

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**

Consolidated Financial Statements

June 30, 2017 and 2016

UNIVERSITY OF ROCHESTER  
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## Report of Independent Auditors

To the Board of Trustees  
University of Rochester

We have audited the accompanying consolidated financial statements of the University of Rochester and its related entities (the "University"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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, 2017 and 2016, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Rochester, New York  
October 18, 2017

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

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 310,514	\$ 277,221
Short-term investments	460,525	426,593
Accounts receivable, net	415,307	376,234
Inventories, prepaid expenses, and deferred charges	69,646	61,536
Contributions receivable, net	93,930	88,526
Notes receivable, net	19,822	49,482
Other assets	40,969	40,427
Investments held for long-term purposes	2,474,288	2,308,446
Property, plant, and equipment, net	2,091,083	1,991,438
Interest in net assets of foundations	17,740	16,473
Investments in perpetual trusts held by others	59,462	52,306
<b>Total assets</b>	<b>\$ 6,053,286</b>	<b>\$ 5,688,682</b>
 <b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 488,174	\$ 458,988
Advanced receipt of sponsored research revenues	7,097	9,100
Deferred revenue	72,061	74,177
Third-party settlements payable, net	148,069	154,221
Accrued pension, post-retirement, and post-employment	575,998	572,294
Long-term debt	1,255,923	1,193,645
Asset retirement obligation	30,060	29,442
Refundable U.S. Government grants for student loans	16,662	16,459
<b>Total liabilities</b>	<b>2,594,044</b>	<b>2,508,326</b>
 Net Assets:		
Unrestricted	2,234,422	2,072,141
Temporarily restricted	661,267	586,163
Permanently restricted	563,553	522,052
<b>Total net assets</b>	<b>3,459,242</b>	<b>3,180,356</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,053,286</b>	<b>\$ 5,688,682</b>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Activities**  
**For The Year Ended June 30, 2017**  
**(dollars in thousands)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues:</b>				
Tuition and fees	\$ 475,519	\$ -	\$ -	\$ 475,519
Less: scholarships and fellowships	(212,589)	-	-	(212,589)
Net tuition and fees	262,930	-	-	262,930
Grants and contracts	373,488	-	-	373,488
Gifts and pledges	23,742	40,849	30,269	94,860
Hospital and faculty practice patient care activities	2,916,784	-	-	2,916,784
Auxiliary enterprises	123,241	-	-	123,241
Interest income and apprec/(deprec) of short-term Investments	28,247	-	-	28,247
Educational activities	15,317	-	-	15,317
Royalty income	4,087	-	-	4,087
Other sources	59,285	20	-	59,305
Long-term investment income and gains allocated to operations	98,467	-	-	98,467
Net assets released from restriction	68,068	(70,251)	2,183	-
<b>Total operating revenues</b>	<b>3,973,656</b>	<b>(29,382)</b>	<b>32,452</b>	<b>3,976,726</b>
<b>Operating expenses:</b>				
Salaries and wages	1,900,936	-	-	1,900,936
Fringe benefits	523,238	-	-	523,238
<b>Total compensation</b>	<b>2,424,174</b>	<b>-</b>	<b>-</b>	<b>2,424,174</b>
Supplies	620,441	-	-	620,441
Business and professional	248,746	-	-	248,746
Utilities	59,569	-	-	59,569
Maintenance and facilities costs	136,698	-	-	136,698
Depreciation	224,197	-	-	224,197
Interest	44,384	-	-	44,384
Other	130,707	-	-	130,707
<b>Total operating expenses</b>	<b>3,888,916</b>	<b>-</b>	<b>-</b>	<b>3,888,916</b>
Change in net assets from operating activities	84,740	(29,382)	32,452	87,810
<b>Non-operating activities:</b>				
Long-term investment activities:				
Investment income/(loss)	11,560	122	(121)	11,561
Net appreciation	142,043	126,106	9,609	277,758
<b>Total long-term investment activities</b>	<b>153,603</b>	<b>126,228</b>	<b>9,488</b>	<b>289,319</b>
Long-term investment income and gains allocated for operations	(98,467)	-	-	(98,467)
Loss on extinguishment of debt	(8,088)	-	-	(8,088)
Other changes, net	30,493	(166)	(52)	30,275
Change in valuation of annuities	-	(21,576)	(387)	(21,963)
Change in net assets from non-operating activities	77,541	104,486	9,049	191,076
<b>Change in net assets</b>	<b>162,281</b>	<b>75,104</b>	<b>41,501</b>	<b>278,886</b>
Beginning net assets	\$ 2,072,141	\$ 586,163	\$ 522,052	\$ 3,180,356
Ending net assets	\$ 2,234,422	\$ 661,267	\$ 563,553	\$ 3,459,242

See accompanying notes to consolidated financial statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues:</b>				
Tuition and fees	\$ 458,446	\$ -	\$ -	\$ 458,446
Less: scholarships and fellowships	(205,254)	-	-	(205,254)
Net tuition and fees	253,192	-	-	253,192
Grants and contracts	369,954	-	-	369,954
Gifts and pledges	25,433	38,135	15,408	78,976
Hospital and faculty practice patient care activities	2,638,925	-	-	2,638,925
Auxiliary enterprises	117,439	-	-	117,439
Interest income and apprec/(deprec) of short-term Investments	(3,223)	-	-	(3,223)
Educational activities	14,486	-	-	14,486
Royalty income	23,113	-	-	23,113
Other sources	64,169	-	-	64,169
Long-term investment income and gains allocated to operations	93,576	-	-	93,576
Net assets released from restriction	98,429	(99,802)	1,373	-
<b>Total operating revenues</b>	<u>3,695,493</u>	<u>(61,667)</u>	<u>16,781</u>	<u>3,650,607</u>
<b>Operating expenses:</b>				
Salaries and wages	1,750,538	-	-	1,750,538
Fringe benefits	502,758	-	-	502,758
<b>Total compensation</b>	2,253,296	-	-	2,253,296
Supplies	562,358	-	-	562,358
Business and professional	235,287	-	-	235,287
Utilities	55,171	-	-	55,171
Maintenance and facilities costs	128,095	-	-	128,095
Depreciation	206,974	-	-	206,974
Interest	45,072	-	-	45,072
Other	148,294	-	-	148,294
<b>Total operating expenses</b>	<u>3,634,547</u>	<u>-</u>	<u>-</u>	<u>3,634,547</u>
Change in net assets from operating activities	<u>60,946</u>	<u>(61,667)</u>	<u>16,781</u>	<u>16,060</u>
<b>Non-operating activities:</b>				
Long-term investment activities:				
Investment income/(loss)	11,624	3,829	(93)	15,360
Net depreciation	(41,867)	(57,317)	(1,585)	(100,769)
<b>Total long-term investment activities</b>	<u>(30,243)</u>	<u>(53,488)</u>	<u>(1,678)</u>	<u>(85,409)</u>
Long-term investment income and gains allocated for operations	(93,576)	-	-	(93,576)
Loss on extinguishment of debt	(559)	-	-	(559)
Other changes, net	(84,453)	1,539	(80)	(82,994)
Change in valuation of annuities	-	(6,508)	181	(6,327)
Change in net assets from non-operating activities	<u>(208,831)</u>	<u>(58,457)</u>	<u>(1,577)</u>	<u>(268,865)</u>
Change in net assets before cumulative effect of acquisition	(147,885)	(120,124)	15,204	(252,805)
Cumulative effect of acquisition	28,432	775	2,298	31,505
<b>Change in net assets</b>	<u>(119,453)</u>	<u>(119,349)</u>	<u>17,502</u>	<u>(221,300)</u>
Beginning net assets	\$ 2,191,594	\$ 705,512	\$ 504,550	\$ 3,401,656
Ending net assets	<u>\$ 2,072,141</u>	<u>\$ 586,163</u>	<u>\$ 522,052</u>	<u>\$ 3,180,356</u>

