UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2021 and 2020

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June 30, 2021 and 2020

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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, 2021 and 2020, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Rochester and its related entities as of June 30, 2021 and 2020, 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.

PricewaterhouseCoopers LLP

Rochester, New York
October 27, 2021

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

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Balance Sheets
June 30, 2021 and 2020
(dollars in thousands)

	2021	2020
Assets		
Cash and cash equivalents	$ 889,136	$ 664,069
Short-term investments	892,621	463,986
Accounts receivable, net	543,468	500,462
Inventories, prepaid expenses, and deferred charges	106,749	94,633
Contributions receivable, net	81,774	91,628
Notes receivable, net	15,377	17,293
Other assets	93,352	79,597
Investments held for long-term purposes	3,822,792	2,655,624
Property, plant and equipment, net	2,308,122	2,321,438
Right of use assets	199,672	216,299
Investments in perpetual funds held in trusts by others	73,039	43,996
Total assets	$ 9,026,102	$ 7,149,025
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 795,370	$ 691,759
Deferred revenue	72,024	97,767
Third-party settlements payable, net and other	399,852	388,176
Accrued pension, post-retirement, and post-employment	698,154	685,711
Long-term debt	1,526,692	1,180,147
Right of use liabilities	199,528	216,256
Asset retirement obligation	38,647	38,225
Refundable U.S. Government grants for student loans	7,160	9,084
Total liabilities	$ 3,737,427	$ 3,307,125
Net Assets:		
Without donor restrictions	3,391,881	2,469,223
With donor restrictions	1,896,794	1,372,677
Total net assets	5,288,675	3,841,900
Total liabilities and net assets	$ 9,026,102	$ 7,149,025

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Activities
For The Year Ended June 30, 2021
(dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Tuition and fees	$ 311,435	$ -	$ 311,435
Grants and contracts	582,661	-	582,661
Gifts and pledges	21,982	62,417	84,399
Hospital and faculty practice patient care	4,097,666	-	4,097,666
Auxiliary enterprises	91,255	-	91,255
Interest income and appreciation of short-term investments	110,612	-	110,612
Educational activities	14,213	-	14,213
Other sources	70,370	-	70,370
Long-term investment income and gains allocated to operations	114,314	-	114,314
Net assets released from restriction	84,249	(84,249)	-
Total operating revenues	5,498,757	(21,832)	5,476,925
Operating Expenses:			
Salaries and wages	2,391,744	-	2,391,744
Fringe benefits	644,225	-	644,225
Total compensation	3,035,969	-	3,035,969
Supplies	967,176	-	967,176
Business and professional	263,538	-	263,538
Utilities	63,953	-	63,953
Maintenance and facilities costs	173,462	-	173,462
Depreciation	265,545	-	265,545
Interest	46,094	-	46,094
Other	121,334	-	121,334
Total operating expenses	4,937,071	-	4,937,071
Change in net assets from operating activities	561,686	(21,832)	539,854
Non-operating activities:			
Long-term investment activities:			
Investment income	6,899	(1,570)	5,329
Net appreciation	444,989	560,326	1,005,315
Total long-term investment activities	451,888	558,756	1,010,644
Long-term investment income and gains allocated for operations	(114,314)	-	(114,314)
Loss on extinguishment of debt	(1,211)	-	(1,211)
Other changes, net	24,609	293	24,902
Change in valuation of annuities	-	(13,100)	(13,100)
Change in net assets from non-operating activities	360,972	545,949	906,921
Change in net assets	922,658	524,117	1,446,775
Beginning net assets	2,469,223	1,372,677	3,841,900
Ending net assets	$ 3,391,881	$ 1,896,794	$ 5,288,675

The accompanying notes are an integral part of these consolidated financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Tuition and fees	$ 293,163	$ -	$ 293,163
Grants and contracts	556,193	-	556,193
Gifts and pledges	27,120	55,918	83,038
Hospital and faculty practice patient care	3,523,786	-	3,523,786
Auxiliary enterprises	107,995	-	107,995
Interest income and appreciation of short-term investments	20,999	-	20,999
Educational activities	16,356	-	16,356
Other sources	69,183	-	69,183
Long-term investment income and gains allocated to operations	110,779	-	110,779
Net assets released from restriction	73,184	(73,184)	-
Total operating revenues	4,798,758	(17,266)	4,781,492
Operating Expenses:			
Salaries and wages	2,306,592	-	2,306,592
Fringe benefits	602,824	-	602,824
Total compensation	2,909,416	-	2,909,416
Supplies	837,675	-	837,675
Business and professional	290,398	-	290,398
Utilities	60,134	-	60,134
Maintenance and facilities costs	159,872	-	159,872
Depreciation	251,987	-	251,987
Interest	44,985	-	44,985
Other	116,962	-	116,962
Total operating expenses	4,671,429	-	4,671,429
Change in net assets from operating activities	127,329	(17,266)	110,063
Non-operating activities:			
Long-term investment activities:			
Investment income	9,532	(449)	9,083
Net appreciation	36,325	19,301	55,626
Total long-term investment activities	45,857	18,852	64,709
Long-term investment income and gains allocated for operations	(110,779)	-	(110,779)
Other changes, net	(65,517)	(1,988)	(67,505)
Change in valuation of annuities	-	895	895
Change in net assets from non-operating activities	(130,439)	17,759	(112,680)
Change in net assets	(3,110)	493	(2,617)
Beginning net assets	2,472,333	1,372,184	3,844,517
Ending net assets	$ 2,469,223	$ 1,372,677	$ 3,841,900

