UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2019 and 2018

pwc

Report of Independent Auditors

To the Board of Trustees of the University of Rochester

We have audited the accompanying consolidated financial statements of the University of Rochester and its related entities (the "University"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Rochester and its related entities as of June 30, 2019 and 2018, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, under the subheading new authoritative pronouncements, the University changed the manner in which it accounts for revenue recognition from contracts with customers and contributions received and made, and the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Rochester, New York
October 15, 2019

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UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Balance Sheets
June 30, 2019 and 2018
(dollars in thousands)

Assets	**2019**	**2018**
Cash and cash equivalents	$ 326,128	$ 260,503
Short-term investments	462,764	435,453
Accounts receivable, net	528,294	497,723
Inventories, prepaid expenses, and deferred charges	80,267	75,175
Contributions receivable, net	100,395	104,573
Notes receivable, net	20,221	18,126
Other assets	74,935	70,547
Investments held for long-term purposes	2,637,811	2,599,024
Property, plant and equipment, net	2,274,661	2,171,006
Investments in perpetual trusts held by others	60,650	60,852
Total assets	$ 6,566,126	$ 6,292,982

Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 601,467	$ 516,771
Deferred revenue	60,383	83,028
Third-party settlements payable, net	169,541	152,077
Accrued pension, post-retirement, and post-employment	611,431	561,774
Long-term debt	1,226,285	1,222,514
Asset retirement obligation	37,677	36,879
Refundable U.S. Government grants for student loans	14,825	14,631
Total liabilities	2,721,609	2,587,674
Net Assets:		
Without donor restrictions	2,472,333	2,384,483
With donor restrictions	1,372,184	1,320,825
Total net assets	3,844,517	3,705,308
Total liabilities and net assets	$ 6,566,126	$ 6,292,982

See accompanying notes to consolidated financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and other support:			
Tuition and fees	$ 280,679	$ -	$ 280,679
Grants and contracts	463,822	-	463,822
Gifts and pledges	33,860	70,222	104,082
Hospital and faculty practice patient care	3,486,050	-	3,486,050
Auxiliary enterprises	121,339	-	121,339
Interest income and appreciation of short-term investments	28,906	-	28,906
Educational activities	16,614	-	16,614
Other sources	52,195	-	52,195
Long-term investment income and gains allocated to operations	108,053	-	108,053
Net assets released from restriction	85,453	(85,453)	-
Total operating revenues and other support	4,676,971	(15,231)	4,661,740
Operating expenses:			
Salaries and wages	2,197,252	-	2,197,252
Fringe benefits	611,717	-	611,717
Total compensation	2,808,969	-	2,808,969
Supplies	787,223	-	787,223
Business and professional	283,670	-	283,670
Utilities	61,349	-	61,349
Maintenance and facilities costs	159,770	-	159,770
Depreciation	245,904	-	245,904
Interest	44,724	-	44,724
Other	127,138	-	127,138
Total operating expenses	4,518,747	-	4,518,747
Change in net assets from operating activities	158,224	(15,231)	142,993
Non-operating activities:			
Long-term investment activities:			
Investment income	10,701	1,599	12,300
Net appreciation	62,157	64,919	127,076
Total long-term investment activities	72,858	66,518	139,376
Long-term investment income and gains allocated for operations	(108,053)	-	(108,053)
Other changes, net	(11,940)	(1,079)	(13,019)
Change in valuation of annuities	-	1,151	1,151
Change in net assets from non-operating activities	(47,135)	66,590	19,455
Change in net assets before cumulative effect of change in accounting principle	111,089	51,359	162,448
Cumulative effect of change in accounting principle	(23,239)	-	(23,239)
Change in net assets	87,850	51,359	139,209
Beginning net assets	2,384,483	1,320,825	3,705,308
Ending net assets	$ 2,472,333	$ 1,372,184	$ 3,844,517

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
For The Year Ended June 30, 2018
(dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and other support:			
Tuition and fees	$ 274,552	$ -	$ 274,552
Grants and contracts	411,388	-	411,388
Gifts and pledges	26,784	74,178	100,962
Hospital and faculty practice patient care	3,296,712	-	3,296,712
Auxiliary enterprises	120,869	-	120,869
Interest income and appreciation of short-term investments	25,677	-	25,677
Educational activities	15,330	-	15,330
Other sources	51,395	-	51,395
Long-term investment income and gains allocated to operations	102,171	-	102,171
Net assets released from restriction	82,259	(82,259)	-
Total operating revenues and other support	4,407,137	(8,081)	4,399,056
Operating expenses:			
Salaries and wages	2,043,466	-	2,043,466
Fringe benefits	573,279	-	573,279
Total compensation	2,616,745	-	2,616,745
Supplies	714,704	-	714,704
Business and professional	291,514	-	291,514
Utilities	60,971	-	60,971
Maintenance and facilities costs	150,888	-	150,888
Depreciation	230,618	-	230,618
Interest	41,390	-	41,390
Other	194,270	-	194,270
Total operating expenses	4,301,100	-	4,301,100
Change in net assets from operating activities	106,037	(8,081)	97,956
Non-operating activities:			
Long-term investment activities:			
Investment income	11,367	1,176	12,543
Net appreciation	104,840	103,208	208,048
Total long-term investment activities	116,207	104,384	220,591
Long-term investment income and gains allocated for operations	(102,171)	-	(102,171)
Loss on extinguishment of debt	(26,760)	-	(26,760)
Other changes, net	51,242	(1,131)	50,111
Change in valuation of annuities	-	59	59
Change in net assets from non-operating activities	38,518	103,312	141,830
Change in net assets before acquisition	144,555	95,231	239,786
Excess of assets acquired over liabilities assumed in acquisition	5,506	774	6,280
Change in net assets	150,061	96,005	246,066
Beginning net assets	2,234,422	1,224,820	3,459,242
Ending net assets	$ 2,384,483	$ 1,320,825	$ 3,705,308

See accompanying notes to consolidated financial statements.