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)**

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Change in net assets after cumulative effect of acquisition	\$ 278,886	\$ (221,300)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	224,197	206,974
Net (appreciation)/depreciation on investment activities	(300,559)	106,966
Gifts of property, plant, equipment and other	(1,474)	(1,306)
Bond discount amortization	(3,480)	(2,297)
Loss on the extinguishment of debt	8,088	559
Provision for bad debts	42,940	36,654
Loss on disposals of property, plant, and equipment	2,288	3,169
Cumulative effect of acquisition	-	(31,505)
Contributions for long-term investment, net	(65,714)	(66,169)
(Increases)/decreases in:		
Accounts receivable, net	(72,195)	(92,172)
Inventories, prepaid expenses and deferred charges	(8,526)	1,545
Contributions receivable, net	(1,205)	17,331
Other assets	(1,637)	(9,951)
Increases/(decreases) in:		
Accounts payable and accrued expenses	28,577	27,827
Advanced receipt of sponsored research revenues	(2,003)	(3,290)
Deferred revenues	(2,116)	11,194
Third-party settlements payable, net	(6,152)	14,915
Accrued pension, post-retirement, and post-employment	3,704	112,012
Net cash provided by operating activities	123,619	111,156
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(317,461)	(273,538)
Purchases of investments	(1,901,840)	(1,470,080)
Proceeds from the sale of investments	1,960,981	1,413,025
(Increase)/decrease in investments in perpetual trusts held by others	156	(58)
Decrease in notes receivable, net	29,660	512
Cash received in acquisition	-	3,908
Net cash used in investing activities	(228,504)	(326,231)
<b>Cash flows from financing activities:</b>		
Net borrowings on lines-of-credit	8,203	-
Principal repayments of long-term debt	(274,701)	(65,279)
Proceeds from issuance of long-term debt	339,095	41,034
Deferred financing costs	(336)	(361)
Increase in refundable U.S. Government grants for student loans	203	138
Contributions for long-term investment, net	65,714	66,169
Net cash provided by financing activities	138,178	41,701
<b>Net increase/(decrease) in cash and cash equivalents</b>	33,293	(173,374)
<b>Cash and cash equivalents, beginning of year</b>	277,221	450,595
<b>Cash and cash equivalents, end of year</b>	310,514	277,221
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest on long-term debt	51,808	43,294
<b>Non-cash investing and financing activities:</b>		
Increase/(decrease) in construction related payables	5,211	(11,013)
Assets acquired under capital leases	\$ 465	\$ 274

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016  
(dollars in thousands)

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

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#### **(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., and The Memorial Hospital of William F. and Gertrude F. Jones, Inc.

#### **(b) Basis of Presentation**

The accompanying consolidated financial statements include all of the integrated divisions of the University – Arts, Sciences and Engineering (including the Hajim School of Engineering and Applied Sciences), Margaret Warner Graduate School of Education and Human Development, William E. Simon Graduate School of Business Administration, Eastman School of Music, Memorial Art Gallery, School of Medicine and Dentistry, Strong Memorial Hospital, School of Nursing, Eastman Institute for Oral Health, Health Sciences, University of Rochester Medical Faculty Group (URMFG), and UR Investment, LLC. Included also are SPHS (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Crittenden Boulevard Housing Company, Inc., Excell Partners, Inc., Rochester BioVenture Center, Inc. (including its subsidiaries), High Tech Rochester, Inc., University of Rochester Real Estate Corporation, UR Equity Holdings, Inc., F.F. Thompson Health System, Inc. (including its subsidiaries), Accountable Health Partners, LLC., Livingston Health Care System, Inc. and The Memorial Hospital of William F. and Gertrude F. Jones, Inc. All significant interorganizational balances and transactions have been eliminated.

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

Crittenden Boulevard Housing Company, Inc. (CBHC) which was formed to provide affordable housing facilities for graduate students and staff of the University, was dissolved in December 2016 when the University assumed ownership of all CBHC's assets through an assignment and assumption agreement.

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



# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016  
(dollars in thousands)

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

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

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

The University entered into a financing arrangement in December 2009, for the renovation of the Eastman Theatre enhanced by qualified investors in the New Markets Tax Credit (NMTC) program of the United States Treasury. This transaction required the formation of a wholly-owned special purpose corporation known as the University of Rochester Real Estate Corporation (URREC). The seven-year compliance period for the Eastman Theatre NTMC program ended in December 2016. An exit agreement was executed between all parties that resulted in a reduction of long-term debt of \$38,300, a reduction of related notes receivable of \$28,482 and a non-operating gain of \$9,818.

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

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

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

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

### (c) **Basis of Accounting**

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

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016  
(dollars in thousands)

### Classification of Net Assets

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

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

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

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trustee balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.
- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.
- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for property, plant, and equipment purposes, and for other specific operating purposes.

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

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

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016  
(dollars in thousands)

### **(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 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.

### **(e) Operations**

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

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

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

### **(f) Cash and Cash Equivalents and Short-Term Investments**

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

Short-term investments include all other current investments with original maturities greater than three months and are used to support operations. These current investments include obligations of the U.S. Treasury, U.S. Government and other government agencies, and corporate and foreign bonds. Included also are internal operating funds invested in the University's long-term investment pool however, they may be liquidated upon demand at any time.

### **(g) Inventories**

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

### **(h) Contributions**

Contributions, including unconditional promises, or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted, at a range of 2% to 5%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016  
(dollars in thousands)

contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

### (i) Investments and Spending Policy

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

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Although NYPMIFA does not preclude the University from spending below the original gift value of permanently restricted funds, the University's policy is to spend no more than a stated percentage of fair value of its investment portfolio over time. Accordingly, during fiscal year 2017, 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 2016) 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.

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

### (j) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation and amortization. Buildings used for research activities are componentized as site improvements, buildings, building services, and fixed equipment. Depreciation of research building components is recorded using the straight-line method over the useful lives of the components ranging from 4 to 50 years. Depreciation of non-research buildings, equipment and library books, and amortization of leasehold and land improvements are computed using the straight-line method over the estimated useful lives of the assets. Land is not subject to depreciation. Estimated useful lives for non-research assets are as follows:

	<u>Years</u>
New building construction	40
Building and leasehold improvements	20
Land improvements	20
Equipment	4 to 15
Library books	10

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

### **(k) Museum Collections**

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

### **(l) Split Interest Agreements and Perpetual Trusts**

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2017 and 2016, the fair values for split interest agreements assets are \$123,096 and \$111,804, respectively. Generally, contribution revenues are recognized at the dates the agreements are established and liabilities are recorded for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The carrying value of the assets is adjusted for changes in the fair value of the trust assets for both split interest agreements and perpetual trusts.

### **(m) Refundable U.S. Government Grants for Student Loans**

Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students and may be re-loaned after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying consolidated balance sheet.

### **(n) Grants and Contracts**

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

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

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### (o) **Benefit Plans**

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

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

### (p) **Hospital and Faculty Practice Patient Care Activities**

Strong Memorial Hospital, Highland Hospital, and FFT Hospital, Noyes Memorial Hospital and Memorial Hospital of William F. and Gertrude F. Jones, Inc. (collectively, the Hospitals) have agreements with third-party payors that provide for payments to the Hospitals at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

#### **Medicare**

Under the Medicare program, the Hospitals receive reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The Hospitals also receive reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospitals' Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2008 for Strong Memorial Hospital; December 31, 2009 for Highland Hospital; December 31, 2014 for FFT Hospital; December 31, 2014 for Memorial Hospital of William F. and Gertrude F. Jones, Inc. and December 31, 2013 for Noyes Memorial Hospital.