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Statement of Cash Flows
For The Year Ended June 30, 2021 and 2020
(dollars in thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 1,446,775	$ (2,617)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	265,545	251,987
Net appreciation on investment activities	(1,089,003)	(79,569)
Gifts of property, plant, equipment and other	(3,310)	(903)
Bond discount amortization	(8,972)	(6,236)
Loss on extinguishment of debt	1,211	-
Loss on disposals of property, plant, and equipment	3,373	6,161
Change in funded status of pension plan	(86,565)	48,359
Contributions for long-term investment, net	(72,271)	(64,685)
(Increases)/decreases in:		
Accounts receivable, net	(43,006)	33,294
Inventories, prepaid expenses and deferred charges	(10,342)	(14,258)
Contributions receivable, net	13,468	13,314
Other assets	(8,797)	(10,431)
Increases/(decreases) in:		
Accounts payable and accrued expenses	109,082	92,918
Deferred revenues	(25,743)	37,384
Third-party settlements payable, net	11,676	218,635
Accrued pension, post-retirement, and post-employment	99,008	25,921
Net cash provided by operating activities	602,129	549,274
Cash flows from investing activities:		
Purchases of property, plant and equipment	(248,372)	(281,848)
Purchases of investments	(955,655)	(757,331)
Proceeds from the sale of investments	449,333	792,552
(Increase)/decrease in investments in perpetual funds held in trusts by others	(16,156)	16,654
Decrease in notes receivable, net	1,916	2,928
Net cash used in investing activities	(768,934)	(227,045)
Cash flows from financing activities:		
Borrowings on lines-of-credit	689	54,534
Payments on lines-of-credit	(23,255)	(37,136)
Payments of long-term debt	(169,843)	(63,752)
Proceeds from issuance of long-term debt	513,117	2,224
Deferred financing costs	817	898
Decrease in refundable U.S. Government grants for student loans	(1,924)	(5,741)
Contributions for long-term investment, net	72,271	64,685
Net cash provided by financing activities	391,872	15,712
Net increase in cash and cash equivalents	225,067	337,941
Cash and cash equivalents, beginning of year	664,069	326,128
Cash and cash equivalents, end of year	$ 889,136	$ 664,069
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest on long-term debt	$ 31,234	$ 46,577
Operating cash flows from operating leases	$ 48,333	$ 50,206
Non-cash activities:		
Change to accounts payable and accrued expenses	$ (5,371)	$ 1,327
Right of use assets obtained in exchange for operating leases	$ 30,524	$ 102,435
Right of use assets obtained in exchange for finance leases	$ 10,715	$ 20,726

The accompanying notes are an integral part of these 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, UR Medicine Home Care, Inc., 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., UR Medicine Home Care, Inc., 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 interorganizational balances and transactions have been eliminated.

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries: The Highland Foundation, Inc., Highland Facilities Development Corp., and 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 UR Medicine Home Care, Inc. (URMHC), which is the sole corporate member of UR Medicine Home Care, Certified Services, Inc. (URMHCCS) (which is in turn the sole corporate member of Finger Lakes Home Care, Inc.), UR Medicine Home Care, Licensed Services, Inc., UR Medicine Home Care, Community Services, Inc., and UR Medicine Home Care Foundation, Inc.. In August 2018, the Board of Directors of URMHC voted to transfer the assets held by URMHC for the benefit of the URMHC affiliates to UR Medicine Home Care Foundation, Inc. This transfer has not yet occurred pending the receipt of third party approvals.

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

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

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

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

(c) Basis of Accounting and Use of Estimates

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

<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.

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

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

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

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

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

(d) Income Taxes

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

The 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; cash equivalents are short-term investments with maturities of three months or less at the time of purchase and other highly liquid investments, primarily cash management funds. Short-term highly liquid investments held within the endowment and similar investment pools are classified as investments rather than cash equivalents and restricted cash is defined as that which is legally restricted to withdrawal and usage. The fair value of cash equivalents have been classified as Level 1 in accordance with the fair value hierarchy.

(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. Also included are internal operating funds invested in the University's long-term investment pool that 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) Investments Held for Long-Term Purposes

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 2,740 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 2021, 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

2020) 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 2021 and 2020, the fair values for split-interest agreements assets are $171,877 and $124,432, respectively. Contribution revenue is recognized at the dates the agreements are established. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. Interest rates in subsequent periods remain unchanged. For fiscal years 2021 and 2020, deferred gift liabilities of $83,597 and $70,852, respectively, are included in accounts payable and accrued expenses.

The University is also the beneficiary of certain funds held in trust by others, which are administered by outside trustees. 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 as 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) Leases

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

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

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

(n) Museum Collections

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

(o) Benefit Plans

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

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

(p) Derivative Instruments and Hedging Activities

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

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

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

(r) Asset Retirement Obligations

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

(s) Tuition and Fees

Tuition and fees revenue is derived from degree programs as well as executive and continuing education programs. Tuition and fees are recognized as operating revenue in the period in which the University satisfies its performance obligations to provide education to students. Given the timing of each year's academic sessions, nearly all performance obligations on behalf of the University are completed within the fiscal year. The University recognizes tuition on a straight-line basis over each academic session based on published rates, net of explicit price concessions such as institutional aid. Institutional aid, in the form of grants and scholarships, includes amounts funded by 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 $259,378 in 2021 and $260,892 in 2020.

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

(t) Grants and Contracts

The University receives sponsored program grant and contract revenue from governmental and other sources generally for research activities and training programs. The funding may represent a nonreciprocal, non-exchange transaction in which the resources provided are for the benefit of the University, the funding organization's mission or the public at large or it may be a 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, 2021, the University has grants or contracts for which it has not yet met all obligations to recognize revenue, or the right to recognize revenue is dependent on future events. These open commitments totaled $346,306 and $318,426 as of June 30, 2021 and 2020, respectively. It is expected that revenue will be recognized as the University fulfills its obligations over several years.

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

(u) Gifts and Pledges and Contributions Receivable

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

(dollars in thousands)

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

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

(v) Auxiliary Enterprises

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

A major component of auxiliary services revenue is 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, nearly all performance obligations on behalf of the University are completed within the fiscal year. The University recognizes housing and dining revenue on a straight-line basis over each academic session based on published rates.

