principles and framework developed in accordance with New York State and federal reopening guidelines. The University is monitoring the COVID-19 situation, legislative developments, including future relief funding opportunities, and directives from federal, state, and local officials to determine what additional precautions and procedures may need to be implemented. The University at this time cannot accurately predict the full extent to which the COVID-19 outbreak will affect the University's future finances and operations but the impact may be material.

In response to the disruptions that the COVID-19 pandemic has caused in operations for institutions of higher education and health care organizations, on March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Stimulus Act (CARES Act) which made funds available to the University through various provisions of the legislation. Through June 30, 2020, the University received and recognized CARES Act provider relief funding of $114,104 and CARES Act higher education relief funding of $3,006 as grant and contract revenue on the consolidated statement of activities. Another $4,089 in CARES Act provider relief funding was received by the University's related entities is included in deferred revenue on the consolidated balance sheet as of June 30, 2020. The University also received $198,964 in advanced payments from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payments Program reported as third-party settlements payable, net on the consolidated balance sheet, which are expected to be repaid within the next twelve months based on current legislation. In addition, several of the University's related entities received a total of $12,243 in Paycheck Protection Program loans for small businesses reported as deferred revenue on the consolidated balance sheet since these are expected to be forgiven under current legislation. Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes. As of June 30, 2020, $34,114 was deferred and reported as accounts payable and accrued expenses on the consolidated balance sheet for the University and will be repaid over the next two years based on current legislation.

In July and August 2020, the University received additional CARES Act provider relief funding of approximately $14,002.

(18) Subsequent Events

(a) Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated August 5, 2020, MCIDC issued and sold $420,160 of bonds known as the University of Rochester Revenue Bonds, Series 2020, consisting of $362,140 Series 2020A bonds and $58,020 Series 2020B bonds. The Series 2020 bonds were issued at a premium of $61,417 resulting in proceeds of $481,577.

Series 2020A tax-exempt bonds were used to finance (1) a new offsite ambulatory orthopedics center; (2) expansion of the emergency room and inpatient tower at Strong Memorial Hospital, (3) construction of the Sloan Performing Arts Center on the River Campus; (4) replacement of the University's legacy student system; and (5) renovation of certain hospital, educational, and infrastructure facilities. Series 2020A also refinanced all of the outstanding bonds for DASNY Series 2003, 2006, and 2009 bonds and financed the swap termination for Series 2003 and Series 2006 variable rate bonds.

Series 2020B taxable bonds were used to finance (1) renovations of certain educational and utilities infrastructure facilities and (2) to provide liquidity for the University. Series 2020B bonds also partially financed the swap termination for the DASNY Series 2003 variable rate bonds.

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

(b) In September 2020, the U.S. Department of Health and Human Services (HHS) issued new reporting requirements for the CARES Act provider relief funding. The new requirements first require the University to identify healthcare related expenses attributable to coronavirus that another source has not reimbursed. If those expenses do not exceed the funding received the University will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating income compared to calendar year 2019.

HHS in entitled to recoup amounts in excess of the negative change in patient care operating income reported net of healthcare related expenses attributable to coronavirus. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under CARES Act provider relief fund by the University may change in future periods.

(c) The University has performed an evaluation of subsequent events through October 13, 2020, the date on which the financial statements were issued and has concluded that there were no such events that require adjustments to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.