2009–2010
Financial Statements

University of Rochester

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Financial Statements

University of Rochester
and Related Entities

Message from the CFO

December 2010

To: The President and the Board of Trustees

The University of Rochester's financial statements for the 2009–2010 fiscal year reflect the recovery of the capital markets and the continuation of a long trend of positive operating results. Together, these two factors provide a picture of the solid financial position of the institution.

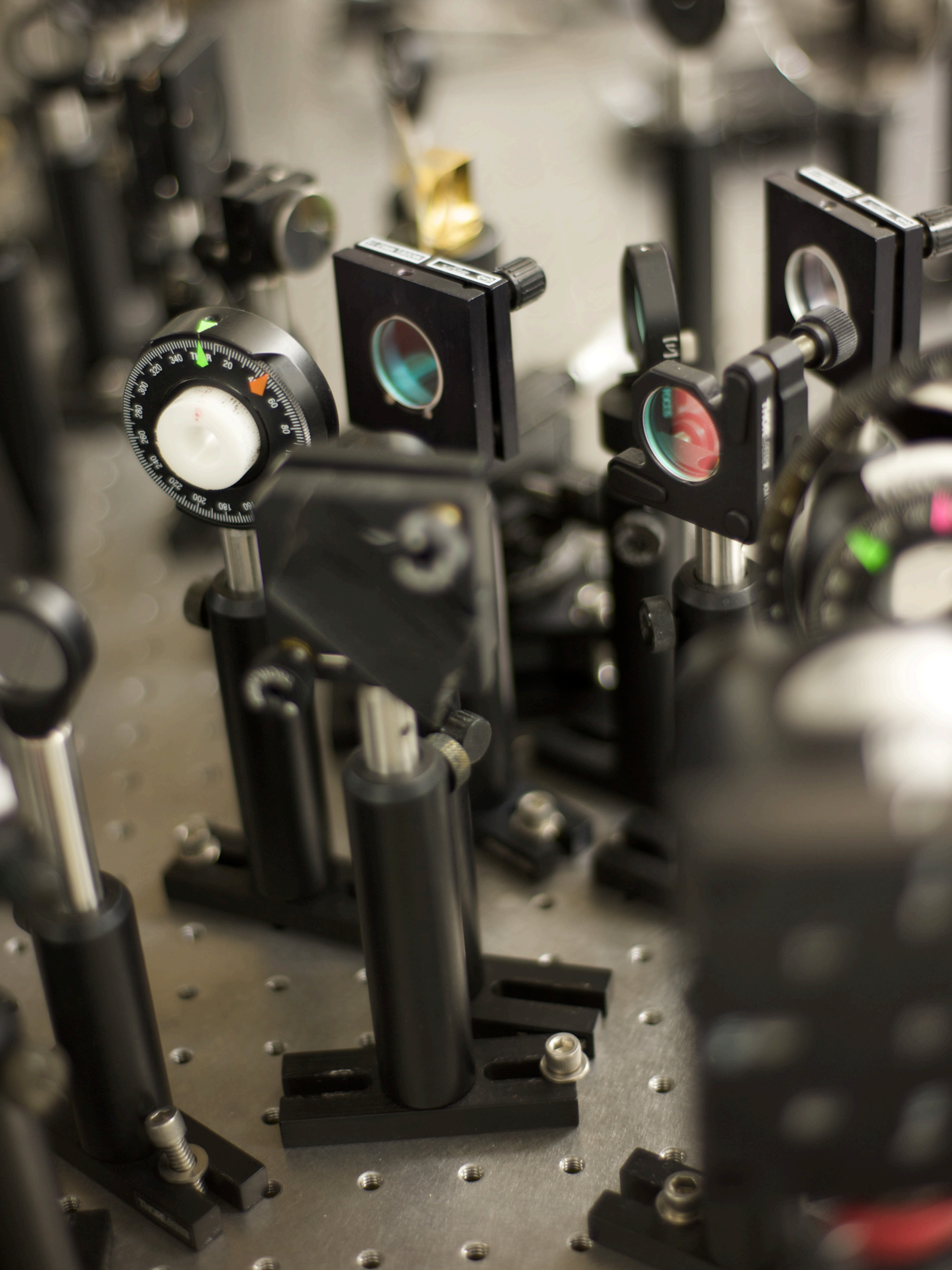
Following the prior year's decline, the University's net assets increased by $171 million. Operating activities contributed $108 million of that increase. The positive operating results are attributable to the performance of the University's patient care enterprise and efforts to contain costs throughout the institution. The efficacy of the University's cost containment programs is evidenced by the modest 2.9 percent increase in expenditures. The increase is attributable entirely to increased patient care activities and sponsored research. In fact, the core expenditures for the various academic divisions of the University are flat over the prior year.

Despite budgetary constraints, the University showed signs of strength and vitality including continued growth in student enrollment, sponsored research, and patient volumes. Two of the University's capital projects are worthy of note. The first is the completion of the recent renovation of the historic Eastman Theatre and the substantial completion of the new wing adding to the facilities of the Eastman School of Music. The second is the project underway for the completion of a 200,000-square-foot facility to house the Clinical and Translational Science Institute of the School of Medicine and Dentistry.

Thus, the picture of the University of Rochester emerging from the 2009–2010 fiscal year is one of financial stability with emphasis on the core values of quality and continuing progress toward the realization of strategic plan goals.

Ronald J. Paprocki
Senior Vice President for Administration and Finance and Chief Financial Officer

(ALL) J. ADAM FENSTER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Financial Statement Highlights

Summary

For the fiscal year ended June 30, 2010, the University reported an increase in total net assets of $171 million that was composed of a positive increase in net assets from operations of $108 million and an increase in net assets from non-operating activities of $63 million. These results are summarized by the positive operating results of the Strong Memorial and Highland Hospitals and the rate of return on the University's long-term investment pool of 12.1%.

Operating revenues increased by 6% to $2.63 billion while operating expenses increased by less than 3% to $2.52 billion. Endowment spending supporting the core budgets was 5.7% for fiscal year 2010 compared to 6.8% last year. Balance sheet highlights include an increase in the University's cash position of approximately $132 million to total $450 million, the long-term investment portfolio (primarily the endowment) increased by $150 million to $1.56 billion, and an increase in long-term debt by approximately $129 million since last fiscal year end.