(w) Hospital and Faculty Practice Patient Care

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

	2021	2020
Hospital services	$ 2,838,773	$ 2,468,035
Faculty practice patient care	510,598	458,295
Long-term care	49,086	58,320
Home health services	58,219	53,996
Ancillary and other services	640,990	485,140
Total	$ 4,097,666	$ 3,523,786

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, F.F. Thompson Health System, Inc., Noyes Memorial Hospital, The Memorial Hospital of William F. and Gertrude F. Jones, Inc., and St. James 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. The largest hospital within the consolidated entity has been audited and final settled through December 31, 2009.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS) through March 31, 2023. Under HCRA, Medicaid, workers' compensation, and no-fault payors payment rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. Payments for outpatient payments are connected to Ambulatory Payment Groups (APGs) which use outpatient service intensity weights based on types of service and resource consumption. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospitals' established charges.

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.

Revenue from Blue Cross and MVP Health Care accounted for approximately 26% and 3% and 25% and 4%, respectively, of the University's patient service revenue for the years ended June 30, 2021 and 2020. Revenue from Medicare and Medicaid programs (including Medicare Advantage and Medicaid Managed Care plans) accounted for approximately 31% and 13% and 30% and 13%, respectively, of the University's patient revenue for the years ended June 30, 2021 and 2020.

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:

	2021	2020
Medicare	$ 1,255,664	$ 1,052,293
Medicaid	541,890	456,753
Commercial third-party payors	1,478,376	1,298,382
Self-pay	51,795	86,522
Other	769,941	629,836
Total	$ 4,097,666	$ 3,523,786

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 $36,815 and $32,588 in 2021 and 2020, respectively. The University received reimbursements of approximately $20,274 and $25,107 from New York State in 2021 and 2020, respectively, related to providing charity care to patients.

(x) New Authoritative Pronouncements

ASU 2018-13 Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13 – Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The standard modified the disclosure requirements for fair value measurements, including the consideration of costs and benefits. The following disclosures were removed from fair value measurement: (1)

amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy of timing between levels; and (3) the valuation process for Level 3 fair value measurements. In addition, the following disclosures are required: (1) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of ASU 2018-13 did not have a material impact on the University's financial statements for the fiscal years ended June 30, 2021 and 2020.

<u>ASU 2020-07 Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets</u>

In September 2020, the FASB issued ASU 2020-07 – Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This amendment requires the University to report contributed nonfinancial assets as a separate line item within the statement of activities and expanded reporting requirements for contributed nonfinancial assets, such as donor-imposed restrictions, fair value measurement, and qualitative information if the contributed nonfinancial assets were utilized or sold. The standard is effective for the fiscal year ending June 30, 2022. The University is currently evaluating the impact the adoption will have on the consolidated financial statements.

(y) Reclassification

Certain other June 30, 2020 balances and amounts previously reported have been reclassified to conform to the June 30, 2021 presentation.

(dollars in thousands)

(2) Liquidity and Availability

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

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

	2021	2020
Financial Assets:		
Cash and cash equivalents	$ 889,136	$ 664,069
Short-term investments	892,621	463,986
Accounts receivable	479,628	438,780
Pledge payments available for operations	20,099	22,581
Other assets	690	474
Long-term investments appropriated for spending in the following year	121,055	117,033
Financial assets available within one year	2,403,229	1,706,923
Liquidity Resources:		
Bank lines and letters of credit (undrawn)	409,354	387,695
Financial assets and liquidity resources available within one year	$ 2,812,583	$ 2,094,618

The University's cash flows have seasonal variations during the year attributable to tuition billings, 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 $412,854 and $413,761 with several banks as of June 30, 2021 and 2020, respectfully, that can be drawn upon as needed during the year to manage cash flows. Amounts outstanding under lines of credit amounted to $3,500 and $26,066 as of June 30, 2021 and 2020, respectively.

In addition, the University has funds functioning as endowment (FFAE) of $1,474,070 and $1,110,247 as of June 30, 2021 and 2020, respectively. Although the University does not intend to spend from FFAE funds other than amounts appropriated for expenditure as part of the annual budget approval process, these funds could be made available if necessary, subject to certain investment lock-up provisions as discussed in Note 6.

(dollars in thousands)

(3) Accounts Receivable

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

	2021	2020
Patient accounts receivable	$ 296,365	$ 270,162
Governments, foundations and companies	89,964	86,783
Reinsurance recoveries	61,701	58,575
Retail pharmacy	46,195	42,174
Student receivables	9,170	4,666
Other	40,073	38,102
Total accounts receivable, net	$ 543,468	$ 500,462

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, 2021 and 2020 include approximately 49% from governmental payors, 40% from commercial third-party payors, and 11% from self-pay patients and other sources.

(4) Contributions

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

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	$ 28,708	$ 33,151
One year to five years	29,253	35,299
More than five years	54,386	56,076
	112,347	124,526
Unamortized discount and allowance for uncollectibles	(30,573)	(32,898)
Total contributions receivable, net	$ 81,774	$ 91,628

Discount rates used to calculate the present value of contributions receivable ranged from 2% to 6% at June 30, 2021 and 2020. At June 30, 2021, the University had also received $307,010 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 $37,151 and $39,782 for University relations and development for the years ended June 30, 2021 and 2020, respectively.

(dollars in thousands)

(5) Notes Receivable

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

	2021		
	Gross Receivable	Allowance	Net Receivable
Federal student loans	$ 7,861	$ 944	$ 6,917
Institutional student loans	3,988	970	3,018
Other note receivable	5,442		5,442
Total	$ 17,291	$ 1,914	$ 15,377

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

Student loan programs are funded by donor contributions, other institutional sources and governmental programs, primarily the Federal Perkins Loan Program. The amounts received from the federal government's portion of the Perkins program are ultimately refundable to the federal government and are reported as a liability on the University's consolidated balance sheets as refundable U.S. Government grants for student loans. The Federal Perkins Loan Program ended June 30, 2018. Institutions are awaiting further guidance from the Department of Education with instructions for unwinding the Federal Perkins Loan program and returning the federal portion of funding. For fiscal years 2021 and 2020, the University refunded $2,233 and $4,622, respectively, to the U.S. Department of Education to reduce the Perkins Loan Program.

Student loans are often subject to unique restrictions and conditions, therefore, it is not practical to determine 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.