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

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 139,209	$ 246,066
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	245,904	230,618
Net appreciation on investment activities	(139,016)	(226,544)
Gifts of property, plant, equipment and other	(1,632)	(951)
Bond discount amortization	(6,307)	(5,881)
Loss on extinguishment of debt	-	26,760
Provision for bad debts	-	50,341
Loss on disposals of property, plant, and equipment	1,982	3,565
Cumulative effect of acquisition	-	(6,280)
Cumulative effect of change in accounting principle	23,239	-
Contributions for long-term investment, net	(74,400)	(63,535)
(Increases)/decreases in:		
Accounts receivable, net	(30,571)	(130,094)
Inventories, prepaid expenses and deferred charges	(4,956)	(7,051)
Contributions receivable, net	9,935	(5,592)
Other assets	(5,615)	(8,208)
Increases/(decreases) in:		
Accounts payable and accrued expenses	64,414	38,219
Deferred revenues	(22,645)	3,870
Third-party settlements payable, net	17,464	2,377
Accrued pension, post-retirement, and post-employment	49,657	(16,595)
Net cash provided by operating activities	266,662	131,085
Cash flows from investing activities:		
Purchases of property, plant and equipment	(339,356)	(308,800)
Purchases of investments	(1,269,276)	(1,259,180)
Proceeds from the sale of investments	1,338,905	1,341,914
Increase/(decrease) in investments in perpetual trusts held by others	205	(53)
(Increase)/decrease in notes receivable, net	(2,095)	1,696
Cash received in acquisition	-	2,531
Net cash used in investing activities	(271,617)	(221,892)
Cash flows from financing activities:		
Borrowings on lines-of-credit	32,988	26,351
Payments on lines-of-credit	(41,420)	(22,340)
Principal repayments of long-term debt	(60,976)	(304,933)
Proceeds from issuance of long-term debt	64,468	279,356
Deferred financing costs	926	858
Increase/(decrease) in refundable U.S. Government grants for student loans	194	(2,031)
Contributions for long-term investment, net	74,400	63,535
Net cash provided by financing activities	70,580	40,796
Net increase/(decrease) in cash and cash equivalents	65,625	(50,011)
Cash and cash equivalents, beginning of year	260,503	310,514
Cash and cash equivalents, end of year	$ 326,128	$ 260,503
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on long-term debt	$ 45,583	$ 38,660
Non-cash investing and financing activities:		
Increase/(decrease) in construction related payables	$ 4,479	$ (6,565)
Assets acquired under capital leases	$ 5,662	$ 1,651

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The University of Rochester (the University) is a private not-for-profit institution of higher education based in Rochester, New York. The University provides education and training, primarily for students at the undergraduate, graduate, and postdoctoral levels. It also performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government; and provides health care services through Strong Memorial Hospital, Strong Home Care Group, the various entities included in Strong Partners Health System, Inc. (SPHS), F.F. Thompson Health System, Inc., Livingston Health Care System, Inc., The Memorial Hospital of William F. and Gertrude F. Jones, Inc. and St. James Hospital.

(b) Basis of Presentation

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

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

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

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

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

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

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

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

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

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

On March 1, 2018, the University became the sole corporate member of St. James Hospital and subsidiaries (St. James). The alignment was accounted for as an acquisition under the merger and acquisition guidance for not-for-profit entities. In connection with the acquisition, the University recorded approximately $6,280 in the cumulative effect of acquisition line in the consolidated statement of activities and statement of cash flows as of June 30, 2018. The fair value of assets and liabilities acquired were $17,837 and $11,557, respectively.

(c) Basis of Accounting and Use of Estimates

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

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

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

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

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

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

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

(d) Income Taxes

The University and the majority of its affiliates are not-for-profit organizations as described in section 501(c)(3) of the Internal Revenue Code and are generally exempt from income taxes on related income pursuant to Section 501(a) of the Code. Unrelated activities and income, including certain laboratory and facility rentals and income from limited partnerships in the long term investment pool, are subject to federal and state unrelated business income tax.

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

(e) Fair Value Measurements

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

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

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

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

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

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

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

(f) Cash and Cash Equivalents

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

(g) Short-Term Investments

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

(h) Inventories

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

(i) Long-term Investments

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

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

(j) Endowment

The University's endowment consists of approximately 2,500 individual endowments established for a variety of purposes including donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Although NYPMIFA does not preclude the University from spending below the original gift value of donor restricted endowment funds, the University's policy is to spend no more than a stated percentage of fair value of its investment portfolio over time. Accordingly, during fiscal year 2019, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.7% (5.7% during fiscal year 2018) of the average fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment.

(k) Split Interest Agreements and Perpetual Trusts

The University's split-interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes, and the carrying value of the assets is adjusted for changes in the fair value of the trust assets. For fiscal years 2019 and 2018, the fair values for split-interest agreements assets are $126,023 and $125,871, respectively. Contribution revenue is recognized at the dates the agreements are established. A liability for split interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments to the beneficiaries. These inputs to the fair value estimate are classified in Level 3 of the fair value hierarchy. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. Interest rates in subsequent periods remain unchanged. For fiscal years 2019 and 2018, deferred gift liabilities of $71,868 and $73,028, respectively, are included in accounts payable and accrued expenses.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The carrying value of the assets is adjusted for changes in the fair value of the trust assets. Inputs to the fair value estimate are classified in Level 3 of the fair value hierarchy.

(l) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation and amortization. Buildings used for research activities are componentized as site improvements, buildings, building services, and fixed equipment. Construction in progress costs are capitalized if the costs increase the square footage and/or useful life of the asset. The University capitalizes interest during periods of construction. Expenses incurred to restore property, plant, and equipment to like new condition or extend the useful life of the asset are capitalized. Minor renovations are expensed as incurred and are recorded within the University's consolidated statements of activities. The University reviews property, plant, and equipment for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Depreciation of research building components is recorded using the straight-line method over the useful lives of the components ranging from 4 to 50 years. Depreciation of non-research buildings, equipment and library books, and amortization of leasehold and land improvements are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Land is not subject to depreciation. Estimated useful lives for non-research assets are as follows:

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

The University reports gifts of property, plant, and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(m) Museum Collections

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

(n) Benefit Plans

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

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

(o) Derivative Instruments and Hedging Activities

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

(p) 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 sheets. The Federal Perkins Loan Program ended June 30, 2018. Institutions are awaiting further guidance from the Department of Education with instructions for unwinding the Federal Perkins Loan program and returning the federal portion of funding.