#### **Medicaid and Other Third-Party Payors**

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

Under HCRA, Medicaid, workers compensation, and no-fault payors payment rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospitals' established charges. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate payment rates utilizing All Patient Refined DRGs (APR-DRGs). APR-DRGs used revised service intensity weights (SIWs) to adjust each APR-DRG for patient acuity. Similar type outpatient reforms were implemented effective December 1, 2008 by connecting outpatient payments to Ambulatory Payment Groups (APGs) which use outpatient SIWs based on types of service and resource consumption.

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

Revenue from Excellus Blue Cross and MVP accounted for approximately 30% and 5%, respectively, of the Hospitals' net patient service revenue for the year ended June 30, 2017, and 30% and 5%, respectively, for the year ended June 30, 2016.

Revenue from Medicare and Medicaid programs, including Medicare Advantage and Medicaid Managed Care plans, accounted for approximately 35% and 16%, respectively, of the Hospitals' net patient revenue for the fiscal year ended June 30, 2017, and 36% and 17%, respectively, for the year ended June 30, 2016. 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. During fiscal years 2017 and 2016, the Hospitals recognized approximately \$19,308 and \$11,899 of net patient service revenue as a result of changes in estimates related to third-party settlements. In addition, the Hospitals recognized additional third-party payables of approximately \$7,988 and \$21,672 related to fiscal years 2017 and 2016, respectively.

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

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2017, over 1,360 full-time faculty in 18 clinical departments and two clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 895,968 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 35,307 hospital admissions, as well as participated in the coverage of the emergency department handling over 132,201 visits (includes 16,278 ED visits at Strong West). Payments for these services are derived primarily from third-party insurers including Managed Care

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companies (14.9%), Medicare (19.4%), Blue Shield (24.9%), Medicaid (13.5%) commercial (12.4%) other (4.1%) and self-pay (10.8%)

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 435 University medical students and 758 residents and fellows.

### **(q) Charity Care and Provision for Bad Debts**

As further described in Note 17, the University provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the University does not pursue collection of amounts determined to qualify as charity care, these are not reported as revenue or patient accounts receivable. The University grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and State governmental healthcare coverage and other collection indicators.

### **(r) Use of Estimates**

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

### **(s) Investment in Net Assets of Foundations**

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

### **(t) Asset Retirement Obligations**

The University accounts for asset retirement obligations in accordance with asset retirement and environmental obligations guidance. This guidance primarily affects the way the University accounts for asbestos-related removal costs. The University accrues for asset retirement obligations in the period incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.



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### **(u) Derivative Instruments and Hedging Activities**

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

### **(v) Reclassification**

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

### **(w) New Authoritative Pronouncements**

For the fiscal year ended June 30, 2017, the University elected to "early adopt" the disclosure changes required by Accounting Standards Update (ASU) 2015-03 - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The effects of adopting the ASU are reflected in Note 8 and the prior year disclosures have been adjusted to conform to this new presentation.

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for the fiscal year ended June 30, 2020. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

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

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**(2) Net Assets**

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Unrestricted net assets consist of the following at June 30:

	<b>2017</b>	<b>2016</b>
Designated:		
University divisions	\$ 1,309,517	\$ 1,276,530
For Highland Hospital and affiliates	57,943	14,487
For Eastman Dental Center Foundation	27,743	27,738
Total designated	1,395,203	1,318,755
Net investment in property, plant, and equipment	805,101	768,351
Undesignated	34,118	(14,965)
<b>Total unrestricted net assets</b>	<b>\$ 2,234,422</b>	<b>\$ 2,072,141</b>

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

Accumulated appreciation on permanently restricted net assets subject to purpose restrictions	\$ 539,632	\$ 469,391
Interest in net assets of foundation	17,740	16,473
Other gifts and income subject to:		
Purpose restrictions	9,064	3,074
Time restrictions:		
Contributions receivable	50,814	49,384
Split-interest agreements	44,017	47,841
<b>Total temporarily restricted net assets</b>	<b>\$ 661,267</b>	<b>\$ 586,163</b>

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

Perpetual endowment funds	\$ 456,570	\$ 425,386
Interests in perpetual trusts held by others	59,319	52,306
Split-interest agreements	674	1,400
Perpetual loan funds	3,874	3,818
Contributions receivable	43,116	39,142
<b>Total permanently restricted net assets</b>	<b>\$ 563,553</b>	<b>\$ 522,052</b>

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Endowment net assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Donor - restricted funds:</b>				
True endowments	\$ 311	\$ 536,523	\$ 456,570	\$ 993,404
Term endowments	-	3,109	-	3,109
	<u>311</u>	<u>539,632</u>	<u>456,570</u>	<u>996,513</u>
Funds functioning as endowment (quasi)	1,047,674	-	-	1,047,674
<b>Total endowment funds</b>	<u>\$ 1,047,985</u>	<u>\$ 539,632</u>	<u>\$ 456,570</u>	<u>\$ 2,044,187</u>

Rollforward of endowment net assets from July 1, 2016 to June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 964,017	\$ 469,391	\$ 425,386	\$ 1,858,794
<b>Investment return:</b>				
Investment income, net of fees	7,036	6,282	60	13,378
Net appreciation and gains	127,146	116,548	2,137	245,831
<b>Total investment return</b>	<u>\$ 134,182</u>	<u>\$ 122,830</u>	<u>\$ 2,197</u>	<u>\$ 259,209</u>
New gifts and additions	8,339	1,186	31,723	41,248
Amounts appropriated for expenditure	(54,695)	(47,579)	-	(102,274)
Other changes and reclassifications	(3,858)	(6,196)	(2,736)	(12,790)
<b>Endowment net assets, June 30, 2017</b>	<u>\$ 1,047,985</u>	<u>\$ 539,632</u>	<u>\$ 456,570</u>	<u>\$ 2,044,187</u>

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

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

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

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

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**(3) Accounts Receivable**

Accounts receivable at June 30 consist of the following:

	<b>2017</b>	<b>2016</b>
Patient care and related activities, net of allowances for doubtful accounts of \$116,625 and \$91,519	\$ 226,674	\$ 206,510
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of \$1,422 and \$1,046	69,415	83,138
Student receivables, net of allowances for doubtful accounts of \$5,102 and \$4,487	4,932	4,211
Reinsurance recoveries and other	114,286	82,375
<b>Total accounts receivable</b>	<b>\$ 415,307</b>	<b>\$ 376,234</b>

**(4) Contributions**

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

	<b>2017</b>	<b>2016</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 14,194	\$ 10,813
One year to five years	45,472	50,047
More than five years	76,706	68,760
	136,372	129,620
Less unamortized discount and allowance for uncollectible amounts	(42,442)	(41,094)
<b>Total contributions receivable, net</b>	<b>\$ 93,930</b>	<b>\$ 88,526</b>

At June 30, 2017, the University had also received \$250,846 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 \$40,239 and \$38,693 for University relations and development for the years ended June 30, 2017 and 2016, respectively.