(dollars in thousands)

(6) Investments

Investments were held for the following at June 30:

	2021	2020
Endowment and similar purposes	$ 3,270,749	$ 2,392,299
Property, plant, and equipment purposes:		
Debt service reserve held by trustees under debt agreements	44,379	23,424
Bond proceeds not yet expended	225,990	3,315
Other	1,219	1,026
Total property, plant, and equipment purposes	271,588	27,765
Other purposes	280,455	235,560
Total investments held for long-term purposes	3,822,792	2,655,624
Short-term investments	892,621	463,986
Total investments	$ 4,715,413	$ 3,119,610

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, 2021 and 2020. 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.

(dollars in thousands)

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)	2021 Total Fair Value
Cash equivalents	$ 334,285	$ -	$ -	$ 334,285
Domestic bonds	254,934	212,200	-	467,134
Common equity				
Domestic	108,545	60,652	199	169,396
Foreign	-	294,788	-	294,788
Equity				
Absolute return	-	-	882,662	882,662
Global	81,981	-	-	81,981
Domestic	161,718	-	316,270	477,988
Foreign	846	-	332,501	333,347
Private	-	-	1,308,687	1,308,687
Real estate	-	-	86,697	86,697
Real assets	52,034	-	110,044	162,078
Other	106,218	10,152	-	116,370
Total short and long term investments	$ 1,100,561	$ 577,792	$ 3,037,060	$ 4,715,413

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

(dollars in thousands)

(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.

Strategy	2021 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Equity:				
Absolute return	$ 882,662	$ 20,543	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Domestic	316,270	10,000	Monthly, Quarterly, 1 to 3 Year Rolling Lock-ups	45 - 180 Days
Foreign	332,501	-	Quarterly, Annually, 1, 3, & 5 Year Rolling Lock-ups	45 - 180 Days
Private	1,308,687	162,082	1 to 12 years	NA
Real estate	86,697	32,478	1 to 12 years	NA
Real assets	110,044	27,384	1 to 12 years	NA
Direct investments	199	-	NA - held to maturity	NA
Total alternative investments	$ 3,037,060	$ 252,487		

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

(dollars in thousands)

(7) Property, Plant, and Equipment

As of June 30, 2021 and 2020, the University's investment in property, plant, and equipment is as follows:

	2021	2020
Buildings and improvements	$ 3,396,629	$ 3,315,635
Land improvements	78,593	77,705
Leasehold improvements	131,592	129,061
Equipment owned	1,696,198	1,627,814
Library books	238,323	228,211
Subtotal	5,541,335	5,378,426
Less accumulated depreciation	(3,450,481)	(3,264,605)
Subtotal	2,090,854	2,113,821
Land	20,472	18,502
Museum collections	40,910	41,555
Construction in progress	155,886	147,560
Total property, plant and equipment, net	$ 2,308,122	$ 2,321,438

(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 $126,622 and $71,812 and bond issuance costs of $10,336 and $8,799, for the years ended June 30, 2021 and 2020, respectively:

	Fiscal year maturity	Interest rate	2021	2020
University of Rochester:				
Fixed Rate:				
DASNY Series 2009	2039	2.50% - 5.00%	$ -	$ 9,276
MCIDC Series 2011; 2013; 2015; 2017; 2020	2022 - 2050	0.47% - 5.31%	1,269,273	852,425
Private Placement Notes	2047 - 2049	3.26% - 3.56%	88,929	92,675
Other Notes	2026	3.26%	3,214	4,024
Obligations under finance leases	2022 - 2031	0.85% - 4.21%	22,573	21,836
Variable rate:				
DASNY Series 2003; 2006	2027 - 2033	3.92% - 3.97%	-	81,683
Total University			1,383,989	1,061,919
Highland Hospital of Rochester:				
Fixed Rate:				
DASNY Series 2010	2032	2.00% - 5.20%	-	7,617
MCIDC Series 2015; 2020	2045 - 2050	3.00% - 5.00%	68,019	35,099
Variable rate:				
DASNY Series 1994B	2023	5.50%	2,805	3,628
Total Highland Hospital			70,824	46,344
F. F. Thompson Health System, Inc.:				
Fixed Rate:				
OCLDC Series 2017	2040	2.79% - 3.30%	32,305	33,426
Other Notes	2020 - 2031	3.55% - 7.71%	5,729	7,040
Obligations under finance leases	2023 - 2026	0.00% - 8.50%	3,968	67
Variable rate:				
DASNY Series 2012	2039	3.00%	11,470	11,915
Total F. F. Thompson Health System, Inc.			53,472	52,448
Livingston Health Care System, Inc.:				
Fixed Rate:				
LCIDA Series 2005	2030	5.00% - 6.00%	4,100	4,387
Obligations under finance leases	2022 - 2027	3.21% - 10.51%	708	1,020
Total Livingston Health Care System, Inc.			4,808	5,407
Memorial Hospital of William F. and Gertrude F. Jones, Inc.:				
Fixed Rate:				
Obligations under finance leases	2022 - 2023	5.60%	324	569
Total Memorial Hospital of William F. and Gertrude F. Jones, Inc.			324	569
St. James Hospital:				
Fixed Rate:				
New Market Tax Credit Loans	2041	1.05%	7,680	7,680
Other Notes	2028	0.00% - 3.85%	5,595	5,780
Total St. James Hospital			13,275	13,460
Total Long-term debt			$ 1,526,692	$ 1,180,147

(a) Fiscal year 2021 Transactions

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

Series 2020A tax-exempt bonds were issued to finance the following: (1) construction of a new offsite ambulatory orthopaedics center; (2) expansion of the emergency room and inpatient tower at Strong Memorial Hospital; (3) construction of the Sloan Performing Arts Center on the River Campus; (4) replacement of the University's legacy student system; and (5) renovation of certain hospital, educational, and infrastructure facilities throughout the River Campus, Eastman School of Music, Memorial Art Gallery, and Strong Memorial Hospital. Series 2020A refinanced all of the outstanding Series 2003, Series 2006, and Series 2009 University of Rochester Revenue Bonds that were previously issued by the Dormitory Authority State of New York (DASNY) and the swap termination for the Series 2003 and Series 2006 variable rate bonds. A loss on extinguishment of $897 was recognized due to bond refinancing.