Selected Financial Trends (dollars in millions)

	FY10	FY09	FY08
Consolidated operating revenues	$ 2,626	$ 2,478	$ 2,419
Consolidated operating expenses	$ 2,518	$ 2,448	$ 2,339
Consolidated investments held for long-term purposes	$ 1,564	$ 1,414	$ 1,882
Return on long-term investment pool	12.1%	(19.8%)	(0.1 %)
Consolidated changes in net assets:			
From operating activities	$ 108	$ 30	$ 80
From all other non-operating activities	63	(518)	(114)
Total increase/(decrease) to net assets	**$ 171**	**$ (488)**	**$ (34)**
Consolidated total net assets	**$ 2,382**	**$ 2,211**	**$ 2,699**

Results of Operations

Revenues

Total operating revenues increased 6% to $2.63 billion derived mostly from tuition/fees, grants and contracts, and increased hospital and faculty practice revenue. These three categories comprise 88% of all University revenue sources and are the main economic drivers of the institution.

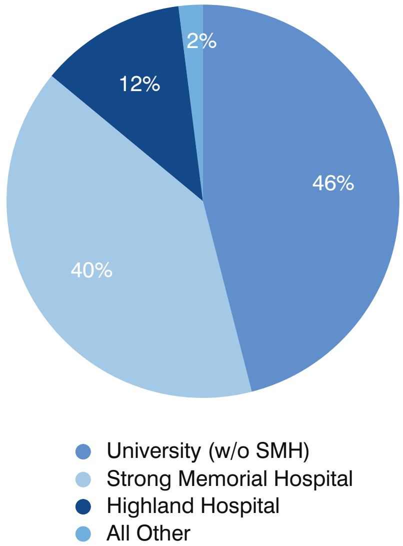
Gross tuition and fee revenue was $321 million representing a 7% increase over last year. Approximately 62% of all tuition/fee revenues were generated in the School of Arts, Sciences, and Engineering (including the College) and reflective of both rate increases and increases in student enrollment. Composite financial aid rates were 41.2% and 40.1% for fiscal years 2010 and 2009, respectively.

Total grants and contracts revenue increased by 9% over the prior year to $420 million and surpassed the $400 million mark for the first time in the University's history. Government-sponsored awards account for 84% of all University grants and contracts. The federal government provided $309 million, with the Department of Health and Human Services (HHS) accounting for approximately 70% of this amount. Federal funding increased by 6% over last year and included also awards received under the American Recovery and Reinvestment Act (ARRA). As of June 30, 2010, the University had expended approximately $19 million of the $48 million awarded under the ARRA program. New York State provided an additional $25 million in grants that were applied toward construction projects including $13 million for the renovation and expansion of Kodak Hall at Eastman Theatre and $8 million for the construction of the Clinical and Translational Science Building. Aggregate research expenditures were 4% ahead of last year with increases in the University of Rochester Medical Center (URMC) and Arts, Sciences, and Engineering of 8% and 5%, respectively, while the Laboratory for Laser Energetics was down 11%.

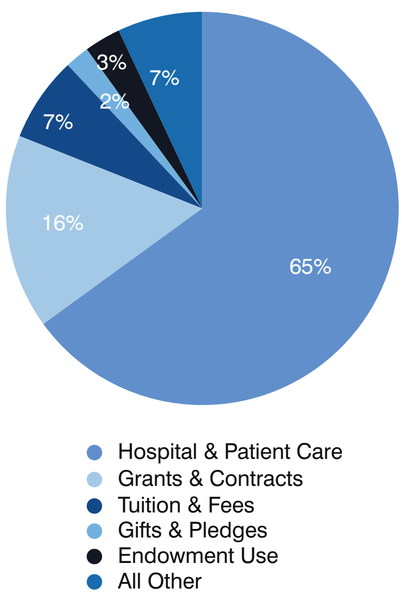
Hospital and faculty practice revenue represent about 65% of total consolidated revenue sources. The 7% increase over last year was generated from the combined clinical operations of the Strong Memorial Hospital ($1.03 billion), the University of Rochester Medical Faculty Group ($339 million), and Highland Hospital ($294 million). The main drivers of growth over the prior year were increased patient discharges, case severity, and higher outpatient volumes at both acute care hospitals and the new Ambulatory Surgical Center at Sawgrass.

Interest income and appreciation of cash and operating investments improved over last year due to recovery in the capital markets. Operating investments within the University's long-term investment pool returned 12.1% compared to the negative 19.8% from a year ago.

Revenues by Operating Division



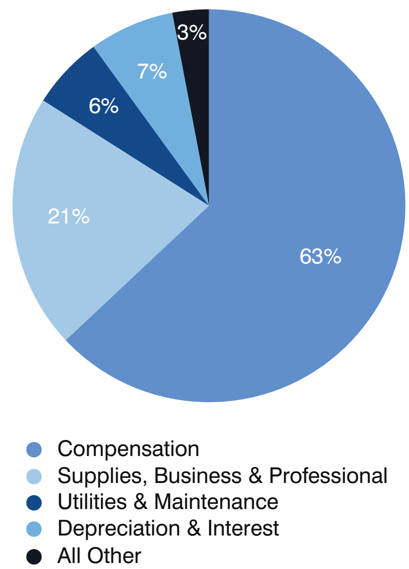
Revenues by Source



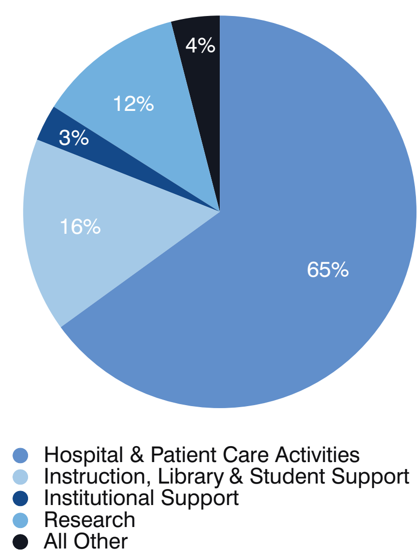
Expenses

Consolidated operating expenses increased by less than 3% to $2.52 billion for the year ended June 30, 2010. Expected increases in expenses driven by patient care volumes and sponsored research activity were offset by other cost-reduction programs in the University; specifically, cost cutting measures in the URMC and a zero-increase salary pool for employees making over $40,000 per year. Compensation expenses (salaries and fringe benefits expenses) were $1.60 billion which represented a 4.5% increase over last year. Consolidated employee head count increased by just under 2%; however, salaries and wages expense increased by 3%. This increase was primarily due to URMC faculty practice plan clinical volume overages and lump-sum payments made to all eligible University employees earning $40,000 or less. The increase to fringe benefits expense was due to higher enrollments and changes in actual plan experience (including University employer-share absorption of planned cost increases in employee-share during last half of FY 2010). Supplies expense increased $20 million (or 6%) due to volume-related increases in pharmacy/medical supplies at the hospitals and the Sawgrass facility. Business and professional expense decreased $17 million (or 8%) primarily due to lower temporary nursing services, decreased professional liability insurance, and less travel expenditures. Decreases in prices of electricity and natural gas drove utilities expense down by $3 million (or 5%) this year versus fiscal year 2009. Maintenance and facilities costs increased $7 million (or 7%) due primarily to the leasing costs for the new Sawgrass facility.