**(5) Notes Receivable**

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

	<b>2017</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 16,784	\$ 904	\$ 15,880
Institutional student loans	4,548	606	3,942
<b>Total</b>	<b>\$ 21,332</b>	<b>\$ 1,510</b>	<b>\$ 19,822</b>
	<b>2016</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 18,137	\$ 904	\$ 17,233
Institutional student loans	4,373	606	3,767
Other note receivable	28,482	-	28,482
<b>Total</b>	<b>\$ 50,992</b>	<b>\$ 1,510</b>	<b>\$ 49,482</b>

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

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

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

The seven-year compliance period for the Eastman Theatre NTMC program ended in December 2016. An exit agreement was executed between all parties that resulted in a reduction of other notes receivable of \$28,482 of the University of Rochester Real Estate Corporation (wholly-owned by the University) for a loan to the Chase NMTC Eastman Theatre Investment Fund LLC (a non-consolidated entity). Refer to Note 8 (r) for further information.

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

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

	<b>2017</b>	<b>2016</b>
Endowment and similar purposes	\$ 2,167,284	\$ 1,970,524
Property, plant, and equipment purposes:		
Debt service reserve held by trustees under debt agreements	25,093	27,606
Bond proceeds not yet expended	103,225	135,687
Other	453	882
Total property, plant, and equipment purposes	128,771	164,175
Other purposes	178,233	173,747
<b>Total investments held for long-term purposes</b>	<b>\$ 2,474,288</b>	<b>\$ 2,308,446</b>

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, 2017 and 2016.

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

Investment fees were \$45,935 and \$55,953 for the years ended June 30, 2017 and 2016, respectively.

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

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As of June 30, 2017 and 2016, the University's investment in property, plant, and equipment is as follows:

	<b>2017</b>	<b>2016</b>
Buildings and improvements	\$ 2,913,179	\$ 2,781,836
Land improvements	69,308	67,425
Completed projects under leasehold agreements	65,858	46,632
Equipment owned	1,305,501	1,253,345
Library books	197,718	188,513
Subtotal	<u>4,551,564</u>	<u>4,337,751</u>
Less accumulated depreciation	2,666,238	2,526,241
Subtotal	<u>1,885,326</u>	<u>1,811,510</u>
Land	13,520	12,745
Museum collections	37,492	35,994
Construction in progress	<u>154,745</u>	<u>131,189</u>
<b>Total property, plant, and equipment, net</b>	<b>\$ <u>2,091,083</u></b>	<b>\$ <u>1,991,438</u></b>

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**(8) Long-Term Debt**

The following is a summary of the University's long-term indebtedness as of June 30, less unamortized premiums of \$73,227 and \$42,511 and bond issuance costs of \$10,210 and \$9,928, respectively:

	<u>2017</u>	<u>2016</u>
Bond payable - DASNY Series 1994B, 5.50% (a)	5,801	6,490
Bond payable - DASNY Series 2003, 3.97% (b)	69,184	77,025
Bond payable - OCIDA Series 2003, 3.05% (c)	9,400	9,800
Bond payable - LCIDA Series 2005, 5.00% to 6.00% (d)	5,143	5,595
Bond payable - DASNY Series 2006, 3.92% (e)	61,473	71,161
Bond payable - DASNY Series 2007, 4.00% to 5.00% (f)	-	72,181
Bond payable - LCIDA Series 2007, LIBOR + 110% (g)	1,904	2,616
Bond payable - DASNY Series 2009, 2.50% to 5.00% (h)	14,113	80,039
Bond payable - DASNY Series 2010, 2.00% to 5.20% (i)	8,725	9,065
Bond payable - OCLDC Series 2010, 4.64% (j)	26,200	26,970
Bond payable - MCIDC Series 2011, 2.00% to 5.00% (k)	83,257	147,874
Bond payable, DASNY Series 2012, 3.00% (l)	13,170	13,565
Bond payable - MCIDC Series 2013, .05% to 5.31% (m)	250,559	255,904
Bond payable - MCIDC Series 2015, 0.87% to 5.00% (n)	314,742	317,825
Bond payable - MCIDC Series 2015, 3.00% to 4.125% (o)	38,711	39,610
Bond payable - MCIDC Series 2017, 3.37% to 5.00% (p)	286,894	-
Urban Development Corporation loan (q)	667	833
Notes payables, 2.48% to 7.00%	1,351	1,690
Mortgage payables, 2.98% to 5.04%	7,239	7,613
Notes payable - Eastman Theatre Renovation, 0.74% to 2.73% (r)	-	38,234
Notes payable - Manufacturers and Traders Trust Bank, 3.28% (s)	5,786	6,107
Note payable - New York Life Series 2017A, 3.56% (t)	49,192	-
Obligations under capital leases, 0.00% to 6.33%	2,412	3,448
<b>Total long-term debt</b>	<u>1,255,923</u>	<u>1,193,645</u>

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

**(a) Bonds Payable – DASNY Series 1994B**

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and Dormitory Authority State of New York (DASNY), \$13,000 of Series 1994B Revenue Bonds were issued and sold by DASNY. The related entity is repaying the indebtedness at a fixed rate of 5.50%, maturing July 2023.

During fiscal year 2009, the Series 1994B bonds were remarketed and converted from a fixed interest rate to a variable interest rate determined by the bond agent. The terms related to principal repayment did not change.

The bond issue is collateralized by an interest in certain buildings and equipment and an irrevocable direct pay letter of credit held by HSBC Bank for \$6,597 which expires July 2020.

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### **(b) Bonds Payable – DASNY Series 2003**

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

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

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

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

On July 31, 2003, the University executed interest rate swaps with third-parties. The University entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty pays the University a variable interest rate equal to 61.50% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2033.

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

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

The University has individual letters of credit in place for DASNY Series 2003A and 2003C that total \$55,380 with JP Morgan Chase Bank, N.A, which expire in March 2018. Of this total, no amounts were outstanding at June 30, 2017 and 2016.

The University has a letter of credit in place for DASNY Series 2003B in the amount of \$18,706 with HSBC Bank, N.A which expires in September 2018. Of this total, no amounts were outstanding at June 30, 2017 and 2016.



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### **(c) Bonds Payable – OCIDA Series 2003**

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

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

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

In October 2008, the related entity executed interest rate swaps with third-parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 3.05%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 2018.

The bonds are secured by a direct pay letter of credit for \$9,498 with Key Bank, N. A. which expires in July 2018. The related entity entered into a lease agreement with OCIDA, which also acts as collateral for payment of the bonds. Additional collateral is provided by a guaranty agreement under which the related entity is jointly and severally responsible for payment of the bonds.

### **(d) Bonds Payable – LCIDA Series 2005**

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

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

### **(e) Bonds Payable – DASNY Series 2006**

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

On March 16, 2006, the University executed interest rate swaps with a third-party. The University entered into an interest rate swap agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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3.92%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2027.

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

The University has individual letters of credit in place for DASNY Series 2006A-1 and 2006B-1 that total \$71,772 with Barclays Bank, PLC, which expires in August 2019. The letter of credit has a renewal option that can be exercised. Of this total, no amounts were outstanding as of June 30, 2017 and 2016.

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

### **(f) Bonds Payable – DASNY Series 2007**

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

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

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

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

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

During fiscal year 2017, the outstanding bonds for Series 2007 that matured after July 2017 were refinanced under Series 2017. A loss on extinguishment due to bond refinancing of \$1,262 was recognized.

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

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**(g) Bonds Payable – LCIDA Series 2007**

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

In December 2007, the related entity executed interest rate swaps with third-parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 110.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 3.05%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 2019.

The bonds are secured by a direct pay letter of credit for \$2,071 with HSBC Bank, N.A. which expires in July 2019. The bond issue is collateralized by substantially all assets and revenues and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

**(h) Bonds Payable – DASNY Series 2009**

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

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

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

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

Series 2009D bonds were issued to refinance the outstanding bonds for Series 1999B. The bondholders received final payment in July 2013.