Series 2020B taxable bonds were issued to finance renovation of certain educational and infrastructure facilities throughout the River Campus and for the swap termination for the Series 2003 variable rate bonds.

Pursuant to an agreement between a University related entity (Highland Hospital and affiliates) and MCIDC dated October 21, 2020, MCIDC issued and sold $32,240 of bonds known as the Highland Hospital Revenue Bonds, Series 2020. The Series 2020 bonds were issued at a premium of $3,023 resulting in proceeds of $35,263.

Series 2020 tax-exempt bonds were issued to finance the following: (1) construction and equipping of an approximately eighty thousand square foot vertical expansion at Highland Hospital and (2) to refinance all of the outstanding Series 2010 Highland Hospital Revenue Bonds that were previously issued by DASNY. A loss on extinguishment of $314 was recognized due to bond refinancing.

(b) Interest Rate Swaps

The University maintained 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. The swap agreements were terminated in August 2020 as a result of the Series 2020 bond issuance.

F. F. Thompson Health System, Inc. executed interest rate swaps with third-parties. These swaps have a combined notional amount of $11,470 and the contractual relationship under this agreement will last until November 1, 2025.

(dollars in thousands)

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

Depreciation of interest rate swaps was $387 and $1,554 for the years ended June 30, 2021 and 2020, respectively, and are included in non-operating net appreciation on the consolidated statement of activities. Activity related to interest rate swaps affect net assets without donor restrictions and, in the consolidated statement of cash flows, are included in changes in accounts payable and accrued expenses in the operating activities section.

(c) Collateral

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.

(d) Finance Leases

During fiscal year 2021, the University issued $10,715 in finance lease obligations for various equipment. The leases are being repaid at various rates with maturity dates through September 2030.

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

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

	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	$ 7,265	$ 4,330
Interest on lease liabilities	1,017	1,048
Total lease cost	$ 8,282	$ 5,378

(dollars in thousands)

	2021	2020
Finance leases reported under:		
Property, plant, and equipment, net	$ 25,460	$ 27,236
Long-term debt	$ 27,573	$ 23,492
Weighted average remaining lease term - finance leases	4.81 years	5.27 years
Weighted average discount rate - finance leases	4.07%	3.77%

(e) 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, 2026 and thereafter are as follows:

	Principal Portions of Lease Payments	Principal Portions of Debt	Total
2022	$ 7,269	$ 66,824	$ 74,093
2023	5,872	63,601	69,473
2024	4,445	71,533	75,978
2025	4,059	71,068	75,127
2026	3,187	66,984	70,171
Thereafter	2,741	1,159,109	1,161,850
Total	$ 27,573	$ 1,499,119	$ 1,526,692

The University incurred $46,094 and $44,985 of interest expense for the years ended June 30, 2021 and 2020, respectively, net of interest capitalization of $7,174 and $314 for the years ended June 30, 2021 and 2020, respectively.

(9) Operating Leases

The University leases laboratories, office space, medical offices, and equipment for educational, research, and patient care purposes under operating leases expiring through 2040. The real estate lease agreements typically have initial terms of five to twenty years and may include one or more options to renew, which can extend the lease term five to ten years. The exercise of lease renewal options is at the University's sole discretion. When determining the lease term, the University includes options to extend or terminate the lease when the option to exercise is certain.

(dollars in thousands)

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

	2021	2020
Operating lease cost	$ 50,193	$ 50,611
Variable lease cost	951	1,047
Total	$ 51,144	$ 51,658
Weighted Average Remaining		
Operating leases	5.85 years	6.53 years
Weighted Average Discount Rate		
Operating leases	3.8 %	5.0 %

Maturities of operating lease liabilities were as follows:

Year ending June 30,	University	Related Entities	Total
2022	$ 41,240	$ 4,472	$ 45,712
2023	38,878	3,737	42,615
2024	32,994	3,197	36,191
2025	24,054	2,652	26,706
2026	16,228	2,282	18,510
Thereafter	$ 40,288	$ 12,968	53,256
Total lease payments	$ 193,682	$ 29,308	$ 222,990
Less imputed interest	$ (16,363)	$ (7,099)	$ (23,462)
Total	$ 177,319	$ 22,209	$ 199,528

(10) Benefit 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, 2021 were discounted by 1.45% and amounted to $65,288 (1.3% and $66,214 in 2020). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $18,320 at June 30, 2021 ($17,967 at June 30, 2020). 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 $19,115 and $14,811 as of June 30, 2021 and 2020, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheets and have not been discounted.

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

Highland Hospital and its subsidiaries are self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $8,884 is maintained as security for workers' compensation claims. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2021 were discounted by 1.25% and amounted to $7,947 (0.5% and $7,859 in 2020). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $1,932 at June 30, 2021 ($1,899 at June 30, 2020). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheets.

(c) Post-employment Benefits – University

The University's accrued post-employment benefits, inclusive mostly of workers' compensation and disability benefits, amounted to $123,389 and $73,641 at June 30, 2021 and 2020, 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 $12,776 and $19,878 for the years ended June 30, 2021 and 2020, respectively. Due to the University's implementation of ASU 2017-07 in fiscal year 2020, the service cost component of post-retirement plan expense is recorded in fringe benefits expense on the consolidated statements of activities, as in past years, while the remaining non-service cost items are recorded in other changes, net as non-operating activities. The benefit obligation for this plan for the years ended June 30, 2021 and 2020 includes the following components:

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Notes to Consolidated Financial Statements
June 30, 2021 and 2020
(dollars in thousands)