(q) Asset Retirement Obligations

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

(r) Tuition and Fees

Tuition and fees revenue is derived from degree programs as well as executive and continuing education programs. Tuition and fees are recognized as operating revenue in the period in which the University satisfies its performance obligations to provide education to students. Given the timing of each year's academic sessions, nearly all performance obligations on behalf of the University are completed within the fiscal year. The University recognizes tuition on a straight-line basis over each academic session based on published rates, net of explicit price concessions such as institutional aid. Institutional aid, in the form of grants and scholarships, includes amounts funded by the endowment and gifts, and reduces the published price of tuition for students receiving such aid. Tuition and fees have been reduced by certain grants and scholarships in the amount of $242,414 in 2019 and $225,767 in 2018.

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

(s) Grants and Contracts

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

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

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

(t) Gifts and Pledges and Contributions Receivable

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

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

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

(u) Auxiliary Enterprises

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

(dollars in thousands)

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

(v) Hospital and Faculty Practice Patient Care

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

	2019	2018
Hospital services	$ 2,497,951	$ 2,309,416
Faculty practice patient care	446,386	460,263
Long-term care	59,693	59,329
Home health services	46,661	45,387
Ancillary and other services	435,359	422,317
Total	$ 3,486,050	$ 3,296,712

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

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

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

Medicare

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

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS) through December 31, 2020. Under HCRA, Medicaid, workers' compensation, and no-fault payors payment rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. Payments for outpatient payments are connected to Ambulatory Payment Groups (APGs) which use outpatient service intensity weights based on types of service and resource consumption. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospitals' established charges.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospitals believe that they are in compliance, in all material respects, with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both federal and NYS regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospitals have established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments, which can be reasonably estimated, have been provided for in the accompanying financial statements. The Hospitals have estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events and cannot be reasonably estimated, have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments.

(dollars in thousands)

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

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

	2019	2018
Medicare	$ 1,015,847	$ 948,626
Medicaid	474,117	458,939
Commercial third-party payors	1,361,567	1,289,375
Self-pay	126,976	110,522
Other	507,543	489,250
Total	$ 3,486,050	$ 3,296,712

Charity Care

The University provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the University does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The University calculates the cost of charity care by applying the ratio of cost to gross charges to the gross uncompensated charges under the charity care policy. The University maintains records to identify and monitor the level of charity care it provides. The cost of services and supplies furnished under the University's charity care policy were approximately $26,843 and $32,668 in 2019 and 2018, respectively. The University received reimbursements of approximately $21,410 and $22,205 from New York State in 2019 and 2018, respectively, related to providing charity care to patients.

(w) New Authoritative Pronouncements

<u>ASU 2014-09 - Revenue from Contracts with Customers</u>

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

(dollars in thousands)

The adoption of ASC 606 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to adoption, a portion of the University's doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to the University by patients with insurance. Under the provisions of ASC 606, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are required to be reflected as a direct reduction to operating revenues as opposed to the previous reporting as an operating expense. For the year ended June 30, 2019, the University recorded approximately $45,751 of implicit price concessions as a direct reduction of hospital and faculty practice patient care revenue that would have previously been recorded as other expense. At June 30, 2019, the University recorded approximately $145,860 as a direct reduction of accounts receivable that would have been previously reflected as allowance for doubtful accounts.

In addition, the adoption of ASC 606 required the reversal of refundable residency fees previously amortized into income at two related entities, Highland Community Development Corporation and F.F.T. Senior Communities, Inc. Prior to adoption, refundable residency fees were recorded in deferred revenue on the University's consolidated balance sheets. Under the provisions of ASC 606, amortization of refundable residency fees into revenue is no longer allowed. As a result of adopting ASC 606, the University reversed $23,239 of previously recognized revenue from its cumulative net assets and reported a contract liability for the same amount, which is included in accounts payable and accrued expenses on the consolidated balance sheet as of June 30, 2019. This change in accounting principle had the following impact to The University's financial statements for the year ending June 30, 2019:

	If reported under ASC 605	If reported under ASC 606	Change
Balance sheet			
Deferred revenue	$ 26,550	$ 51,412	$ 24,862
Statement of activities			
Hospital and faculty practice patient care	$ 17,772	$ 16,149	$ (1,623)

ASU 2016-14 - Presentation of Financial Statements for Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14 - Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the University to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the University to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard prior year amounts for temporarily restricted and permanently restricted net assets were combined as net assets with donor restrictions.

ASU 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU 2018-08 - Clarifying the scope and the accounting guidance for contributions received and contributions made (Topic 958). The new guidance explains how entities will determine whether to account for a transfer of assets as an exchange transaction (under other guidance) or a contribution. The FASB also clarified that a contribution is conditional if the agreement includes both a barrier (as defined) and a right of return or release. Effective July 1, 2018, the University adopted this standard simultaneously with the adoption of ASC 606, using the modified prospective transition method. The adoption of this standard did not materially impact the University's consolidated financial statements.

ASU 2016-02 - Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842), and has subsequently issued clarifying ASU 2019-01 - Leases (Topic 842) – Codification improvements. These standards were issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. The standards are effective for the fiscal year ending June 30, 2020. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Currently, net periodic costs are recorded as operating expenses and are comprised of service costs, interest costs, expected return on assets and amortized net loss/(gain). The standard requires the service costs to be presented as operating expenses and the other elements of the net periodic costs to be considered non-operating. The effective date of this change is the fiscal year ending June 30, 2020. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

(x) Reclassification

Certain June 30, 2018 balances and amounts previously reported have been reclassified to conform to the June 30, 2019 presentation. While implementing the new accounting guidance, the University took the opportunity to reorganize and reclassify certain financial statement line items in order to improve reporting. Where applicable, changes to financial reporting and presentation have been applied to the prior period comparatives shown throughout the University's financial statements and footnotes.

(dollars in thousands)

(2) Liquidity and Availability

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

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 326,128	$ 260,503
Short-term investments	462,764	435,453
Accounts receivable	478,002	457,623
Pledge payments available for operations	21,605	26,310
Other assets	801	296
Long-term investments appropriated for spending in the following year	111,989	107,740
Financial assets available within one year	1,401,289	1,287,925
Liquidity Resources:		
Bank lines and letters of credit (undrawn)	200,259	167,827
Financial assets and liquidity resources available within one year	$ 1,601,548	$ 1,455,752

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

To help manage unanticipated liquidity needs, the University has committed bank lines and letters of credit in the amount of $208,761and $184,761 with several banks as of June 30, 2019 and 2018 that can be drawn upon as needed during the year to manage cash flows. Amounts outstanding under these lines of credit amounted to $8,502 and $16,934 at June 30, 2019 and 2018, respectively.