Series 2009E bonds were issued to finance a portion of the construction of the Saunders Research Building.

During fiscal year 2017, portions of the outstanding bonds for Series 2009 were refinanced under Series 2017. A loss on extinguishment due to bond refinancing of \$8,740 was recognized.

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

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### **(i) Bonds Payable - DASNY Series 2010**

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

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

### **(j) Bonds Payable – OCLDC Series 2010**

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

Series 2010 bonds were issued to finance the Frederick Ferris Thompson Hospital expansion and renovation project.

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

### **(k) Bonds Payable – MCIDC Series 2011**

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

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

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

During fiscal year 2017, portions of the outstanding bonds for Series 2011A and 2011B were refinanced under Series 2017. A loss on extinguishment due to bond refinancing of \$7,904 was recognized.

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

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### **(l) Bonds Payable – DASNY Series 2012**

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

In November 2015, the related entity executed interest rate swaps with third-parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 1.62%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until November 2025.

The related entity has a letter of credit in place in the amount of \$13,322 with HSBC Bank USA, which expires in September 2021, at which time the letter of credit is subject to annual renewal and approval.

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

### **(m) Bonds Payable – MCIDC Series 2013**

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

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

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

Series 2013C bonds were issued to finance (1) the purchase of the Women's Health Center building; (2) renovations and expansion of the Second Data Center; (3) construction of the new Barnes & Noble bookstore located at College Town; (4) construction of office space located within College Town; (5) the replacement of the University's legacy financial records system; and (6) various deferred maintenance and renovation projects at the Eastman School of Music and related residential

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halls. A portion of Series 2013C was used to refinance (1) all of the outstanding 2003 Direct Note Obligation notes; (2) all of the outstanding 2004 COMIDA bonds; (3) a portion of the outstanding bonds for Series 2007C; (4) a portion of the outstanding bonds for Series 2009B; (5) a portion of the outstanding bonds for Series 2009E; and (6) a portion of the outstanding bonds for Series 2011A. A portion of Series 2013C was used to reimburse the University for all or a portion of the amounts paid to bondholders on July 1, 2013 for amounts owed under Series 2007C, 2009B, 2009A, and 2011A.

### **(n) Bonds Payable – MCIDC Series 2015**

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

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

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

Series 2015C bonds were issued to finance (1) the renovation and modernization of various off-site leasehold improvements; (2) construction of Wegmans Hall, which includes the Goergen Institute for Data Science; (3) renovation of the boat storage facility and student space facilities at Brooks Crossing; (4) installation and acquisition of telephones and security cameras within College Town; and (5) various unit renovation projects within Strong Memorial Hospital. A portion of Series 2015C was used to reimburse the University for amounts owed under the ordinary bank loan to JP Morgan Chase, which was a component of the New Market Tax Credit financing structure.

### **(o) Bonds Payable - MCIDC Series 2015**

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

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

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### **(p) Bonds Payable – MCIDC Series 2017**

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated April 5, 2017, MCIDC issued and sold \$255,610 of bonds known as the University of Rochester Tax-Exempt Revenue Bonds, Series 2017, consisting of \$159,485 Series 2017A bonds and \$96,125 Series 2017B bonds. The Series 2017 bonds were issued at a premium of \$33,830 resulting in proceeds of \$289,440.

Series 2017A bonds were issued to finance (1) construction of Genesee Hall, which will house residential students and provide athletic space, along with ancillary and related site improvements; (2) renovation of various office, classroom, athletic, and laboratory facilities for the River Campus; (3) renovation and modernization of the concourse, press box, and fencing of Fauver Stadium, along with ancillary and related site improvements; (4) design of a two to four story addition to Hutchison Hall; (5) renovation and modernization of various classroom facilities at Rush Rhees Library relating to the writing, speaking and argument program; (6) renovation and modernization of various classroom facilities for the audio and music engineering program; (7) renovation and modernization of various office and classrooms at the Simon Business School; (8) deferred maintenance, replacement, renovation, and modernization of replacement windows and elevators throughout River Campus; (9) central utility infrastructure improvements; and (10) deferred maintenance renovations for the Eastman School of Music. A portion of Series 2017A was used to refinance (1) all of the outstanding bonds for Series 2007A-2 due on or after July 1, 2017; and (2) a portion of the outstanding bonds for Series 2009A, Series 2009B, Series 2009E, and Series 2011A.

Series 2017B bonds were issued to finance (1) renovation and modernization of various clinic and office renovations for the Eastman School of Oral Health; (2) renovation and modernization of the pediatric intensive care unit and operating rooms within the Golisano Children's Hospital; (3) renovation, equipping, and modernization of various facilities throughout Strong Memorial Hospital. A portion of Series 2017B was used to refinance (1) all of the outstanding bonds for Series 2007C due on or after July 1, 2017; and (2) a portion of the outstanding bonds for Series 2009C, and Series 2011B.

### **(q) Urban Development Corporation Loan**

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

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

### **(r) Notes Payable – Eastman Theatre Renovation**

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

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Several loans were created through the NMTC financing structure. The first was an ordinary bank loan from JPMorgan Chase for \$15,482 at a cost of LIBOR plus 2.5% for a seven-year term. The remaining loans were specialized NMTC notes payable totaling \$38,300 at a cost of 0.74% for forty years, maturing on December 18, 2049. The University was required to pay interest only on these promissory notes for the first seven years. The lenders of the notes payable were a group of Community Development Entities that received significant tax credits as a result of this loan.

The University loaned \$28,482 to an investment fund as a part of the setup of the community development entities. The external note receivable was scheduled to mature December 18, 2049.

In December 2016, when the seven-year compliance period ended, an exit agreement was executed between all parties that resulted in a reduction of long-term debt of \$38,300, a reduction of related notes receivable of \$28,482 and a non-operating gain of \$9,818.

### **(s) Notes Payable – Manufacturers and Traders Trust Bank**

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

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

### **(t) Notes Payable – NYL Series 2017A**

Pursuant to an agreement between the University and University and New York Life Investors, LLC (NYL) dated April 6, 2017, NYL issued and sold \$49,307 of notes known as the University of Rochester Series A Senior Notes. The University is repaying the indebtedness at a fixed rate of 3.56%, maturing July 2047.

The Series 2017A Senior Notes are general, unsecured obligations of the University.

Series 2017A notes were issued to finance (1) replacement of the University's legacy student system; (2) expansion of existing laboratories located at Bailey Road; (3) building improvements and renovations for the Bailey Road Building; (4) renovations for various off-site leasehold improvements; (5) renovations for Messinger Hall located within the Eastman School of Music; (6) renovations for academic program space for the River Campus; (7) construction of a new residence hall on River Campus; and (8) capitalized interest borrowed for the interest payment due July 2017.



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**(u) Required Principal Payments**

Required composite principal payments for long-term debt, net of unamortized discount or premium, for each of the years in the five-year period ending June 30, 2022 and thereafter are as follows:

	<b>Principal portions of lease payments</b>		<b>Principal portions of debt</b>		<b>Total</b>
2018	\$	1,176	\$	61,043	\$ 62,219
2019		854		63,536	64,390
2020		242		63,725	63,967
2021		90		65,828	65,918
Thereafter		50		999,379	999,429
<b>Total</b>	<b>\$</b>	<b>2,412</b>	<b>\$</b>	<b>1,253,511</b>	<b>\$ 1,255,923</b>

The University incurred \$44,384 and \$45,072 of interest expense for the years ended June 30, 2017 and 2016, respectively, net of interest capitalization of \$1,931 and \$5,092 for the years ended June 30, 2017 and 2016, respectively.