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 260,938	$ 227,873
Service cost	5,661	8,861
Interest cost	6,045	7,997
Plan participants' contributions	5,904	5,704
Amendments/curtailments/special termination	(27,158)	-
Actuarial (gain)/loss	(14,575)	26,513
Benefits paid	(12,929)	(16,577)
Medicare Part D prescription drug federal subsidy	441	567
Benefit obligation at end of year	$ 224,327	$ 260,938
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	6,584	10,306
Plan participants' contributions	5,904	5,704
Medicare Part D prescription drug federal subsidy	441	567
Benefits paid	(12,929)	(16,577)
Fair value of plan assets at end of year	$ -	$ -
Components of accrued benefit:		
Funded status	$ (224,327)	$ (260,938)
Net actuarial loss	62,429	80,125
Prior service cost	(24,909)	198
Accrued benefits	$ (186,807)	$ (180,615)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	$ (180,615)	$ (171,043)
Net periodic benefit cost	(12,776)	(19,878)
Employer contributions	6,584	10,306
Accrued benefits	(186,807)	(180,615)
Amount recorded in unrestricted net assets	(37,520)	(80,323)
Net amount recognized in the consolidated balance sheets	$ (224,327)	$ (260,938)
Components of net periodic benefit cost:		
Service cost	$ 5,661	$ 8,861
Interest cost	6,045	7,997
Amortization of prior service cost	(2,051)	330
Amortization of net actuarial loss	3,121	2,690
Net periodic benefit cost	$ 12,776	$ 19,878
Amounts recorded in unrestricted net assets:		
Prior Service Cost/(Credit)	$ (27,158)	$ -
Net (gain)/loss during period	(14,575)	26,513
Amortization recognition	(3,121)	(2,690)
Prior service cost/(credit)	2,051	(330)
Total amount recognized in other non-operating expense	$ (42,803)	$ 23,493

(dollars in thousands)

The estimated net actuarial loss and prior service cost (credit) for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2022 are $2,514 and $(2,051) respectively. Estimated future contributions, benefit payments, and prescription subsidy receipts are as follows:

	Estimated Contributions / Benefit Payments	Estimated Prescription Subsidy Receipts
2022	$ 12,190	$ (328)
2023	12,349	
2024	12,462	
2025	12,624	
2026	12,793	
2027 to 2031	64,527	

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

	2021	2020
Discount rate for obligation	2.75%	2.75%
Health care cost trend rate -		
Initial pre age 65	6.75%	6.50%
Initial post age 65	N/A	4.40%
Initial post age 65 (Medicare Advantage)	N/A	4.40%
Initial prescription drug	6.75%	6.75%
Health care cost trend rate - Final	3.78%	3.78%
Year final trend rate is reached	2075	2075

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. Due to a Plan amendment effective January 1, 2021, the University no longer sponsors coverage for most Medicare-eligible retirees. Instead, those retirees are offered coverage through a benefits exchange. As such, the University is no longer eligible to apply for the Medicare Part D prescription drug federal subsidy for those retirees. The University does, however, offer a retiree drug program to Medicare-eligible retirees who are on long-term disability. The receipts for those retires would be considered under post-employment, not post-retirement benefits.

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.

Significant (gains)/losses occurring during the period ending June 30, 2021 were as follows:

As of July 1, 2020, the census data was refreshed to reflect changes in the population between the prior and current valuation dates. Demographic changes different from assumed resulted in a decrease in liabilities.

As of July 1, 2020, the baseline claims used to project future retiree healthcare costs were revised based on updated plan premiums and the most recent actuarial pricing tools as of the valuation date. These updates had the following impact on liabilities:

- Greater than expected increase in post-65 premiums, including the Comprehensive Care Plan with Major Medical used to determine the Group 5 retiree cap, resulted in an increase in liabilities.
- Less than expected increase in Medicare Part D subsidy resulted in an increase in liabilities.
- Less than expected increase in the "implied subsidy" for pre-65 claims costs resulted in a decrease in liabilities.

As of July 1, 2020, the turnover and retirement decrement assumptions were revised to better reflect actual University experience. The revised assumptions resulted in a decrease in liabilities.

As of July 1, 2020, a plan amendment was valued to reflect recent changes to the University's retiree benefits program. These updates had the following impact on liabilities:

- Post-65 retiree opt-ins to the new HRA program resulted in an increase in liabilities.
- Retiree benefit, eligibility, contribution, and assumption changes required to reflect the new benefits structure resulted in a net decrease in liabilities.

As of June 30, 2021, the mortality improvement scale assumption was revised to Scale MP-2020 on a generational basis. The revised assumption resulted in a decrease in liabilities.

As of June 30, 2021, the annual rate of increase in healthcare costs was revised to better reflect future expectations, including updating long-term rates based on the SOA Long Term Healthcare Cost Trends Model v2021_b (the Getzen model). A review of published National trend survey data in relation to the retiree health plan offerings was the basis for this change. The revised assumption resulted in an increase in liabilities. Furthermore, dental trend was revised from 3.50% to 3.00% based on a review of industry studies. The revised assumption resulted in a small decrease in liabilities.

(e) Retirement Plan – University

The University provides a 403(b) defined contribution retirement plan to its employees. The University of Rochester's Retirement Program is administered and record kept by TIAA. Under this plan, the University made contributions of $97,966 and $114,728 in 2021 and 2020, respectively, which were vested for the benefit of the participants.

(dollars in thousands)

(f) Retirement Plans – Highland Hospital and Subsidiaries

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

Retirement plan expense of $12,371 and $10,612 was incurred for fiscal years ended June 30, 2021 and 2020, respectively. As a result of the adoption of ASU 2017-07, the service cost component of net benefit cost is included within income from operations and is recorded in fringe benefits in the consolidated statements of activities. The other components of net benefit cost are reported in other changes as non-operating activities. In addition, a pension related (benefit) charge other than net periodic pension cost of $(38,394) and $23,874 for the fiscal years ended June 30, 2021 and 2020, 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, 2021 and 2020 and the funded status of the plan at June 30, 2021 and 2020.