Expense by Natural Classification



Expense by Functional Classification



Related Entities and Affiliates

The combined operating activities of the related and affiliate organizations represent about 14% of total consolidated operating revenues and approximately 6% of total consolidated net assets. Within the affiliated group, Highland Hospital (and subsidiaries) generated operating revenues of $314 million followed by Visiting Nurse Service of Rochester and Monroe County, Inc. with $44 million.

Financial Condition

Assets

Consolidated total assets increased by 11% from FY 2009 to $4.01 billion at June 30, 2010. The $132 million increase in cash position (consisting of cash and cash equivalents and operating investments) was the result of better operating margins of the hospitals, reimbursement of prior capital expenditures drawn from the Series 2009 bonds and NYS construction grants as well as proceeds received from the New Markets Tax Credit (NMTC) program supporting the construction and renovation of Kodak Hall at Eastman Theatre. The structure of the NMTC transaction required the creation of three unconsolidated middle-tier corporations whose sole purpose was to facilitate financing and conform to United States tax law enabling the utilization of the tax credits. As such, the consolidated financial statements of the University included a "gross-up" of approximately $28 million to notes receivable (asset) and long-term debt (liability).

Long-term investments increased by $150 million to $1.56 billion at June 30, 2010. Increased investment balances were led by a positive 12.1% return reported in the long-term investment pool (comprised primarily of the endowment) compared to negative 19.8% reported last fiscal year. Also, unspent Series 2009 bond proceeds were about $45 million at year end. Detailed information regarding the University's endowment may be found on the University of Rochester Endowment Web page, www.rochester.edu/endowment/report_2010.html.

Property, plant, and equipment increased to $1.40 billion with capital spending of $196 million for the year. Included in this year's spending total was $24 million for construction and renovations made to Kodak Hall at Eastman Theatre, $13 million for the Clinical and Translational Science Building, $9 million for the new electronic medical records system, and $89 million for equipment and library acquisitions.

Liabilities and Net Assets

Consolidated liabilities totaled approximately $1.63 billion representing an increase of 17% over last year. Accounts payable and accrued expenses increased by $37 million due primarily to the increase in the mark-to-market position of the University's interest rate swaps ($9 million), a new donor-advised fund for the portion of the fund that is payable to other charities ($7 million), and the amount of the medical resident FICA refund claim payable to the medical residents and other third parties ($20 million). Third-party settlements payable increased by $30 million to $93 million as of June 30, 2010, due principally to additional reserves established for Medicare disproportionate share paybacks in both hospitals. Accrued pension, post-retirement and post-employment obligations also increased $26 million to $284 million as of June 30, 2010, due largely to a decrease in the discount rate (from 6.25% to 5.25%) used in the actuarially determined liability calculations for the post-retirement and post-employment plan valuations.

Long-term debt increased by $129 million to $773 million as of June 30, 2010, which was attributable to the issuance of Series 2009 bonds ($85 million in new money) and the financing obtained for the Eastman Theatre project ($54 million), and Highland Hospital Series 2010 bonds ($11 million in new money). Scheduled debt service principal payments of $23 million were made. The Eastman Theatre project financing of $54 million is partially offset in the balance sheet by the $28 million note receivable. The University's credit ratings are Moody's Aa3, stable outlook and S&P A+, stable outlook.

As we enter the next fiscal year, strategic planning and careful program investments will be critical inputs to the University's future financial performances. As of the end of fiscal 2010, we enter these next periods financially strong and prepared to meet the challenges that our future holds.

Douglas W. Wylie
University Controller

Report of Independent Auditors

To the Board of Trustees
University of Rochester

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Rochester (the University) at June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 15, 2010

Consolidated Financial Statements

Consolidated Balance Sheet

As of June 30 (dollars in thousands)

ASSETS	2010	2009
Cash and cash equivalents	$ 205,721	$ 135,447
Operating investments, at market	243,644	182,153
Collateral held for securities lending	79,283	62,062
Accounts receivable, net	307,369	276,444
Inventories, prepaid expense and deferred charges	49,999	47,794
Contributions receivable, net	47,301	57,004
Notes receivable, net	48,163	19,566
Other assets	12,748	12,044
Investments held for long-term purposes	1,563,847	1,414,464
Property, plant and equipment, net	1,401,038	1,349,270
Interest in net assets of foundation	12,370	11,653
Investments in perpetual trusts held by others	43,119	40,691
Total assets	$ 4,014,602	$ 3,608,592

LIABILITIES		
Accounts payable and accrued expenses	$ 295,987	$ 259,230
Advanced receipt of sponsored research revenues	23,129	26,190
Deferred revenue	51,507	51,306
Third-party settlements payable, net	92,567	62,181
Securities lending liabilities	79,283	63,390
Accrued pension, post-retirement, and post-employment	283,562	258,013
Long-term debt	772,951	643,734
Asset retirement obligation	17,907	17,326
Refundable U.S. Government grants for student loans	15,942	15,984
Total liabilities	1,632,835	1,397,354

NET ASSETS		
Unrestricted	1,877,267	1,724,361
Temporarily restricted	179,572	178,666
Permanently restricted	324,928	308,211
Total net assets	2,381,767	2,211,238
Total liabilities and net assets	$ 4,014,602	$ 3,608,592

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2010 (dollars in thousands)