In addition, the University has funds functioning as endowment (FFAE) of $1,102 and $1,106 as of June 30, 2019 and 2018, respectively. Although the University does not intend to spend from its FFAE funds other than amounts appropriated for expenditure as part of its annual budget approval process, these funds could be made available if necessary, subject to certain investment lock-up provisions as discussed in Note 6.

(dollars in thousands)

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2019	2018
Patient accounts receivable	$ 330,330	$ 299,062
Governments, foundations and companies	74,747	80,229
Reinsurance recoveries	48,168	41,809
Retail pharmacy	36,304	25,955
Student receivables	2,232	5,626
Other	36,513	45,042
Total accounts receivable	$ 528,294	$ 497,723

The University grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The related receivables at June 30, 2019 and 2018 include approximately 47% from governmental payors, 41% from commercial third-party payors, and 12% self-pay patients and other sources.

(4) Contributions

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

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$ 32,915	$ 36,846
One year to five years	40,601	39,931
More than five years	64,623	69,165
	138,139	145,942
Unamortized discount and allowance for uncollectibles	(37,744)	(41,369)
Total contributions receivable, net	$ 100,395	$ 104,573

Discount rates used to calculate the present value of contributions receivable ranged from 2% to 6% at June 30, 2019 and 2018. At June 30, 2019, the University had also received $282,359 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they generally will be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University. The University expended $40,224 and $40,183 for University relations and development for the years ended June 30, 2019 and 2018, respectively.

(dollars in thousands)

(5) Notes Receivable

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

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

	2018					
	Gross Receivable		Allowance		Net Receivable	
Federal student loans	$	15,178	$	904	$	14,274
Institutional student loans		4,458		606		3,852
Total	$	19,636	$	1,510	$	18,126

Student loan programs are funded by donor contributions, other institutional sources and governmental programs, primarily the Federal Perkins Loan Program. The amounts received from the federal government's portion of the Perkins program are ultimately refundable to the federal government and are reported as a liability on the University's consolidated balance sheets as refundable U.S. Government grants for student loans. The Federal Perkins Loan Program ended June 30, 2018. Institutions are awaiting further guidance from the Department of Education with instructions for unwinding the Federal Perkins Loan program and returning the federal portion of funding.

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

(6) Investments

Investments were held for the following at June 30:

		2019		2018
Endowment and similar purposes	$	2,365,743	$	2,303,739
Property, plant, and equipment purposes:				
Debt service reserve held by trustees under debt agreements		24,899		26,559
Bond proceeds not yet expended		23,620		67,814
Other		455		621
Total property, plant, and equipment purposes		48,974		94,994
Other purposes		223,094		200,291
Total investments held for long-term purposes	$	2,637,811	$	2,599,024
Short-term investments	$	462,764	$	435,453
Total investments	$	3,100,575	$	3,034,477

(dollars in thousands)

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

The University permits several of its investment managers to utilize forward contracts, currency options and futures with the specific authorization of the investment committee of the Board of Trustees. However, the University was not directly engaged in any of the above mentioned derivative transactions as of June 30, 2019 and 2018. Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the consolidated financial position of the University.

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

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	NAV as Practical Expedient (NAV)	2019 Total Fair Value
Short and long-term investments				
Cash and cash equivalents	$ 81,823	$ (2,989)	$ -	$ 78,834
Debt securities				
Asset backed securities	-	17,573	-	17,573
Bank loans	-	3,981	-	3,981
Bond funds	113,692	4,145	-	117,837
Corporate bonds	1,363	145,377	-	146,740
Government bonds & securities	6,524	80,745	-	87,269
Other	11,131	3,353	-	14,484
Common stock and mutual funds				
Common stock	193,274	-	200	193,474
Equity exchange traded funds	1,852	-	-	1,852
Mutual funds (domestic)	6,593	-	-	6,593
Mutual funds (international)	1,691	320,871	-	322,562
Real assets	42,554	-	244,716	287,270
Private equity	-	-	648,132	648,132
Hedge funds	-	99,286	978,254	1,077,540
Other	45,802	9,574	41,058	96,434
Total short and long term investments	$ 506,299	$ 681,916	$1,912,360	$ 3,100,575

(dollars in thousands)

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	NAV as Practical Expedient (NAV)	2018 Total Fair Value
Short and long-term investments				
Cash and cash equivalents	$ 143,421	$ 2,021	$ -	$ 145,442
Debt securities				
Asset backed securities	-	13,712	-	13,712
Bank loans	-	5,536	-	5,536
Bond funds	117,047	6,087	-	123,134
Corporate bonds	1,615	168,167	-	169,782
Government bonds & securities	4,993	31,715	-	36,708
Other	9,039	4,475	-	13,514
Common stock and mutual funds				
Common stock	249,656	-	200	249,856
Equity exchange traded funds	2,065	-	-	2,065
Mutual funds (domestic)	6,554	56,692	-	63,246
Mutual funds (international)	104,663	329,215	-	433,878
Real assets	69,097	-	259,647	328,744
Private equity	-	-	540,161	540,161
Hedge funds	-	55,275	770,342	825,617
Other	32,692	9,569	40,821	83,082
Total short and long term investments	$ 740,842	$ $ 682,464	$ 1,611,171	$ 3,034,477

(a) Fair Value Level 1

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

(b) Fair Value Level 2

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

(c) Net Asset Value

The net asset value (NAV) represents the University's ownership interest in certain alternative investments The University has performed significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.The following tables provide information about alternative investments at NAV.