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 256,184	$ 234,139
Service cost	5,868	5,908
Interest cost	5,807	7,576
Actuarial loss	1,873	26,697
Benefits paid	(10,481)	(18,136)
Benefit obligation at end of year	$ 259,251	$ 256,184
Accumulated benefit obligation	$ 248,447	$ 243,318

(dollars in thousands)

	2021	2020
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 134,900	$ 138,696
Actual return on plan assets	39,570	5,786
Employer contribution	18,234	8,554
Benefits and expenses paid	(10,481)	(18,136)
Fair value of plan assets at end of year	$ 182,223	$ 134,900
Amounts recognized in the balance sheets consists of:		
Accrued benefit cost (accrued pension, post-retirement, and post-employment)	$ (15,951)	$ (21,814)
Amount recognized in unrestricted net assets (other non-operating expense)	(61,076)	(99,470)
Funded status	$ (77,027)	$ (121,284)
Components of net periodic benefit cost:		
Service cost	$ 5,868	$ 5,908
Interest cost	5,807	7,576
Expected return on plan assets	(9,284)	(9,842)
Amortization of unrecognized loss	9,980	6,970
Net periodic benefit cost	$ 12,371	$ 10,612

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

	2021	2020
Discount rate for obligation	2.77%	2.85%
Discount rate for pension expense	2.85%	3.67%
Future compensation increase rate	3.00%	3.00%
Long-term rate of return on plan assets	6.75%	7.00%

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

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

The Plan assets are managed by an investment manager. The investment manager monitors financial markets and adjusts strategy accordingly. The Plan's overall portfolio mix of fixed income and equity securities was based upon asset allocation modeling taking into consideration historical return patterns and risk factors. The Plan believes that the current mix of plan assets provides an appropriate level of return to achieve current assumed plan return assumptions. For the year ended June 30, 2021, the Plan had target asset allocation ranges of 50% - 75% public equity, 10% - 50% public debt, 0% - 20% private debt and 0% - 25% alternatives.

(dollars in thousands)

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

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

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

	2021		
	Level 1	**NAV**	**Total Fair Value**
Description			
Cash and cash equivalents	$ 6,750	$ -	$ 6,750
Mutual and exchange traded funds	10,517		10,517
Collective investment trusts		119,398	119,398
Other pooled investment funds		26,247	26,247
Limited partnerships		19,311	19,311
Total	$ 17,267	$ 164,956	$ 182,223

	2020		
	Level 1	**NAV**	**Total Fair Value**
Description			
Cash and cash equivalents	$ 3,848	$ -	$ 3,848
Mutual and exchange traded funds	19,836	78,538	98,374
Collective investment trusts		21,767	21,767
Other pooled investment funds		10,911	10,911
Limited partnerships			-
Total	$ 23,684	$ 111,216	$ 134,900

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

(dollars in thousands)

Highland Hospital expects to contribute $5,843 to the Plan in fiscal year 2022.

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

	Pension Benefits
2022	$ 10,411
2023	11,037
2024	11,588
2025	12,127
2026	12,603
2027 to 2031	68,363
Total estimated future payments	$ 126,129

In addition, Highland Hospital has a 403(b) defined contribution plan and the cost was $4,500 and $4,700 for fiscal years ending June 30, 2021 and 2020, 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. As of January 1, 2018, the accrued benefits and participation of employees were frozen. As of that date, no new participants are eligible to participate in the FFT Plan after December 31, 2017, and benefit accruals for participants under the FFT Plan ceased. The funded status of the FFT Plan as of December 31, 2020 and 2019 was $(16,409) and $(17,629), respectively.

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

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

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2020 and 2019 was $(2,887) and $(3,854), respectively.

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

The Hospital sponsors a noncontributory defined benefit pension plan (plan) covering all eligible employees. The plan was amended to state that Hospital employees hired after December 31, 2006 were no longer eligible to participate in the plan. Additionally, the plan was amended to freeze benefit accruals effective March 31, 2011 for all participants. The annual measurement date for the Plan is June 30. The funded status of this plan as of June 30, 2021 and 2020 was $(4,879) and $(9,729), 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. Effective June 30, 2020, Noyes Health amended their year-end from December 31 to June 30. As such, the annual measurement date for the Plan is June 30. The funded status of this plan as of June 30, 2021 and 2020 was $(1,740) and $(4,147), respectively.

(11) Investment in Captive Insurance Company

The University, together with other universities and teaching hospitals, has formed a captive insurance company (captive) to insure the professional liability risks of the shareholders. The dissolution provisions of the captive agreement indicate that the University's financial participation (based on percentage of premiums paid) is approximately 7% of the financial results of the captive. Due to the University's significant influence in the captive, the investment in the captive has been recorded under the equity method. For fiscal years 2021 and 2020, the University has recorded $29,426 and $29,622, respectively, in investments held for long-term purposes.

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

(12) Professional Liability Claims

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the University is $225,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

The insurance claims receivable, as calculated by the actuaries, was approximately $61,701 and $58,575 as of June 30, 2021 and 2020, respectively, and has been included in accounts receivable as shown in Note 3. A corresponding increase to the accrued professional liability cost has been included in accounts payable and accrued expenses.

(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 $38,270 and $37,551 as of June 30, 2021 and 2020, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheets.

(13) Commitments and Contingencies

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

At June 30, 2021, the University has entered into construction contracts and commitments aggregating $1,222,763 ($1,086,826 at June 30, 2020) of which $822,654 ($998,987 at June 30, 2020) had been fulfilled.

(14) Expenses by Functional and Natural Classification

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

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

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

	2021				
	Academic instruction	Research	Hospital and Patient Care	Admin and Other	Total
Compensation	$ 456,412	$ 197,438	$ 2,193,146	$ 188,973	$ 3,035,969
Supplies	17,013	25,454	922,571	2,138	967,176
Utilities and maintenance	45,728	54,912	115,048	21,727	237,415
Depreciation expense	84,446	23,838	156,536	725	265,545
Interest expense	14,758	9,594	17,216	4,526	46,094
Services and other	6,115	18,347	315,031	45,379	384,872
Total operating expenses	$ 624,472	$ 329,583	$ 3,719,548	$ 263,468	$ 4,937,071
Other components of net periodic benefit pension costs	$ 1,363	$ 543	$ 10,845	$ 523	$ 13,274
Total non-operating activities	1,363	543	10,845	523	13,274
Total functional expenses	$ 625,835	$ 330,126	$ 3,730,393	$ 263,991	$ 4,950,345

(dollars in thousands)