OPERATING REVENUES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Tuition and fees	$ 321,252	$ -	$ -	$ 321,252
Less: scholarships and fellowships	(132,222)	-	-	(132,222)
Net tuition and fees	189,030	-	-	189,030
State and local appropriations	1,737	-	-	1,737
Grants and contracts	419,643	-	-	419,643
Gifts and pledges	17,917	15,076	14,969	47,962
Hospital and faculty practice patient care activities	1,708,304	-	-	1,708,304
Auxiliary enterprises	77,248	-	-	77,248
Interest income and appreciation/(depreciation) of operating investments	13,361	-	-	13,361
Educational activities	29,571	-	-	29,571
Royalty income	38,978	-	-	38,978
Other sources	13,876	28	-	13,904
Long-term investment income and gains allocated to operations	86,349	-	-	86,349
Net assets released from restriction	40,158	(40,158)	-	-
Total operating revenues	2,636,172	(25,054)	14,969	2,626,087
OPERATING EXPENSES				
Salaries and wages	1,244,373	-	-	1,244,373
Fringe benefits	353,387	-	-	353,387
Total compensation	1,597,760	-	-	1,597,760
Supplies	336,317	-	-	336,317
Business and professional	193,573	-	-	193,573
Utilities	52,075	-	-	52,075
Maintenance and facilities costs	105,186	-	-	105,186
Depreciation	141,957	-	-	141,957
Interest	28,053	-	-	28,053
Other	63,202	-	-	63,202
Total operating expenses	2,518,123	-	-	2,518,123
Change in net assets from operating activities	**118,049**	**(25,054)**	**14,969**	**107,964**
NON-OPERATING ACTIVITIES				
Long-term investment activities:				
Investment income	12,471	83	(76)	12,478
Net appreciation	114,127	28,387	149	142,663
Total long-term investment activities	126,598	28,470	73	155,141
Long-term investment income and gains allocated for operations	(86,349)	-	-	(86,349)
Loss on extinguishment of debt	(2,014)	-	-	(2,014)
Other changes, net	(3,378)	122	1,709	(1,547)
Change in valuation of annuities	-	(2,632)	(34)	(2,666)
Change in net assets from non-operating activities	**34,857**	**25,960**	**1,748**	**62,565**
Change in net assets	**152,906**	**906**	**16,717**	**170,529**
Beginning net assets	**1,724,361**	**178,666**	**308,211**	**2,211,238**
Ending net assets	**$ 1,877,267**	**$ 179,572**	**$ 324,928**	**$ 2,381,767**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2009 (dollars in thousands)

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30 (dollars in thousands)

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

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) General

The University of Rochester (the University) is a private non-profit institution of higher education based in Rochester, New York. The University provides education and training services, primarily for students at the undergraduate, graduate, and post-doctoral levels. It also performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government; and provides health care services through Strong Memorial Hospital (Hospital), Strong Home Care Group, and the various entities included in Strong Partners Health System, Inc. (SPHS).

(b) Basis of Presentation

The accompanying consolidated financial statements include all of the integrated divisions of the University—Arts, Sciences, and Engineering (including the Edmund A. Hajim School of Engineering and Applied Sciences and the School of Arts and Sciences), Margaret Warner Graduate School of Education and Human Development, William E. Simon Graduate School of Business Administration, Eastman School of Music, Memorial Art Gallery, School of Medicine and Dentistry, Strong Memorial Hospital, School of Nursing, Eastman Institute for Oral Health, Health Sciences, and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health System, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Excell Partners, Inc., Rochester BioVenture Center, Inc., High Tech Rochester, Inc., eXtensible Catalog Organization, LLC, and the University of Rochester Real Estate Corporation. All significant interorganizational balances and transactions have been eliminated.

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

The Eastman Dental Center Foundation, Inc. (the Foundation) was formed to hold and manage the investment assets of the former Eastman Dental Center, which was merged into the University during 1998. Income and assets of the Foundation are used to support oral health, education, and research projects at the University.

The University is the sole corporate member of Strong Home Care Group, which is the sole member of Visiting Nurse Service of Rochester and Monroe County, Inc. and Community Care of Rochester.

The University, through SPHS, Strong Memorial Hospital, and URMFG, formed a Managed Care Organization (MCO) in October 1997 together with two community physician organizations: the Highland Physician Organization and the Rochester Community Physician Organization. The MCO has ceased operations related to member contracting activities and is in the process of winding down its activities.

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

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

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

In August 2009, the University became the sole member of eXtensible Catalog Organization, LLC, which was formed to support the charitable and educational activities of the University through development of open-source library catalog software.

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

(c) Basis of Accounting

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

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

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

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

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trusteed balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.
- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.
- Certain accumulated net investment gains earned on permanently restricted net assets are included within unrestricted net assets. In accordance with New York State law, the appropriation and spending of such gains, absent donor directives, is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i).
- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for property, plant, and equipment purposes and for other specific operating purposes.

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

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

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

(d) Income Taxes

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

(e) Operations

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

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

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

(f) Cash and Cash Equivalents and Operating Investments

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

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

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

(h) Contributions
Contributions, including unconditional promises or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted, at a range of 3.5% to 5.5%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

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

The Board of Trustees interprets New York State law to allow for the spending of income and gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law allows the University to appropriate and spend such income and gains as is prudent, considering such factors as the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions.

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

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

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

The University participates in securities lending activities. Investments that have been loaned to another institution are included in investments held for long-term purposes on the consolidated balance sheet. Cash received as collateral on the securities lending transactions is reported as collateral held for securities lending on the consolidated balance sheet. Because the collateral must be returned in the future, a corresponding liability is reported on the consolidated balance sheet.

(j) Property, Plant, and Equipment
Property, plant, and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation and amortization. Buildings used for research activities are componentized as site improvements, buildings, building services, and fixed equipment. Depreciation of the building components is recorded using the straight-line method over the useful lives of the components ranging from 4 to 40 years. Depreciation of non-research buildings, equipment and library books, and amortization of leasehold and land improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and museum collections are not subject to depreciation. Estimated useful lives for non-research assets are as follows:

	YEARS
Building	40
Building and leasehold improvements	20
Land improvements	20
Equipment	4 to 15
Library books	10

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

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

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(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2010 and 2009, the fair values are $69,776 and $56,642, respectively. Generally, contribution revenues are recognized at the dates the agreements are established and liabilities are recorded for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The carrying value of the assets is adjusted for changes in the fair value of the trust assets for both split interest agreements and perpetual trusts.

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

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

(n) Grants and Contracts

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

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

(o) Benefit Plans

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

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

(p) Hospital and Faculty Practice Patient Care Activities

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare**
  Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2005.

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

- **Medicaid and Other Third-Party Payors**
  The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS) through March 31, 2011. Under HCRA, Medicaid, workers' compensation, and no-fault, payors pay rates are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges. Effective January 1, 2008, the DOH

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

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payor and apply to a broader array of health care services. Also, certain payors are required to provide additional funds through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the DOH. Through December 31, 2008, these additional payments were used to fund a pool for graduate medical education (GME) expenses. Beginning January 1, 2009, the GME pool was consolidated into the indigent care pool.

Revenue from Blue Cross and Preferred Care accounted for approximately 26% and 10%, respectively, of the Hospital's net patient service revenue for the years ended June 30, 2010 and 2009.