(dollars in thousands)

Strategy	2019 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	$ 392,960	$ 7,000	Quarterly, Annually, 1, 3 & 5 Year Rolling Lock-ups	45 – 180 Days
Multi-strategy	243,219	-	Quarterly, Annually, 1 & 2 Year Rolling Lock-ups	45 – 90 Days
Commingled funds of public equities	342,075	34,500	Monthly, Quarterly, 1 to 3 Year Rolling Lock-ups	6 - 120 Days
Private equity:			**Remaining Fund Life**	**Drawdown Period**
Buyouts	304,606	104,318	1 to 10 years	1 to 7 years
Venture capital	292,601	36,991	1 to 12 years	1 to 6 years
Distressed	50,925	37,999	1 to 5 years	1 to 3 years
Real assets:				
Real estate	103,323	56,883	1 to 10 years	1 to 5 years
Natural resources	141,393	37,063	1 to 12 years	1 to 5 years
Total alternative partnerships	1,871,102	314,754		
Other	41,258	-	NA - held to maturity	NA
Total alternative investments	$1,912,360	$ 314,754		

Strategy	2018 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	$ 316,785	$ 8,500	Quarterly, Annually, 1, 3 & 5 Year Rolling Lock-ups	45 - 180 Days
Multi-strategy	242,413	-	Quarterly, Annually, 1 & 2 Year Rolling Lock-ups	45 - 90 Days
Commingled funds of public equities	211,144	16,000	Monthly, Quarterly, 1 to 3 Year Rolling Lock-ups	6 - 120 Days
Private equity:			**Remaining Fund Life**	**Drawdown Period**
Buyouts	266,935	149,207	1 to 10 years	1 to 7 years
Venture capital	218,530	45,859	1 to 12 years	1 to 6 years
Distressed	54,696	45,097	1 to 5 years	1 to 3 years
Real assets:				
Real estate	112,920	47,522	1 to 10 years	1 to 5 years
Natural resources	146,728	56,897	1 to 12 years	1 to 5 years
Total alternative partnerships	1,570,151	369,082		
Other	41,020	-	NA - held to maturity	NA
Total alternative investments	$1,611,171	$ 369,082		

(dollars in thousands)

(7) Property, Plant, and Equipment

As of June 30, 2019 and 2018, the University's investment in property, plant, and equipment was as follows:

	2019	2018
Buildings and improvements	$ 3,178,383	$ 3,056,707
Land improvements	77,652	76,370
Leasehold improvements	101,152	76,187
Equipment owned	1,532,060	1,437,476
Library books	217,768	207,725
Subtotal	5,107,015	4,854,465
Less accumulated depreciation	(3,050,911)	(2,847,410)
Subtotal	2,056,104	2,007,055
Land	18,821	19,083
Museum collections	40,613	38,179
Construction in progress	159,123	106,689
Total property, plant, and equipment, net	$ 2,274,661	$ 2,171,006

(dollars in thousands)

(8) Long-Term Debt

The following is a summary of the University's long-term indebtedness as of June 30, including unamortized premiums of $78,049 and $84,356 and bond issuance costs of $9,756 and $10,445, respectively:

University of Rochester:	Fiscal year maturity	Interest rate	2019	2018
Fixed Rate:				
DASNY Series 2009	2039	2.50%-5.00%	$ 9,829	$ 12,021
MCIDC Series 2011; 2013; 2015; 2017	2022 - 2047	0.47% - 5.31%	892,778	930,352
Private Placement Notes	2047-2049	3.26% - 3.56%	96,358	47,621
Other Notes	2026	0.00% - 3.26%	4,673	5,643
Obligations under capital leases	2022 -2023	1.90% - 3.28%	5,001	1,800
Variable rate:				
DASNY Series 2003 & 2006	2027-2033	3.92% - 3.97%	97,125	112,231
Total University			$ 1,105,764	$ 1,109,668
Highland Hospital of Rochester:				
Fixed Rate:				
DASNY Series 2009	2032	2.00% - 5.20%	$ 8,020	$ 8,403
MCIDC Series 2015	2045	3.00% - 4.13%	36,353	37,552
Variable rate:				
DASNY Series 1994B	2023	5.50%	4,401	5,124
Total Highland Hospital			$ 48,774	$ 51,079
F. F. Thompson Health System, Inc.:				
Fixed Rate:				
OCLDC Series 2017	2040	2.79% - 3.30%	$ 34,483	$ 34,422
Other Notes	2020 - 2031	2.79% - 5.04%	4,717	5,331
Obligations under capital leases	2019	2.72% - 5.97%	147	279
Variable rate:				
DASNY Series 2012	2039	3.00%	12,345	12,765
Total F. F. Thompson Health System, Inc			$ 51,692	$ 52,797
Livingston Health Care System, Inc.:				
Fixed Rate:				
LCIDA Series 2005	2030	5.00% - 6.00%	$ 4,654	$ 4,907
Other Notes	2018	5.45%	-	42
Obligations under capital leases	2019 - 2022	3.21% - 5.86%	796	564
Variable rate:				
LCIDA Series 2007	2019	LIBOR+110%	375	1,158
Total Livingston Health Care System, Inc			$ 5,825	$ 6,671
Memorial Hospital of William F. and Gertrude F. Jones, Inc.				
Fixed Note	2019	2.98%	$ -	$ 1,291
Obligations under capital leases	2022	5.60%	570	8
Total Memorial Hospital of William F. and Gertrude F. Jones, Inc.			$ 570	$ 1,299
St. James Hospital:				
New Market Tax Credit Loans	2041	1.05%	$ 7,563	$ -
Fixed Note	2028	0.00% - 3.85%	6,097	1,000
Total St. James Hospital			$ 13,660	$ 1,000
Total Long-term debt			$ 1,226,285	$ 1,222,514

(a) Fiscal 2019 Transactions

During fiscal year 2019, the University issued $50,655 in private placement notes which are being repaid at a fixed rate of 3.26%, maturing July 2049. Proceeds were used to finance the construction and renovation of certain hospital and educational facilities and as well as the replacement of the University's legacy student system.

During fiscal year 2019, St. James Hospital financed a portion of the Hornell Medical Village project using the New Markets Tax Credit (NMTC) program of the Community Development Financial Institutions Fund, a bureau of the United States Treasury. The NMTC program awards tax incentives to private sector investors who provide investment capital to entities that create economic growth and jobs in distressed neighborhoods. A series of six loans were issued as part of the NMTC financing transaction in the amount of $7,563 with a term of 23 years and interest rate of approximately 1.05%. This is recorded as long-term debt with interest paid quarterly and principal payments beginning in 2025. The NMTC financing arrangement required St. James Hospital to provide a leverage loan of approximately $5,442, which is recorded in notes receivable, with interest paid quarterly and principal payments beginning in 2026. To fund the leverage loan, St. James Hospital obtained a loan in the amount of $6,250 for a term of 10 years and interest rate of 3.85%. This is recorded as long-term debt with principal and interest paid monthly.