The University has letter of credit agreements with various financial institutions to purchase the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements are not remarketable and the agreements are not otherwise renewed, the principal amounts (including variable rate demand bonds not subject to a liquidity facility) would be as follows:

	<b>Principal portions of lease payments</b>		<b>Principal portions of debt</b>		<b>Total</b>
2018	\$	1,176	\$	119,945	\$ 121,121
2019		854		79,086	79,940
2020		242		79,210	79,452
2021		90		63,044	63,134
Thereafter		50		912,226	912,276
<b>Total</b>	<b>\$</b>	<b>2,412</b>	<b>\$</b>	<b>1,253,511</b>	<b>\$ 1,255,923</b>

**(9) Benefits Plans**

**(a) Self-insurance Plans – University**

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2017 were discounted by 2.3% and amounted to \$53,642 (1.5% and \$54,718 in 2016). These liabilities are offset by receivables for the expected insurance direct payments against these claims of \$14,203 at June 30, 2017 (\$14,289 at June 30, 2016). 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.

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The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was \$12,623 and \$11,668 as of June 30, 2017 and 2016, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

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

Highland Hospital is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of \$8,884 is maintained as security for workers compensation claims. Included in accrued pension, post-retirement, and post-employment at June 30, 2017 and 2016 are accruals of approximately \$8,610 and \$10,854, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of \$4,684 and \$3,055 at June 30, 2017 and 2016, respectively. This liability has been discounted by 2.25% and 1.25% at June 30, 2017 and 2016, respectively.

**(c) Post-employment Benefits – University**

The University's accrued post-employment benefits, inclusive mostly of workers compensation and disability benefits, amounted to \$65,424 and \$73,471 at June 30, 2017 and 2016, respectively, and are recorded in accrued pension, post-retirement and post-employment on the consolidated balance sheet.

**(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 \$23,256 and \$17,385 for the years ended June 30, 2017 and 2016, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

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Benefit expense for this plan for the years ended June 30, 2017 and 2016 includes the following components:

	<b>2017</b>	<b>2016</b>			
<b>Change in benefit obligation:</b>					
Benefit obligation at beginning of year	\$ 213,595	\$ 159,213			
Service cost	9,066	6,082			
Interest cost	8,191	7,560			
Plan participants' contributions	3,792	3,189			
Actuarial (gain)/loss	15,185	48,917			
Benefits paid	(13,432)	(11,962)			
Medicare Part D prescription drug federal subsidy	551	596			
<b>Benefit obligation at end of year</b>	<b>\$ 236,948</b>	<b>\$ 213,595</b>			
<b>Change in plan assets:</b>					
Fair value of plan assets at beginning of year	\$ -	\$ -			
Employer contributions	9,089	8,177			
Plan participants' contributions	3,792	3,189			
Medicare Part D prescription drug federal subsidy	551	596			
Benefits paid	(13,432)	(11,962)			
<b>Fair value of plan assets at end of year</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>Components of accrued benefit:</b>					
Funded status	\$ (236,948)	\$ (213,595)			
Net actuarial loss	84,175	74,264			
Prior service cost	1,483	2,208			
<b>Accrued benefits</b>	<b>\$ (151,290)</b>	<b>\$ (137,123)</b>			
<b>Amounts recognized in the consolidated balance sheets consist of:</b>					
Accrued post-retirement benefit cost	\$ (137,123)	\$ (127,915)			
Net post-retirement benefit expense	(23,256)	(17,385)			
Employer contributions	9,089	8,177			
Accrued benefits	\$ (151,290)	\$ (137,123)			
Amount recorded in unrestricted net assets	(85,658)	(76,472)			
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (236,948)</b>	<b>\$ (213,595)</b>			
<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center; border-bottom: 1px solid black;"><b>2017</b></th> <th style="width: 20%; text-align: center; border-bottom: 1px solid black;"><b>2016</b></th> </tr> </thead> </table>				<b>2017</b>	<b>2016</b>
	<b>2017</b>	<b>2016</b>			
<b>Components of net periodic benefit cost:</b>					
Service cost	\$ 9,066	\$ 6,082			
Interest cost	8,191	7,560			
Amortization of prior service cost	724	724			
Amortization of net actuarial loss	5,275	3,019			
<b>Net periodic benefit cost</b>	<b>\$ 23,256</b>	<b>\$ 17,385</b>			
<b>Amounts recorded in unrestricted net assets:</b>					
Net loss during period	\$ 15,185	\$ 48,917			
Amortization recognition	(5,275)	(3,019)			
Prior service cost/(credit)	(724)	(724)			
<b>Total amount recognized in other non-operating expense</b>	<b>\$ 9,186</b>	<b>\$ 45,174</b>			

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The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2018 are \$4.2 and \$0.6 million, respectively. Estimated future contributions, benefit payments, and prescription subsidy payments are as follows:

	<u>Estimated Contributions / Benefit Payments</u>	<u>Estimated Rx Subsidy Payments</u>
2018	\$ 11,847	\$ 562
2019	12,425	592
2020	13,010	621
2021	13,517	654
2022	13,998	688
2023 to 2027	74,878	3,858

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

	<u>2017</u>	<u>2016</u>
Discount rate for obligation	3.75%	3.50%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate -		
Initial pre age 65	7.25%	7.50%
Initial post age 65	5.70%	6.00%
Initial prescription drug	10.50%	10.50%
Health care cost trend rate - Final	3.9%	3.9%
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:

	<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$ 2,418	\$ (1,977)
Effect on post-retirement benefit obligation	\$ 23,037	\$ (19,211)

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

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

**(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-CREF. Under this plan, the University made contributions of \$93,215 and \$89,401 in 2017 and 2016, respectively, which were vested for the benefit of the participants.

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**(f) Retirement Plans – Highland Hospital and Affiliates**

The defined benefit retirement plan of Highland Hospital covers all employees who have completed two years of continuous employment. The benefits for this plan are based primarily on years of service and employees' pay near retirement. The funding policy is to contribute, annually, an amount consistent with the requirement of the Employee Retirement Income Security Act. Effective August 3, 2010, participation in the plan was frozen.

Retirement plan expense of \$16,998 and \$10,806 was incurred for the fiscal years ended June 30, 2017 and 2016, respectively, and is recorded in fringe benefits in the consolidated statements of activities. In addition, a pension related benefit (charge) other than net periodic pension cost of \$32,657 and (\$39,107) for the fiscal years ended June 30, 2017 and 2016, respectively, was recorded in other changes on the consolidated statement of activities.

The following tables present the changes in the plan benefit obligation and the fair value of the plan assets for the years ended June 30, 2017 and 2016 and the funded status of the plan at June 30, 2017 and 2016.