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

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During fiscal years 2010 and 2009, the Hospital recognized approximately $(2,500) and $8,000 of net patient service revenue as a result of changes in estimates related to third-party settlements. In addition, the Hospital recognized additional third-party payables of approximately $14,600 and $8,400 related to fiscal years 2010 and 2009, respectively.

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

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2010, over 1,005 full-time faculty in 18 clinical departments and two clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 889,029 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 37,838 hospital admissions, as well as participated in the coverage of the emergency department handling over 97,493 visits. Payments for these services are derived primarily from third-party insurers including Managed Care companies (27.6%), Medicare (22.0%), Blue Shield (18.0%), Medicaid (10.2%), commercial (7.9%), other (5.4%), and self-pay (8.9%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 440 University medical students and 738 residents and fellows.

(q) Use of Estimates

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

(r) Investment in Net Assets of Foundation

The University accounts for its interest in the net assets of the James P. Wilmot Foundation, Inc. (Foundation) in accordance with not-for-profit investment guidance. The guidance establishes standards for transactions in which a donor transfers assets to a not-for-profit organization or charitable trust, which then agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. Under the accounting guidance, the University is required to recognize the net assets and its share of the change in the net assets of the Foundation. The Foundation was established for the support of cancer research at the University's School of Medicine and Dentistry.

(s) Asset Retirement Obligations

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

(t) Derivative Instruments and Hedging Activities

Derivative instruments related to the University's long-term debt are included in accounts payable and accrued expenses or in accounts receivable, net on the consolidated balance sheet. The change in the fair value of the derivative instruments is included in the net depreciation/appreciation in the statements of activities. The University selected the combination of variable rate bond issues and interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transactions. The University is exposed to credit loss in the event of nonperformance by the counterparty to its long-term rate swaps. The interest rate swaps do not qualify for cash flow hedge accounting.

(u) Reclassification

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

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

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

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

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(4) Contributions

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

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

At June 30, 2010, the University had also received $19,288 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they will generally be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

The University expended $31,046 and $29,662 for University relations and development for the years ended June 30, 2010 and 2009, respectively.

(5) Notes Receivable

Student loans receivable at June 30, 2010 and 2009, are reported net of allowances for doubtful loans of $1,510. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

Included also is a $28,482 note receivable of the University of Rochester Real Estate Corporation (wholly-owned by the University) for a loan to the Chase NMTC Eastman Theatre Investment Fund LLC (a non-consolidated entity) which matures in December 2049. The University receives interest only, at 1.0% during the first 90 months of the term. For the remainder of the term, the note shall bear interest at 1.7%, compounding annually, with a minimum of 1.0% principal payable annually, with all principal and any unpaid interest due on the maturity date. Refer to Note 8(s) for further information.

(6) Investments Held for Long-Term Purposes

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

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

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

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

2010	FAIR VALUE	COST	NET GAINS (LOSSES)
End of year	$ 1,378,118	$ 1,390,467	$ (12,349)
Beginning of year	$ 1,282,924	$ 1,360,703	$ (77,779)
Unrealized appreciation, net			65,430
Realized net gains for year			77,000
Net increase for year			$ 142,430

2009	FAIR VALUE	COST	NET GAINS (LOSSES)
End of year	$ 1,282,924	$ 1,360,703	$ (77,779)
Beginning of year	$ 1,722,211	$ 1,457,137	$ 265,074
Unrealized depreciation, net			(342,853)
Realized net losses for year			(14,095)
Net decrease for year			$ (356,948)

The University permits several of its investment managers to utilize forward contracts, currency options, and futures with the specific authorization of the investment committee of the Board of Trustees. However, the University was not directly engaged in any of the above mentioned derivative transactions as of June 30, 2010 and 2009.

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

The University lends securities to qualified financial institutions through a program administered by a securities lending agent. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. The collateral minimum requirement is 100% for securities on loan.

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

(7) Property, Plant, and Equipment

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

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

(8) Long-term Debt

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

	2010	2009
Obligations under capital lease agreements, 3.414% to 7.85%, (A)	$ 20,509	$ 22,565
Urban Development Corporation loan, (B)	1,833	2,000
Note payable, 7.60%, (C)	-	18
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of $23 in 2010 and $25 in 2009), (D)	8,577	8,575
Bond Payable – COMIDA, 10.00%, (E)	627	653
Bond payable – DASNY Series 1994B, 5.50%, (F)	9,610	10,025
Bond payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of $573 in 2009), (G)	-	2,623
Bond payable – DASNY Series 1998A, 3.50% to 5.25% (net of unamortized discount of $41 in 2009), (H)	-	22,656
Bond payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of $49 in 2009), (I)	-	3,681
Bond payable – DASNY Series 2000A, 4.50% to 6.05%, (J)	-	7,036
Bond payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of $75 in 2010 and $83 in 2009), (K)	15,365	16,716
Bond payable – DASNY Series 2003A, B, and C, 3.97%, (L)	123,050	130,350
Bond payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of $368 in 2010 and $384 in 2009), (M)	26,968	27,629
Bond payable – COMIDA, 3.125% to 5.450% (net of unamortized premium of $761 in 2010 and $861 in 2009), (N)	33,601	35,931
Bond payable – DASNY Series 2006A-1 and B-1, 3.919%, (O)	111,180	111,180
Bond payable – DASNY Series 2007A-1, A-2, B, and C, 4.00% to 5.00% (net of unamortized premium of $7,371 in 2010 and $7,622 in 2009), (P)	241,215	242,096
Bond payable – DASNY Series 2009A, B, C, D, and E, 2.50% to 5.00% (net of unamortized premium of $3,087 in 2010), (Q)	115,702	-
Bond payable – DASNY Series 2010. 2.00% to 5.20% (net of unamortized discount of $68 in 2010), (R)	10,932	-
Notes payable, 0.74% to 2.73%, (S)	53,782	-
Total long-term debt	$ 772,951	$ 643,734

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

(a) Obligations Under Capital Lease Agreements

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

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

(b) Urban Development Corporation Loan

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

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

(c) Note Payable—HSBC

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

(d) Direct Note Obligation—the Bank of New York

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

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

(e) Bond Payable—COMIDA

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

(f) Bonds Payable—DASNY Series 1994B

Pursuant to an agreement with a University-related entity (Highland Hospital and affiliates) and DASNY, $13,000 of Series 1994B Revenue Bonds were issued and sold by DASNY. The related entity is repaying the indebtedness at a fixed rate of 5.50%, maturing July 1, 2023.