(b) Interest Rate Swaps

The University maintains interest rate swap agreements with third-parties to exchange variable debt for a fixed rate obligation, which were entered into during July 2003 for the DASNY Series 2003 bonds and March 2006 for the DASNY Series 2006 bonds. These swaps have a combined notional amount of $97,405. The interest rate swaps on the DASNY Series 2003 and Series 2006 bonds terminate on July 1, 2033 and July 1, 2027, respectively.

F. F. Thompson Health System, Inc. executed interest rate swaps with third-parties. These swaps have a combined notional amount of $12,345 and the contractual relationship under this agreement will last until November 2025.

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

The effects of the interest rate swaps included in non-operating net (depreciation)/appreciation on the consolidated statements of activities were ($1,794) and $5,805 for the years ended June 30, 2019 and 2018, respectively. Activity related to interest rate swaps affect net assets without donor restrictions and, in the consolidated statements of cash flows, are included in changes in accounts payable and accrued expenses in the operating activities section.

(c) Collateral

The University has individual letters of credit in place to for DASNY Series 2003 and DASNY Series 2006. Highland Hospital of Rochester has a letter of credit in place for DASNY Series 1994B. F. F. Thompson Health System, Inc. has a letter of credit in place for DASNY Series 2012. Livingston Health Care System, Inc. has a letter of credit in place for LCIDA Series 2007.

(dollars in thousands)

(d) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount or premium and bond issuance costs, for each of the years in the five-year period ending June 30, 2024 and thereafter are as follows:

	Principal portions of lease payments	Principal portions of debt	Total
2020	$ 1,788	$ 66,104	$ 67,892
2021	1,862	68,533	70,395
2022	1,824	63,760	65,584
2023	998	60,473	61,471
2024	42	68,317	68,359
Thereafter	-	892,584	892,584
Total	$ 6,514	$ 1,219,771	$ 1,226,285

The University incurred $44,724 and $41,390 of interest expense for the years ended June 30, 2019 and 2018, respectively, net of interest capitalization of $839 and $1,754 for the years ended June 30, 2019 and 2018, respectively.

(9) Benefits Plans

(a) Self-insurance Plans – University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2019 were discounted by 2.0% and amounted to $61,158 (2.9% and $54,487 in 2018). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $15,622 at June 30, 2019 ($14,240 at June 30, 2018). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheet. The University has a surety bond with Liberty Mutual Insurance Company to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was $17,128 and $13,773 as of June 30, 2019 and 2018, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheets and have not been discounted.

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

Highland Hospital and affiliates are self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $8,884 is maintained as security for workers' compensation claims. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2019 were discounted by 2% and amounted to $7,863 (2.8% and $11,138 in 2018). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $2,233 at June 30, 2019 ($3,962 at June 30, 2018). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheets.

(dollars in thousands)

(c) Post-employment Benefits – University

The University's accrued post-employment benefits, inclusive mostly of workers' compensation and disability benefits, amounted to $74,479 and $69,851 at June 30, 2019 and 2018, respectively, and are recorded in accrued pension, post-retirement and post-employment on the consolidated balance sheets.

(d) Post-retirement Benefit Plan – University

The University's post-retirement benefit plan includes basic medical, major medical, dental coverage, and life insurance. Benefit levels differ for current retirees, current employees eligible to retire, and current employees not eligible to retire. The University incurred post-retirement plan expense of $17,631 and $23,019 for the years ended June 30, 2019 and 2018, respectively, which is recorded in fringe benefits expense on the consolidated statements of activities. The benefit obligation for this plan for the years ended June 30, 2019 and 2018 includes the following components:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 223,103	$ 236,948
Service cost	7,141	9,263
Interest cost	8,591	8,778
Plan participants' contributions	5,606	5,243
Actuarial (gain)/loss	(1,033)	(20,918)
Benefits paid	(16,087)	(16,761)
Medicare Part D prescription drug federal subsidy	552	550
Benefit obligation at end of year	$ 227,873	$ 223,103
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	9,929	10,968
Plan participants' contributions	5,606	5,243
Medicare Part D prescription drug federal subsidy	552	550
Benefits paid	(16,087)	(16,761)
Fair value of plan assets at end of year	$ -	$ -
Components of accrued benefit:		
Funded status	$ (227,873)	$ (223,103)
Net actuarial loss	56,303	58,905
Prior service cost	527	857
Accrued benefits	$ (171,043)	$ (163,341)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	$ (163,341)	$ (151,290)
Net post-retirement benefit expense	(17,631)	(23,019)
Employer contributions	9,929	10,968
Accrued benefits	(171,043)	(163,341)
Amount recorded in unrestricted net assets	(56,830)	(59,762)
Net amount recognized in the consolidated balance sheets	$ (227,873)	$ (223,103)

(dollars in thousands)

	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 7,141	$ 9,263
Interest cost	8,591	8,778
Amortization of prior service cost	330	625
Amortization of net actuarial loss	1,569	4,353
Net periodic benefit cost	$ 17,631	$ 23,019
Amounts recorded in unrestricted net assets:		
Net (gain)/loss during period	$ (1,033)	$ (20,918)
Amortization recognition	(1,569)	(4,353)
Prior service cost/(credit)	(330)	(625)
Total amount recognized in other non-operating expense	$ (2,932)	$ (25,896)

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2020 are $2,299 and $330 respectively. Estimated future contributions, benefit payments, and prescription subsidy receipts are as follows:

	Estimated Contributions / Benefit Payments	Estimated Prescription Subsidy Receipts
2020	$ 12,491	$ 502
2021	12,929	527
2022	13,291	543
2023	13,531	559
2024	13,782	576
2025 to 2029	71,144	2,148

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

	2019	2018
Discount rate for obligation	3.50%	4.25%
Health care cost trend rate -		
Initial pre age 65	6.75%	7.00%
Initial post age 65	4.75%	6.00%
Initial post age 65 (Medicare Advantage)	4.75%	5.00%
Initial prescription drug	9.00%	10.25%
Health care cost trend rate - Final	3.78%	3.90%
Year final trend rate is reached	2075	2075

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

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ 2,099	$ (1,724)
Effect on post-retirement benefit obligation	$ 21,181	$ (17,707)

(dollars in thousands)

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

Employers are required to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheets and to recognize changes in that funded status in the year in which the changes occur through changes in net assets without donor restrictions. In addition, employers are required to measure the funded status of the plan as of the consolidated balance sheet date.