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<b>Change in benefit obligation:</b>	<u>2017</u>	<u>2016</u>
Benefit obligation at beginning of year	\$ 241,357	\$ 202,659
Service cost	5,755	5,249
Interest cost	8,600	8,747
Actuarial (gain)/loss	(9,766)	8,049
(Gain)/loss due to change in discount rate	(7,687)	22,771
Benefits paid	(9,254)	(6,118)
<b>Benefit obligation at end of year</b>	<u>\$ 229,005</u>	<u>\$ 241,357</u>
<b>Accumulated benefit obligation</b>	<u>\$ 216,661</u>	<u>\$ 225,194</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 122,827	\$ 124,821
Actual return on plan assets	12,561	(5,096)
Employer contribution	10,580	9,221
Benefits and expenses paid	(9,254)	(6,118)
<b>Fair value of plan assets at end of year</b>	<u>\$ 136,714</u>	<u>\$ 122,828</u>
<b>Amounts recognized in the balance sheet consists of:</b>		
Accrued benefit cost	\$ (16,478)	\$ (10,060)
Amount recognized in unrestricted net assets (other non-operating expense)	(75,813)	(108,470)
<b>Funded Status</b>	<u>\$ (92,291)</u>	<u>\$ (118,530)</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 5,755	\$ 5,249
Interest cost	8,600	8,747
Expected return on plan assets	(9,457)	(9,550)
Amortization of unrecognized loss	12,100	6,360
<b>Net periodic benefit cost</b>	<u>\$ 16,998</u>	<u>\$ 10,806</u>

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

	<u>2017</u>	<u>2016</u>
Discount rate for obligation	3.83%	3.61%
Discount rate for pension expense	3.61%	4.38%
Future compensation increase rate	3.60%	3.60%
Long-term rate of return on plan assets	7.50%	7.50%

Discount rates are established based on Moody's spot rates from the Citigroup above median curve that, if the pension benefit obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due.

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

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The weighted average asset allocation for the Plan as of June 30 by asset categories is as follows:

<b>Asset category:</b>	<u>2017</u>	<u>2016</u>
Equity securities	60%	58%
Fixed income securities	21%	20%
Cash and other investments	19%	22%
<b>Total</b>	<u>100%</u>	<u>100%</u>

Scheduled estimated future benefit payments are as follows:

	<b>Pension Benefits</b>
2018	\$ 7,005
2019	7,777
2020	8,578
2021	9,472
2022	10,357
2023 to 2027	61,694
<b>Total estimated future payments</b>	<b>\$ <u>104,883</u></b>

Highland Hospital expects to contribute \$11,730 to the Plan in 2018. The plan assets for Highland Hospital are invested with an outside trustee for the sole benefit of the plan participants. Investments are directed by the Hospital or by investment managers appointed by the Highland Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

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

<b>Asset category:</b>	<u>2017</u>	<u>2016</u>
Equity securities	57%	57%
Fixed income securities	38%	38%
Cash and other investments	5%	5%
<b>Total</b>	<u>100%</u>	<u>100%</u>

In addition, the total equity commitment should not exceed 75% of assets. The asset allocation ranges established by this investment policy represent a long-term perspective, and as such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

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

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 expected return on assets was derived based on long-term expected yields of the plan's assets which reflect the composition of the portfolio. In particular, we assume an estimated 60%/40% equity/fixed income allocation, expected

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inflation of 2.35%, a risk free rate of return of 2.0%, long-term and risk premiums of 4% - 6% for equities and 1.5% - 2.5% for fixed income, for an expected range of 7.35% - 8.95%. This supports the assumption of 7.5% as the long-term rate of return on assets.

The following assets were recorded at fair value within the pension assets of the Hospital as of June 30, 2017 and 2016:

		<b>2017</b>				
Description	Level 1	Level 2	Level 3	NAV	Total Fair Value	
Cash	\$ 3,045	\$ -	\$ -	\$ -	\$ 3,045	
Mutual fund – Global Asset Allocation	65,751	-	-	-	65,751	
Mutual fund – Multi Asset	-	-	-	67,918	67,918	
<b>Total</b>	\$ 68,796	\$ -	\$ -	\$ 67,918	\$ 136,714	

  

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

Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar assets and/or inputs other than quoted prices that are observable for the asset or liability.

In addition, Highland Hospital has a 403(b) plan and the cost was \$1,290 and \$1,286 in 2017 and 2016, respectively, and is recorded in benefits expense on the consolidated statement 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 Plan), covering all eligible employees. Benefits under the Plan are based on each participant's years of service and compensation, as defined by the Plan document. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2016 and 2015 was \$(16,434) and \$(16,504), respectively.

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

VNS has a noncontributory defined benefit cash balance pension plan covering many of its employees, past and present. This plan was frozen in December 2002. There will be no new participants and no new annual contributions for existing



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participants. Accounts for existing participants will continue to be credited annually for interest earned. VNS will have an ongoing requirement for funding of the plan.

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2016 and 2015 was \$(4,249) and \$(3,818), respectively.

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

The Hospital sponsors a noncontributory defined benefit pension plan (plan) covering all eligible employees. The plan was amended to state that Hospital employees hired after December 31, 2006 were no longer eligible to participate in the plan. Additionally, the plan was amended to freeze benefit accruals effective March 31, 2011 for all participants. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2016 and 2015 was \$(10,233) and \$(11,029), respectively.

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

The System has a noncontributory defined benefit pension plan that covers all eligible employees as of November 30, 2002. Effective November 2002, the Plan was amended to freeze participation and benefit accruals. The System's policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Security Act of 1974. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2016 and 2015 was \$(4,233) and \$(3,608), respectively.

**(10) 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 Hospital's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the Hospital's financial participation (based on percentage of premiums paid) is approximately 7% of the financial results of the captive. Due to the Hospital's significant influence in the captive, the investment in the captive has been recorded under the equity method 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.

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

<b>Results of operations</b>	<u>2016</u>	<u>2015</u>
Net earned premiums	\$ 289,251	\$ 230,160
Expenses	(322,145)	(303,913)
Investment income and realized gains on sales of marketable securities	51,973	112,008
<b>Net income</b>	<u>19,079</u>	<u>38,255</u>
Other comprehensive income /(loss)	25,023	(93,057)
Comprehensive income /(loss)	44,102	(54,802)
Net capital contributions (distributions) to shareholders	9,830	(21,965)
<b>Change in shareholders' equity</b>	<u>\$ 53,932</u>	<u>\$ (76,767)</u>
	<u>2016</u>	<u>2015</u>
<b>Financial position</b>		
Total assets	\$ 1,697,175	\$ 1,652,310
Total liabilities	(1,143,669)	(1,152,734)
<b>Shareholders' equity</b>	<u>\$ 553,506</u>	<u>\$ 499,576</u>

**(11) Professional Liability Claims**

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

The insurance claims receivable, as calculated by the actuaries, was approximately \$41,812 and \$39,678 as of June 30, 2017 and 2016, respectively, and has been included in other accounts receivable as shown in note 3. A corresponding increase to the accrued professional liability cost has been included in accounts payable and accrued expenses.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred but not reported claims were \$32,014 and \$30,914 as of June 30, 2017 and 2016, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheet.

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

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

	<u>Quoted Market Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>NAV as Practical Expedient (NAV)</u>	<u>2017 Total Fair Value</u>
<b>Assets</b>					
<b>Total cash and cash equivalents</b>	\$ 25,277	\$ -	\$ -	\$ -	\$ 25,277
<b>Operating and long-term investments:</b>					
Cash and cash equivalents	271,112	1,559	-	-	272,671
Debt securities					
Asset backed securities	-	21,132	-	-	21,132
Bank loans	-	14,314	-	-	14,314
Bond funds	68,339	6,680	-	-	75,019
Corporate bonds	1,683	194,416	-	-	196,099
Government bonds & securities	5,118	28,375	-	-	33,493
Other	7,853	9,043	-	-	16,896
Common, mutual fund & preferred stock					
Common stock	266,382	-	-	200	266,582
Equity exchange traded funds	2,654	-	-	-	2,654
Mutual funds (domestic)	13,282	66,727	-	-	80,009
Mutual funds (international)	66,763	324,105	-	-	390,868
Real assets	323	-	-	259,070	259,393
Private equity	-	-	-	446,284	446,284
Hedge funds	-	49,257	-	732,382	781,639
Other	28,358	8,963	-	40,439	77,760
<b>Total operating and long-term investments:</b>	<b>\$ 731,867</b>	<b>\$ 724,571</b>	<b>\$ -</b>	<b>\$ 1,478,375</b>	<b>\$ 2,934,813</b>
Interest in net assets of foundations	-	-	17,740	-	17,740
Trusts held by others	-	-	59,462	-	59,462
<b>Total assets at fair value</b>	<b>\$ 757,144</b>	<b>\$ 724,571</b>	<b>\$ 77,202</b>	<b>\$ 1,478,375</b>	<b>\$ 3,037,292</b>
<b>Liabilities</b>					
Interest rate swap payable	-	15,558	-	-	15,558
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 15,558</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,558</b>