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

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

(g) Bonds Payable—DASNY Series 1997A

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

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

(h) Bonds Payable—DASNY Series 1998A

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

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

(i) Bonds Payable—DASNY Series 1999B

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

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

(j) Bonds Payable—DASNY Series 2000A

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

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

(k) Bonds Payable—DASNY Series 2001A

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

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

No collateralized interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(l) Bonds Payable—DASNY Series 2003A, B, and C

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

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

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

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

On July 31, 2003, the University executed $123,050 of interest rate swaps with third parties. The University entered into the interest rate swap agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally, under this agreement, the counterparty pays the University a variable interest rate equal to 61.5% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2033.

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

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

The University has a letter of credit in place for DASNY Series 2003A and 2003C in the amount of $103,502 with JPMorgan Chase Bank, N.A. Of this total, no amounts were outstanding at June 30, 2010 and 2009.

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

(m) Bonds Payable—DASNY Series 2004A

Pursuant to an agreement between the University and DASNY dated August 26, 2004, DASNY issued $45,000 of bonds known as the University of Rochester Revenue Bonds, Series 2004A. The Series 2004A bonds were issued at a premium of $603, resulting in proceeds of $45,603 to finance the construction of a co-generation facility to provide supplementary heat and/or electricity to the University and will also provide an addition to the University's central utility plant.

A portion of the Series 2004A bonds were refinanced as a result of the issuance of Series 2007C during fiscal year 2007.

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

(n) Bonds Payable—COMIDA

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the County of Monroe Industrial Agency (COMIDA) dated June 23, 2005, COMIDA issued and sold $20,000 of fixed rate Civic Facility Revenue Refunding Bonds and $14,920 of fixed rate Civic Facility Revenue Project Bonds. The COMIDA Refunding Bonds were issued at a premium of $912 and were used to refund a portion of Series 1997A debt. These Refunding Bonds are collateralized by amounts in a Debt Service Reserve Fund. The COMIDA Project Bonds were issued at a premium of $362 and were issued to finance (1) the Park Ridge Oncology Project; (2) the Bariatric Surgery Project; (3) the Orthopaedic Operating Room Project; and (4) various renovation projects throughout Highland Hospital. These Project Bonds are collateralized by the construction projects noted above. In addition, Highland Hospital issued $6,135 of direct taxable notes on June 23, 2005, to refund the remaining portion of Series 1997A and all of Series 1997B debt. These notes were issued at a discount of $5 and are collateralized by amounts in a Debt Service Reserve Fund.

(o) Bonds Payable—DASNY Series 2006A-1 and B-1

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

On March 16, 2006, the University executed $111,180 of interest rate swaps with a third party. The University entered into an interest rate swap agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Generally, under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.919%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2027.

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

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

The University has a letter of credit in place in the amount of $112,642 with Bank of America, N.A., which expires on September 10, 2011. This letter of credit has an option of renewal every three years. Of this total, no amounts were outstanding as of June 30, 2010 and 2009.

(p) Bonds Payable—DASNY Series 2007A-1, A-2, B, and C

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

Series 2007A-1 bonds were issued to finance (1) the construction of the University's portion of the Cancer Center; (2) the acquisition and renovation of a new University Data Center; (3) an upgrade to the central utilities chilled water capacity and the expansion of its infrastructure; (4) the construction of a new animal facility and the renovation of existing laboratory space at the Cardiovascular Research Building; (5) the construction or renovation of a University Health Service building; and (6) various deferred maintenance projects and renovations of laboratories, office space, and student residence halls.

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

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

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

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

(q) Bonds Payable—DASNY Series 2009A, B, C, D, and E

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

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

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

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

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

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

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

(r) Bonds Payable—DASNY Series 2010

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

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

(s) Notes Payable—Eastman Theatre Renovation

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

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

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

(t) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount or premium, for each of the years in the five-year period ending June 30, 2015, and thereafter are as follows:

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

The University incurred $28,053 and $31,114 of interest expense for the years ended June 30, 2010 and 2009, respectively, net of interest capitalization of $3,870 and $1,677 for the years ended June 30, 2010 and 2009, respectively.

The University has letter of credit agreements with various financial institutions to purchase the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements are not remarketable and the agreements are not otherwise renewed, the principal amounts (including variable rate demand bonds not subject to a liquidity facility) would be $28,595, $229,926, $46,321, $13,397, and $454,712 for the five-year period ending June 30, 2015, and thereafter.

(u) Fair Value of Long-Term Debt

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total long-term debt, excluding capital leases, was $743,377 and $590,239 at June 30, 2010 and 2009, respectively.

(9) Benefits Plans

Self-insurance Plans—University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2010, were discounted by 3.25% and amounted to $40,800 (3.75% and $38,262 in 2009). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $7,920 at June 30, 2010 ($6,955 at June 30, 2009). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheet.

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

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was $12,056 and $11,269 as of June 30, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

Retirement Plan—University

The University provides defined contribution retirement plans to its employees. The University of Rochester's Retirement Program offers four investment company options that are administered by each of the separate investment companies. Under these plans, the University made contributions of $66,560 and $63,570 in 2010 and 2009, respectively, which were vested for the benefit of the participants.

Post-retirement Benefit Plan—University

The University's post-retirement benefit plan includes basic medical, major medical, dental, 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 expenses of $15,364 and $14,770 for the years ended June 30, 2010 and 2009, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

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

CHANGE IN BENEFIT OBLIGATION	2010	2009
Benefit obligation at beginning of year	$ 125,596	$ 112,877
Service cost	2,562	2,256
Interest cost	7,636	7,395
Estimated plan participant contributions	1,654	1,749
Actuarial loss	14,436	9,724
Benefits paid	(8,507)	(8,405)
Benefit obligation at end of year	$ 143,377	$ 125,596
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	6,853	6,656
Participant contributions	1,654	1,749
Benefits paid	(8,507)	(8,405)
Fair value of plan assets at end of year	$ -	$ -
COMPONENTS OF ACCRUED BENEFIT		
Funded status	$ (143,377)	$ (125,596)
Unrecognized net actuarial loss	27,663	13,274
Unrecognized prior service cost	10,822	15,941
Accrued benefits	$ (104,892)	$ (96,381)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF		
Accrued post-retirement benefit cost	$ (96,381)	$ (88,267)
Net post-retirement benefit expense	(15,364)	(14,770)
Net benefits paid	6,853	6,656
Accrued benefits	$ (104,892)	$ (96,381)
Amount recorded in unrestricted net assets	(38,485)	(29,215)
Net amount recognized in unrestricted net assets	$ (143,377)	$ (125,596)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 2,562	$ 2,256
Interest cost	7,636	7,395
Amortization of prior service cost	5,166	5,119
Net periodic benefit cost	$ 15,364	$ 14,770

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

	ESTIMATED CONTRIBUTIONS/ BENEFIT PAYMENTS	ESTIMATED 28% Rx SUBSIDY PAYMENTS
2011	$ 8,358	$ 1,127
2012	8,974	1,232
2013	9,672	1,320
2014	10,103	607
2015	10,315	594
2016 to 2020	52,154	2,512

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

	2010	2009
Discount rate for obligation	5.25%	6.25%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate – initial	10.00%	10.00%
Health care cost trend rate – final	4.50%	4.50%

The rate increase in health care costs was assumed to decrease to 4.50% in 2016 and to remain at that level thereafter.