(e) Retirement Plan – University

The University provides a 403(b) defined contribution retirement plan to its employees. The University of Rochester's Retirement Program is administered and record kept by TIAA-CREF. Under this plan, the University made contributions of $109,078 and $103,256 in 2019 and 2018, respectively, which were vested for the benefit of the participants.

(f) Retirement Plans – Highland Hospital and Affiliates

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

Retirement plan expense of $8,876 and $11,756 was incurred for the fiscal years ended June 30, 2019 and 2018, respectively, and is recorded in fringe benefits in the consolidated statements of activities. In addition, a pension related benefit (charge) other than net periodic pension cost of $(21,444) and $21,572 for the fiscal years ended June 30, 2019 and 2018, respectively, was recorded in other changes on the consolidated statements of activities.

The following tables present the changes in the plan benefit obligation and the fair value of the plan assets for the years ended June 30, 2019 and 2018 and the funded status of the plan at June 30, 2019 and 2018.

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 207,685	$ 229,005
Service cost	5,557	6,408
Interest cost	8,334	7,495
Actuarial (gain)/loss	21,356	(16,152)
Benefits paid	(8,793)	(19,071)
Benefit obligation at end of year	$ 234,139	$ 207,685
Accumulated benefit obligation	$ 222,605	$ 197,494

(dollars in thousands)

	2019	2018
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 133,988	$ 136,714
Actual return on plan assets	4,926	7,566
Employer contribution	8,575	8,779
Benefits and expenses paid	(8,793)	(19,071)
Fair value of plan assets at end of year	$ 138,696	$ 133,988
Amounts recognized in the balance sheets consists of:		
Accrued benefit cost	$ (19,757)	$ (19,455)
Amount recognized in unrestricted net assets (other non-operating expense)	(75,686)	(54,242)
Funded status	$ (95,443)	$ (73,697)
Components of net periodic benefit cost:		
Service cost	$ 5,557	$ 6,408
Interest cost	8,334	7,495
Expected return on plan assets	(9,402)	(9,826)
Amortization of unrecognized loss	4,387	7,679
Net periodic benefit cost	$ 8,876	$ 11,756

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

	2019	2018
Discount rate for obligation	3.67%	4.31%
Discount rate for pension expense	4.31%	3.83%
Future compensation increase rate	3.00%	3.00%
Long-term rate of return on plan assets	7.00%	7.00%

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

The Plan funds are allocated to two money managers, each with a balanced portfolio. These money managers monitor financial market funds and adjust strategy accordingly. The weighted average asset allocation for the Plan as of June 30 by asset categories is as follows:

Asset category:	2019	2018
Equity securities	62%	60%
Fixed income securities	20%	17%
Cash and other investments	18%	23%
Total	100%	100%

(dollars in thousands)

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

Asset category:	**2019**	**2018**
Equity securities	57%	57%
Fixed income securities	38%	38%
Cash and other investments	5%	5%
Total	100%	100%

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

Scheduled estimated future benefit payments are as follows:

	Pension Benefits
2020	$ 8,414
2021	9,312
2022	10,173
2023	10,934
2024	11,561
2025 to 2029	65,688
Total estimated future payments	$ 116,082

Highland Hospital expects to contribute $11,874 to the Plan in 2020. The plan assets for Highland Hospital are invested with an outside trustee for the sole benefit of the plan participants. Investments are directed by the Hospital or by investment managers appointed by the Highland Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

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

The expected return on assets was derived based on long-term expected yields of the plan's assets which reflect the composition of the portfolio. In particular, we assume an estimated 60%/40% equity/fixed income allocation, expected inflation of 2.20%, a risk free rate of return of 2.0%, long-term and risk premiums of 4.0% - 6.0% for equities and 1.5% - 2.5% for fixed income, for an expected range of 7.35% - 8.95%. This supports the assumption of 7.0% as the long-term rate of return on assets.

(dollars in thousands)

The following assets were recorded at fair value within the pension assets of the Hospital as of June 30, 2019 and 2018:

	2019				
Description	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total Fair Value**
Cash	$ 2,770	$ -	$ -	$ -	$ 2,770
Mutual fund – Global Asset Allocation	66,454	-	-	-	66,454
Mutual fund – Multi Asset	-	-	-	69,472	69,472
Total	$ 69,224	$ -	$ -	$ 69,472	$ 138,696

	2018				
Description	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total Fair Value**
Cash	$ 2,927	$ -	$ -	$ -	$ 2,927
Mutual fund – Global Asset Allocation	63,315	-	-	-	63,315
Mutual fund – Multi Asset		-	-	67,746	67,746
Total	$ 66,242	$ -	$ -	$ 67,746	$ 133,988

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

In addition, Highland Hospital has a 403(b) plan and the cost was $4,088 and $3,190 in 2019 and 2018, respectively, and is recorded in benefits expense on the consolidated statements of activities.

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

F.F. Thompson Health System, Inc. sponsors a noncontributory defined benefit pension plan, the Thompson Health Pension Plan (the FFT Plan), covering all eligible employees. Benefits under the FFT Plan are based on each participant's years of service and compensation, as defined by the FFT Plan document. Effective December 31, 2017, the accrued benefits and participation of employees were frozen. The FFT Plan was remeasured at December 31, 2017 and a curtailment gain of $2,351 was recognized. The funded status of the FFT plan as of December 31, 2018 and 2017 was $(17,321) and $(15,856), respectively.

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

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

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2018 and 2017 was $(3,596) and $(3,346), respectively.

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

The Hospital sponsors a noncontributory defined benefit pension plan (plan) covering all eligible employees. The plan was amended to state that Hospital employees hired after December 31, 2006 were no longer eligible to participate in the plan. Additionally, the plan was amended to freeze benefit accruals effective March 31, 2011 for all participants. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2018 and 2017 was $(8,659) and $(9,014), respectively.

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

The System has a noncontributory defined benefit pension plan that covers all eligible employees as of November 30, 2002. Effective November 2002, the Plan was amended to freeze participation and benefit accruals. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2018 and 2017 was $ (3,151) and $(3,914), respectively.