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

(15) Net Assets

Net assets consist of the following at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Instruction	$ 592,464	$ 807,679	$ 1,400,143
Student aid	106,759	450,270	557,029
Program support	774,847	366,853	1,141,700
Total endowment funds	1,474,070	1,624,802	3,098,872
Other Invested Funds			
Net investment in property, plant and equipment	742,866	-	742,866
University designated	1,171,523	-	1,171,523
Purpose restrictions	3,422	30,240	33,662
Contributions receivable	-	81,774	81,774
Interests in perpetual funds held in trusts by others	-	73,039	73,039
Split-interest agreements	-	86,939	86,939
Total other invested funds	1,917,811	271,992	2,189,803
Total net assets	$ 3,391,881	$ 1,896,794	$ 5,288,675

(dollars in thousands)

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

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

Roll forward of endowment net assets from June 30, 2019 to June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of June 30, 2019	$ 1,101,863	$ 1,137,857	$ 2,239,720
Investment return, net	38,734	39,995	78,729
Gifts and transfers	23,943	36,254	60,197
Amounts appropriated for expenditure	(54,293)	(56,486)	(110,779)
Balance as of June 30, 2020	$ 1,110,247	$ 1,157,620	$ 2,267,867
Investment return, net	439,245	482,538	921,783
Gifts and transfers	(20,136)	43,672	23,536
Amounts appropriated for expenditure	(55,286)	(59,028)	(114,314)
Balance as of June 30, 2021	$ 1,474,070	$ 1,624,802	$ 3,098,872

(dollars in thousands)

(16) Student Health Plan

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

	July 1 - July 31 (prior plan year)	Aug 1 - June 30 (current plan year)	2021 Fiscal Year Total	July 1 - July 31 (prior plan year)	Aug 1 - June 30 (current plan year)	2020 Fiscal Year Total
Income:						
Premium revenue	$ 980	$ 10,545	$ 11,525	$ 1,167	$ 11,311	$ 12,478
Interest income	-	1	1	7	23	30
Total Income	980	10,546	11,526	1,174	11,334	12,508
Expenses:						
Medical and prescription drug expense	897	9,839	10,736	916	9,830	10,746
Administrative fees	120	1,334	1,454	140	1,572	1,712
Contingency	-	-	-	(549)	-	(549)
Total Expenses	1,017	11,173	12,190	507	11,402	11,909
Net income (loss) from health plan operations	$ (37)	$ (627)	$ (664)	$ 667	$ (68)	$ 599

The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred but not reported (IBNR) is maintained at an amount not less than 18% of expected medical claims and 5% of expected pharmacy drug claims. In addition, a contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. During the current fiscal year, the contingency reserve was reclassed from a liability to reserve as part of net assets. The contingency reserve is maintained at an amount not less than 5% of the total current plan year premiums and is invested. New York State requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. As of June 30, 2021 the contingency fund was invested in a money market fund, which is reported as cash and cash equivalents on the University's balance sheet and included within short-term investments in Note 6.

(dollars in thousands)

The changes in the unearned premiums and SHIP reserves during the fiscal year ended June 30, 2021 are presented below.

	Unearned Premiums	IBNR Reserve	Contingency Reserve
Balance as of July 1	$ 979	$ 1,728	$ 549
Balance as of June 30	$ 1,489	$ 1,704	$ 576
Net Change	$ (510)	$ 24	$ (27)

(17) COVID-19

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a pandemic, and the United States federal government declared COVID-19 a national emergency. The University's operations were adversely impacted by the pandemic in 2020 due to reduced hospital and faculty patient care, tuition, and auxiliary enterprise revenue, as well as incremental expenses incurred to prevent, prepare for, and respond to the COVID-19 pandemic.

In response to the disruptions that the COVID-19 pandemic has caused in operations for institutions of higher education and health care organizations, on March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Stimulus Act (CARES Act) which made funds available to the University through various provisions of the legislation.

The University received and recognized CARES Act Provider Relief Funding (PRF) of $124,071 ($114,104 in fiscal year 2020), and CARES Act Higher Emergency Education Relief Funding (HEERF) of $6,880 ($3,006 in fiscal year 2020) as grant and contract revenue within the consolidated statement of activities. The University is required to report the usage and methodology used to allocate funding for both PRF and HEERF funding. In addition, the University must report, document and use funding for eligible expenses and lost revenues prior to the receipt of payments, as long as the expenses incurred are to prevent, prepare for, and respond to coronavirus. For HEERF, the University would need to prioritize grants to students with exceptional need. If the funding for PRF or HEERF is not used timely and/or not appropriated properly, the University must remit funding back to the federal agency that provided the funds. The University recognized revenue related to the CARES Act PRF and CARES Act HEERF funding based on regulatory information, as well as interpretations issued by the Department Health and Human Services (DHHS) and Department of Education (ED) as of June 30, 2021 and 2020. The amounts received under PRF and HEERF are subject to audit under Uniform Guidance and are required to be disclosed on the University's Schedule of Expenditures of Federal Awards (SEFA).

There was $3,790 received during fiscal year 2021 ($4,089 in fiscal year 2020) for CARES Act relief funding that was received by the University which is included in deferred revenue on the consolidated balance sheet. The University received $199,899 in advanced payments from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payments Program reported as third-party settlements payable, net on the consolidated balance sheets during fiscal year 2020, of which $29,192 was repaid during fiscal year 2021. The University is expected to repay the remaining balance through the end of fiscal year 2023.

In addition, several of the University's related entities received a total of $12,245 in Paycheck Protection Program loans for small businesses during fiscal year 2020 which was forgiven under current legislation and reported as grant and contract revenue during fiscal year 2021. Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes. As of June 30, 2021, $85,936 ($34,114 in fiscal year 2020) was deferred and reported as accounts payable and accrued expenses on the consolidated balance sheet for the University and will be repaid through December 2022.

The University is monitoring the challenges and impact of the COVID-19 pandemic, including protecting the health of employees, patients, and students, as well as accessing the availability of needed supplies to be positioned for potential surges. The University at this time cannot accurately predict the full extent to which the COVID-19 pandemic will affect the University's future finances and operations, but the impact may be material.

(18) Subsequent Events

The University has performed an evaluation of subsequent events through October 27, 2021, 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.