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

	ONE PERCENTAGE POINT INCREASE	ONE PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$ 682	$ (564)
Effect on post-retirement benefit obligation	$ 5,604	$ (4,786)

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

In September 2006, post-retirement plan guidance was issued that requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This guidance also requires an employer to measure the funded status of the plan as of the consolidated balance sheet date.

Post-employment Benefits—University

Accrued post-employment benefits of the University amounted to $59,330 and $56,189 at June 30, 2010 and 2009, respectively.

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

A related entity is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $1,045 is maintained as security for workers' compensation claims. Included in liabilities at June 30, 2010 and 2009, are accruals of approximately $5,990 and $4,938, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of $982 and $797 at June 30, 2010 and 2009, respectively. This liability has been discounted by 2.00% and 2.75% at June 30, 2010 and 2009, respectively.

Retirement Plan—Related Entity (Highland Hospital and Affiliates)

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

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

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

CHANGE IN BENEFIT OBLIGATION	2009	2008
Benefit obligation at beginning of year	$ 93,046	$ 80,128
Service cost	3,903	4,067
Interest cost	5,596	6,331
Actuarial loss	5,668	5,238
Benefits paid	(2,520)	(2,718)
Benefit obligation at end of year	$ 105,693	$ 93,046
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 56,161	$ 72,125
Actual return on plan assets	14,547	(16,291)
Employer contribution	5,703	3,233
Benefits paid	(2,520)	(2,718)
Administrative expenses paid	(243)	(188)
Fair value of plan assets at end of year	$ 73,648	$ 56,161
AMOUNTS RECOGNIZED IN THE BALANCE SHEETS CONSIST OF		
Accrued benefits	$ (3,867)	$ (2,122)
Amount recognized in unrestricted net assets	(28,178)	(34,763)
Funded Status	$ (32,045)	$ (36,885)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 3,903	$ 3,271
Interest cost	5,597	5,098
Expected return on plan assets	(4,946)	(6,049)
Amortization loss	2,895	-
Net periodic benefit cost	$ 7,449	$ 2,320
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31		
Discount rate for obligation	5.97%	6.09%
Discount rate for pension expense	6.09%	6.50%
Investment return assumption (regular)	8.50%	8.50%
Future compensation increase rate	3.80%	3.80%

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

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

WEIGHTED-AVERAGE ASSUMPTIONS BY ASSET CATEGORIES	2009	2008
Equity securities	56%	61%
Fixed income securities	30%	38%
Cash and other investments	14%	1%
Total	100%	100%

Estimated future benefit payments for the years ending December 31:

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

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

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

	TARGET ALLOCATION	RANGE
Domestic equity	25%	20-30%
International equity	25%	20-35%
Fixed income	20%	20-40%
Inflation protection assets	18%	5-30%
Hedge funds/absolute return	10%	5-15%
Cash and equivalents	2%	0-5%

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

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

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

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

The following assets were recorded at fair value within the plan assets of the related entity. Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar and/or inputs other than quoted prices that are observable for the asset or liability. Level 3, which primarily consists of hedge funds and credit opportunities, includes publicly traded stocks and bonds.

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

(10) Investment in Captive Insurance Company

The Hospital, together with other universities and teaching hospitals, has formed a captive insurance company (captive) to insure the professional liability risks of the shareholders. The Hospital's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the Hospital's financial participation (based on percentage of premiums paid) is approximately 8% of the financial results of the captive. Due to the Hospital's significant influence in the captive, the investment in the captive has been recorded under the equity method.

The Hospital's premiums are based on its professional liability experience and a shared risk factor with the other participants. Premiums are subject to retrospective adjustment based on, among other things, actual loss experience of the Hospital.

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

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

(11) Professional Liability Insurance

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage as well as the buffer and self-insured layers of excess insurance were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is $221,500 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred, but not reported claims were $37,682 and $37,756 as of June 30, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet.

(12) Fair Value of Financial Instruments

Effective July 1, 2008, the University adopted fair value measurements accounting, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure fair value. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of observable inputs to its valuation. Hierarchical levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

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

Level 2—Valuations are based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

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

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

ASSETS	QUOTED MARKET PRICES (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	2010 TOTAL FAIR VALUE
Cash and cash equivalents	$ -	$ 14,734	$ -	$ 14,734
Collateral held for securities lending	-	79,283	-	79,283
Operating investments and investments held for long-term purposes:				
Cash & cash equivalents	95,200	4,234	-	99,434
Debt securities	63,645	259,532	1,574	324,751
Stocks	228,182	216,622	-	444,804
Real assets	323	-	206,707	207,030
Private equity	-	-	337,226	337,226
Hedge funds	-	100,969	270,736	371,705
Other	4,780	5,253	12,508	22,541
Total operating investments and investments held for long-term purposes	392,130	586,610	828,751	1,807,491
Interest in net assets of foundation	-	-	12,370	12,370
Investments in perpetual trusts held by others	-	-	43,119	43,119
Total assets at fair value	$ 392,130	$ 680,627	$ 884,240	$ 1,956,997
LIABILITIES				
Interest rate swap payable	$ -	$ 29,355	$ -	$ 29,355
Total liabilities at fair value	$ -	$ 29,355	$ -	$ 29,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS) · 31

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

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

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

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

Investments in perpetual trusts held by others are valued at the present value of the future distributions expected to be received over the term of the agreement, and are considered Level 3 assets.