(10) Investment in Captive Insurance Company

The University, together with other universities and teaching hospitals, has formed a captive insurance company, MCIC Vermont, Inc. (captive) to insure the professional liability risks of the shareholders. The dissolution provisions of the captive agreement indicate that the University's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the University's financial participation (based on percentage of premiums paid) is approximately 7% of the financial results of the captive. Due to the University's significant influence in the captive, the investment in the captive has been recorded under the equity method. For fiscal years 2019 and 2018, the University has recorded $29,889 and $29,852, respectively, in investments held for long-term purposes.

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

(11) Professional Liability Claims

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the University is $270,500 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

The insurance claims receivable, as calculated by the actuaries, was approximately $48,168 and $41,809 as of June 30, 2019 and 2018, respectively, and has been included in other accounts receivable as shown in Note 3. A corresponding increase to the accrued professional liability cost has been included in accounts payable and accrued expenses.

(dollars in thousands)

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred but not reported claims were $35,016 and $32,568 as of June 30, 2019 and 2018, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheets.

(12) 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, 2019, the University has entered into construction contracts and commitments aggregating $1,011,606 ($1,107,539 at June 30, 2018) of which $943,192 ($1,007,723 at June 30, 2018) had been fulfilled.

(13) Leases

The University leases laboratories, office space, medical offices, and equipment for educational, research and patient care purposes under operating leases expiring through 2043. Rental expense for the years ended June 30, 2019 and 2018 totaling $63,992 and $63,091, 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	Total
2020	$ 40,265	$ 7,457	$ 47,722
2021	36,404	6,288	42,692
2022	32,820	5,637	38,457
2023	28,755	5,576	34,331
2024	21,746	4,412	26,158
Thereafter	55,599	11,565	67,164
Total minimum lease payments	$ 215,589	$ 40,935	$ 256,524

(14) Expenses by Functional and Natural Classification

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

(dollars in thousands)

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

	2019				
	Academic Instruction	**Research**	**Hospital and Patient Care**	**Admin and Other**	**Total**
Compensation	$ 422,268	$ 182,302	$ 1,991,478	$ 212,921	$ 2,808,969
Supplies	7,056	24,649	732,329	23,189	787,223
Utilities and Maintenance	46,136	50,900	113,311	10,772	221,119
Depreciation Expense	34,759	22,533	141,497	47,115	245,904
Interest Expense	10,576	10,555	15,932	7,661	44,724
Services and Other	24,786	38,966	260,169	86,887	410,808
Total Operating Expenses	$ 545,581	$ 329,905	$ 3,254,716	$ 388,545	$ 4,518,747

	2018				
	Academic Instruction	**Research**	**Hospital and Patient Care**	**Admin and Other**	**Total**
Compensation	$ 405,415	$ 177,220	$ 1,825,096	$ 209,014	$ 2,616,745
Supplies	13,097	23,747	659,337	18,523	714,704
Utilities and Maintenance	30,996	34,767	134,531	11,565	211,859
Depreciation Expense	33,875	20,851	130,471	45,421	230,618
Interest Expense	9,560	10,408	14,017	7,405	41,390
Service and Other	24,823	36,807	344,151	80,003	485,784
Total Operating Expenses	$ 517,766	$ 303,800	$ 3,107,603	$ 371,931	$ 4,301,100

(dollars in thousands)

(15) Net Assets

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

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

Net assets consist of the following at June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Instruction	$ 437,923	$ 535,514	$ 973,437
Student Aid	80,869	294,747	375,616
Program Support	587,624	241,191	828,815
Total endowment funds	1,106,416	1,071,452	2,177,868
Other Invested Funds			
Net investment in property, plant and equipment	911,613	-	911,613
University designated	363,084	-	363,084
Purpose restrictions	3,370	33,801	37,171
Contributions receivable	-	104,573	104,573
Interests in perpetual trusts held by others	-	60,852	60,852
Split-interest agreements	-	50,147	50,147
Total other invested funds	1,278,067	249,373	1,527,440
Total net assets	$ 2,384,483	$ 1,320,825	$ 3,705,308

(dollars in thousands)

Rollforward of endowment net assets from June 30, 2017 to June 30, 2019:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Balance as of June 30, 2017	$ 1,047,985	$ 996,202	$ 2,044,187
Investment return, net	101,861	98,240	200,101
Gifts and transfers	10,970	24,781	35,751
Amounts appropriated for expenditure	(54,400)	(47,771)	(102,171)
Balance as of June 30, 2018	**$ 1,106,416**	**$ 1,071,452**	**$ 2,177,868**
Investment return, net	64,286	67,779	132,065
Gifts and transfers	(11,896)	49,736	37,840
Amounts appropriated for expenditure	(56,943)	(51,110)	(108,053)
Balance as of June 30, 2019	**$ 1,101,863**	**$ 1,137,857**	**$ 2,239,720**

(16) Student Health Plan

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

Income:	July 1 - July 31 (prior plan year)	Aug 1 - June 31 (current plan year)	2019 Fiscal year total	July 1 - July 31 (prior plan year)	Aug 1 - June 31 (current plan year)	2018 Fiscal year total
Premium Revenue	$ 473	$ 10,976	$ 11,449	$ -	$ 9,723	$ 9,723
Interest income	-	36	36	-	20	20
Total income	473	11,012	11,485	-	9,743	9,743
Expenses:						
Medical and prescription drug expense	730	8,889	9,619	-	7,430	7,430
Administrative fees	167	1,635	1,802	-	1,867	1,867
Total Expenses	897	10,524	11,421	-	9,297	9,297
Net income from health plan operations	$ (424)	$ 488	$ 64	$ -	$ 446	$ 446

The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred but not reported (IBNR) is maintained at an amount not less than 18% of expected medical claims and 5% of expected pharmacy drug claims. In addition, a separate contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. The contingency reserve is maintained at an amount not less than 5% of the total current plan year premiums and is invested in the University's endowment. NYS requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. The changes in the unearned premiums and SHIP reserves during the fiscal year ended June 30, 2019 are presented below.

(dollars in thousands)

	Unearned Premiums		IBNR Reserve		Contingency Reserve	
Balance as of July 1	$	379	$	1,071	$	486
Balance as of June 30		1,056		1,482		549
Net Change	$	677	$	411	$	63

(17) Subsequent Events

The University has performed an evaluation of subsequent events through October 15, 2019, the date on which the financial statements were issued and has concluded that there were no such events that require adjustments to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.