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

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(dollars in thousands)

**(a) Fair Value Level 1**

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

**(b) Fair Value Level 2**

Investments that are classified as Level 2 include domestic and foreign equities, as well as fixed income securities that trade in markets that are not considered to be active. Fair value is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for non-performance risk, and correlations of such inputs. The University's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2. The notional amount of the University's interest rate swaps was \$152,845. The effects of the interest rate swaps included in non-operating net appreciation/(depreciation) on the consolidated statements of activities were \$8,341 and (\$1,682) for the years ended June 30, 2017 and 2016, respectively. Activity related to interest rate swaps affect unrestricted net assets and, in the consolidated statement of cash flows, are included in changes in accounts payable and accrued expenses in the operating activities section.

**(c) Fair Value Level 3**

Level 3 investments have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the University's interest in net assets of foundations and trusts held by others as discussed in Note 1. Changes to the fair values using unobservable inputs as of June 30, 2017 and 2016 are included in the table below. All net realized and unrealized gains/(losses) are reflected in net appreciation/(depreciation) of long-term investment activities in the accompanying statement of activities.

	<b>Interest in net assets of foundations</b>		<b>Investments in perpetual trusts held by others</b>		<b>Total fair value</b>
Balance June 30, 2015	\$ 17,567	\$	56,233	\$	73,800
Net appreciation/(depreciation)	(1,094)		(3,927)		(5,021)
Balance June 30, 2016	16,473		52,306		68,779
Net appreciation/(depreciation)	1,267		7,156		8,423
Balance June 30, 2017	\$ 17,740	\$	59,462	\$	77,202

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**(d) Net Asset Value**

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

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

The following tables provide additional information about alternative investments.

Strategy	<u>2017 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Hedge funds:				
Long/short	\$ 280,657	\$ -	Quarterly, Annually, 1 & 3 Year Rolling Lock-ups	45 - 90 Days
Multi-strategy	258,411	36,000	Quarterly, Annually, 1 & 2 Year Rolling Lock-ups	45 - 90 Days
<b>Private equity:</b>				
Buyouts	229,074	154,385	1 to 10 years	1 to 7 years
Venture capital	167,461	40,210	1 to 12 years	1 to 6 years
Distressed	49,076	43,569	1 to 5 years	1 to 3 years
Real assets:				
Real estate	127,559	49,043	1 to 10 years	1 to 5 years
Natural resources	131,511	79,229	1 to 12 years	1 to 5 years
<b>Total alternative partnerships</b>	<b>\$ 1,243,749</b>	<b>\$ 402,436</b>		
Other Alternative Investments:				
Commingled funds of public equities	650,480	-	Monthly	15 - 60 Days
Commingled funds of fixed income	673	-	NA - held to maturity	NA
<b>Total other alternative investments</b>	<b>651,153</b>	<b>\$ -</b>		
<b>Total alternative investments</b>	<b>\$ 1,894,902</b>	<b>\$ 402,436</b>		

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

**(13) Lines of Credit**

The University had a \$50,000 committed line of credit agreement with Northern Trust Company that is subject to annual credit review and renewal. This line of credit expired in March 2017 and was not renewed. Under this agreement, no amounts were outstanding at June 30, 2016.

The University has a \$75,000 committed line of credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, \$7,800 was outstanding at June 30, 2017 and \$0 was outstanding at June 30, 2016.

The University has a \$50,000 committed line of credit agreement with U.S. Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2017 and 2016, respectively.

The University has \$534 in standby letters of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities of other financial obligations. Under this agreement, no amounts were outstanding at June 30, 2017 and 2016, respectively.

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The University has \$1,887 in standby letters of credit with JP Morgan Chase Bank, N. A. that is subject to annual credit review and renewal to cover potential liabilities related to the construction of the Imaging Science Building. Under this agreement, no amounts were outstanding at June 30, 2017 and 2016, respectively.

During fiscal year 2017, the University entered into a \$50,000 committed line of credit agreement with KeyBank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2017.

**(14) Commitments and Contingencies**

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

At June 30, 2017, the University has entered into construction contracts and commitments aggregating \$1,032,950 (\$984,597 at June 30, 2016) of which \$959,141 (\$771,774 at June 30, 2016) had been fulfilled.

**(15) Leases**

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The University leases research laboratories, office space, and equipment under operating leases expiring through January 2032. Rental expense for the years ended June 30, 2017 and 2016 totaling \$49,367 and \$46,909, respectively, is included in the accompanying consolidated statements of activities.

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

	<u>University</u>	<u>Related Entities</u>
2018	\$ 42,845	\$ 3,750
2019	35,138	3,871
2020	21,302	2,152
2021	17,339	2,020
2022	15,742	1,829
Thereafter	51,126	7,440
<b>Total minimum lease Payments</b>	<b>\$ 183,492</b>	<b>\$ 21,062</b>

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

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The University awarded a total of \$212,589 and \$205,254 in scholarships, grants, and fellowships during fiscal years 2017 and 2016, respectively. In addition, the University awarded \$7,450 and \$8,256, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, \$7,294 and \$7,613, respectively, of the total scholarships, grants, and fellowships awarded were specifically funded by federal, state, or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.



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**(17) Uncompensated Care**

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

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

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

The estimated costs of providing charity services is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The University received funding from NYS to help defray some of the costs of indigent care in the amount of \$26,989 and \$23,550 in 2017 and 2016, respectively.

During the years ended June 30, 2017 and 2016, the following levels of uncompensated care were provided:

	<u>2017</u>	<u>2016</u>
Charity care at cost	\$ 28,141	\$ 25,775
Excess of cost over reimbursement for services provided to Medicaid patients	116,821	107,310
Bad debts expense	43,096	35,197
	<u>\$ 159,917</u>	<u>\$ 142,507</u>

**(18) Functional Expenses**

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

	<u>2017</u>	<u>2016</u>
Instruction	\$ 364,293	\$ 371,819
Research	288,409	294,145
Public service	17,880	17,616
Libraries and other academic support	62,006	60,059
Student services	66,649	64,431
Institutional support	135,636	125,101
Hospital and faculty practice patient care	2,832,804	2,585,635
Auxiliary enterprises	121,239	115,741
<b>Total functional expenses</b>	<u>\$ 3,888,916</u>	<u>\$ 3,634,547</u>

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The expenses for operations and maintenance of facilities and depreciation related to property, plant and equipment are allocated to functional categories based on square footage. Interest expense is allocated based on the assignment of the functional category assigned to the capital project. The amounts allocated for operations and maintenance were approximately \$69,005 and \$72,010 for the fiscal years ended June 30, 2017 and 2016, respectively.

Student financial assistance is shown as a component of instruction expense unless the assistance is for tuition and mandatory fees. If the assistance is for tuition and mandatory fees, the amounts are recorded as scholarship allowance, which reduces tuition revenue.

**(19) Subsequent Events**

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The University has performed an evaluation of subsequent events through October 18, 2017, the date on which the financial statements were issued.