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

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

	NOTIONAL AMOUNT	2010 LEVEL 2 FAIR VALUE	2009 LEVEL 2 FAIR VALUE
Accounts payable	$ 234,230	$ 28,339	$ 19,459

Effect of interest swaps on statements of activities:

	2010 UNREALIZED LOSS	2009 UNREALIZED LOSS
Non-operating net depreciation	$ 8,880	$ 9,967

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

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

	BALANCE JUNE 30, 2009	REALIZED GAINS/(LOSSES)	UNREALIZED GAINS/(LOSSES)	PURCHASES, SALES, AND SETTLEMENTS, NET	TRANSFERS IN/(OUT) OF LEVEL 3	BALANCE JUNE 30, 2010
Investments:						
Debt securities	$ 731	$ 22	$ 21	$ (394)	$ 1,194	$ 1,574
Private equity	266,346	(2,534)	39,700	33,714	-	337,226
Hedge Funds	359,852	31,007	136	(19,330)	(100,929)	270,736
Real assets and other	207,931	14	(17,071)	27,693	648	219,215
Interest in Foundation net assets	11,653	248	594	800	(925)	12,370
Investments of trusts held by others	40,691	689	1,652	87	-	43,119
Total fair value	$ 887,204	$ 29,446	$ 25,032	$ 42,570	$ (100,012)	$ 884,240

	BALANCE JUNE 30, 2008	REALIZED GAINS/(LOSSES)	UNREALIZED GAINS/(LOSSES)	PURCHASES, SALES, AND SETTLEMENTS, NET	TRANSFERS IN/(OUT) OF LEVEL 3	BALANCE JUNE 30, 2009
Investments:						
Debt securities	$ 452	$ (1)	$ 25	$ 255	$ -	$ 731
Private equity	286,765	(14)	(60,501)	38,976	1,120	266,346
Hedge funds	503,029	38,283	(117,978)	(55,882)	(7,600)	359,852
Real assets and other	217,397	236	(58,414)	48,290	422	207,931
Interest in Foundation net assets	16,859	766	(4,712)	-	(1,260)	11,653
Investments of trusts held by others	51,324	2,080	(12,794)	81	-	40,691
Total fair value	$ 1,075,826	$ 41,350	$ (254,374)	$ 31,720	$ (7,318)	$ 887,204

All net realized and unrealized gains/(losses) in the tables above are reflected in net appreciation/(depreciation) of long-term investment activities in the accompanying statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2010.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in limited partnerships that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, the University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, natural resources, real estate, and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS) · 33

STRATEGY	2010 FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE
Hedge funds:				
Long/short	$ 174,373	$ -	Quarterly, annually, 3 year rolling lock-ups	45 - 90 Days
Multi-strategy	197,292	-	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 Days
Private equity:			REMAINING FUND LIFE	DRAWDOWN PERIOD
Buyouts	230,808	77,758	1 to 8 years	1 to 3 years
Venture capital	57,824	38,866	1 to 13 years	1 to 7 years
Distressed	48,594	17,658	1 to 5 years	1 to 3 years
Real assets:				
Real estate	115,347	108,350	1 to 10 years	1 to 3 years
Natural resources	91,360	62,805	1 to 12 years	1 to 5 years
Total alternative Investments	$ 915,598	$ 305,437		

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

(13) Lines of Credit

The University has a $50,000 line of credit agreement with Northern Trust Company that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2010 and 2009, respectively.

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

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

(14) Commitments and Contingencies

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

At June 30, 2010, the University has entered into construction contracts and commitments aggregating $505,332 ($550,093 at June 30, 2009) of which $423,544 ($430,522 at June 30, 2009) had been fulfilled.

(15) Leases

The University leases research labs, office space, and equipment under operating leases expiring through August 2023. Rental expense for the years ended June 30, 2010 and 2009, totaling $31,358 and $24,239, respectively, is included in the accompanying consolidated statements of activities.

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

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

(16) Scholarships, Grants, and Fellowships

The University awarded a total of $132,222 and $120,416 in scholarships, grants, and fellowships during fiscal years 2010 and 2009, respectively. In addition, the University awarded $18,869 and $18,329, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, $21,058 and $18,764, respectively, of the total scholarships, grants, and fellowships awarded were specifically funded by federal, state, or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(17) Functional Expenses

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

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

(18) Subsequent Events

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS) · 35

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University President’s Cabinet

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President

Bradford C. Berk
University Senior Vice President for Health Sciences; CEO, University of Rochester Medical Center

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Dean, Margaret Warner Graduate School of Education and Human Development

Julie Buehler
2010–11 American Council on Education Fellow

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Dean, Edmund A. Hajim School of Engineering and Applied Sciences

Richard Feldman
Dean of the College

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Vice Provost and the Andrew H. and Janet Dayton Neilly Dean of River Campus Libraries

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Dean, Eastman School of Music

Robert L. McCrory Jr.
Vice Provost and Director, Laboratory for Laser Energetics

Cyril Meyerowitz
Director, Eastman Institute for Oral Health

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University Financial Administration

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Director, Office of University Audit

Holly G. Crawford
Associate Vice President for Budgets and Planning and Deputy to Senior Vice President and Chief Financial Officer

Kathy A. King-Griswold
Treasury Manager and Assistant Treasurer

Karen M. Sodoma
Assistant Controller

Douglas W. Wylie
University Controller

Medical Center Financial Administration

Michael C. Goonan
Vice President and Chief Financial Officer of University of Rochester Medical Center

Leonard J. Shute
Associate Vice President of Medical Center, Senior Director for Finance and Chief Financial Officer for Strong Memorial and Highland Hospitals

CURRENT AS OF JUNE 30, 2010

University of Rochester and Related Entities (Consolidated)

- **University of Rochester**

  Includes:

  Arts, Sciences and Engineering (School of Arts and Sciences and Edmund A. 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 & Dentistry

  Strong Memorial Hospital

  School of Nursing

  Eastman Institute for Oral Health

  Health Sciences

  University of Rochester Medical Faculty Group (URMFG)

- **Strong Partners Health System, Inc.**
  - **Highland Hospital of Rochester**

    Subsidiaries:

    The Highland Foundation, Inc.

    Highland Facilities Development Corporation

    Medical Administrative Associates, Inc. (dba Highland Apothecary)
  - **The Highlands Living Center, Inc. (dba Meadowbrook Adult Daycare at the Highlands)**
  - **Highland Community Development Corporation (dba Highlands at Pittsford and Laurelwood at the Highlands)**
  - **The Meadows at Westfall, Inc. (dba The Highlands at Brighton)**
- **Eastman Dental Center Foundation, Inc.**
- **Strong Home Care Group**

  Includes:

  Visiting Nurse Service of Rochester and Monroe County, Inc.

  Community Care of Rochester
- **Excell Partners, Inc.**
- **Rochester BioVenture Center, Inc.**
- **High Tech Rochester, Inc.**
- **eXtensible Catalog Organization, LLC**
- **UR Real Estate Corporation**

as of June 30, 2010

UNIVERSITY of ROCHESTER